# INFORMAL FINANCIAL MARKETS:
# Senegal and Zaire

Final Report

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# PREFACE

In May 1988 the following cable was sent to A.I.D. Missions in Senegal, Zaire, and Kenya:

Subject: Study of Informal Financial Markets

1. Informal financial mechanisms may constitute the single most important route to broad based economic growth. In particular, they operate at a very low cost, are accessible by small enterprises, are self sustaining and, thus, seem to facilitate far greater popular participation in the day-to-day activities of their respective economies than do the existing formal financial markets. The development of well-functioning and articulated financial markets in African economies, which is essential to our strategy, therefore requires that we have a better understanding of informal financial markets. Africa Bureau/Market Development and Investment (AFR/MDI) and the Private Enterprise Bureau have therefore jointly designed and are funding an interdisciplinary study of informal financial markets in three countries in Africa.

2. The Africa Bureau strategy for implementing the president's end hunger initiative emphasizes reforms to the policy environment so that resources can be more efficiently allocated by market forces. These reforms are designed to stimulate economic growth through expanding use of the market system by societies and, as a result, promoting private sector initiatives.

3. Increasing the rate of economic growth depends heavily upon having the financial resources required for investments both mobilized and channelled to meet demand. Yet financial markets in much of Africa do not effectively mobilize domestic savings nor do they channel what savings are mobilized into productive investment efficiently. The inefficiency in mobilizing savings is worsened then by poor financial market articulation which is due, to some significant degree, to the bifurcation of the overall financial system into separate modern (formal) and traditional (informal) mechanisms.

4. Formal financial mechanisms have received considerable attention, but there are indications that their informal counterparts are operating with much greater relative efficiency in most countries. Further, the informal mechanisms may be contributing to greater economic activity than do the formal markets. For example, in some countries there seem to be greater volumes of capital circulating outside formal markets than within.

5. Evidence suggests that informal financial mechanisms operate at very low administrative cost, are particularly accessible by small and micro enterprises, are self

sustaining, and may constitute the single most important route to broad based economic growth. In particular, they seem to facilitate far greater popular participation in the day-to-day activities of their respective economies than do the existing formal financial markets. The development of well-functioning and articulated financial markets, essential to our strategy and a key to its, successful implementation, therefore requires that we have a better understanding of informal financial systems and the mechanisms they employ.

6. We need to have this understanding of informal markets in order to facilitate their linkage to the formal financial sector as a means of improving overall market articulation. This means we need to better understand how they operate and are structured, how they impact the economy, how they influence investment decisions of small business and service sectors, how cultural factors reinforce them, etc. Then, with this understanding, we can address the question of whether the informal financial markets might be aided, strengthened, or financially enforced in some fashion, so that even greater development impact and wider participation can be obtained through them. For example, are there useful ways to bridge the formal and informal financial markets, channelling capital from formal and informal markets, or vice versa, to obtain maximum advantage of both?

7. However, informal financial markets are considerably different from their formal counterparts, which have received the greatest amount of attention and study by far. With this in mind, Wharton Econometrics, in its recent report on formal African financial mechanisms, advised that "specific studies should be carried out on different informal sectors..because of the unique conditions that may exist."

8. AFR has therefore joined with the Private Enterprise Bureau to jointly design and fund an interdisciplinary study of informal financial markets in Africa (FYI: PRE is sharing costs of the study with AFR/MDI). The study will be conducted by a team recruited through the PRE Bureau's PEDS II contract with Arthur Young, made up of (1) an anthropologist (Gordon Appleby); (2-) a small business finance specialist (Jan Van Leeuwen); and (3) an institutional economist (Robert Flammang--team leader). The team will be joined for a short two to three day interval in each country by Arnold Lessard as his schedule permits, who will work with the team in identifying means of linking the informal to the formal financial mechanisms.

9. To carry out the field portions of the study, data will be gathered by in-depth interviews conducted by the anthropologist and small business finance specialist. The anthropologist will focus on the social mechanisms which generate the supply of credit by mobilizing savings as well as on non-business users of informal sector financing (consumer-type credit). The small business finance specialist will focus on demand for credit, emphasizing small business users of informal system finance, and will also investigate the extent to which small businesses use and provide trade credit. The

institutional economist, who is the team leader, drawing on data provided by the other team member through their indepth interviews, will synthesize the inputs into an economic description of informal financial markets, including the mechanisms involved, and estimate key variables such as the cost of capital in the informal sector and the flow of funds which occurs in that sector. Then, the economist will identify opportunities and benefits to be gained, and describe the best and most effective means of linking the formal and informal financial systems.

10. The product of the team's work after all three countries have been visited will be a report on how to diagnose informal financial markets in Africa, how to find points of contact between formal financial markets and informal markets and lastly, how to go about bridging the two markets with the use of A.I.D. resources and facilitate the movement of indigenous capital from one to the other. In a nutshell, we hope to develop a framework of analysis for missions to use to bring informal financial market mechanisms into our programs.

11. For many reasons, Senegal, Zaire and Kenya have been selected as the three countries the bureau would like to have participate in this exercise. All three have extensive informal sector markets, and your missions have been in the lead in looking into and incorporating informal market development into your programs. Beginning in mid-May the three team members will spend two weeks in Washington reviewing existing data on informal financial markets, particularly what is available on your countries, so that they will come to the field more familiar with each country situation. They will then be prepared to begin field visits of three to four weeks in each country beginning early June with a view to developing clearer understanding of how informal financial markets operate and designing approaches to bridging formal and informal financial markets.

12. AFR/MDI and AFR/DP are coordinating this effort in the bureau, and recognize that the teams will come at busy times for each mission; nevertheless, this work is needed on an urgent basis and should be of direct benefit to you while the teams are in your countries. This work is essential for the bureau to understand how productive growth in Africa is and can be financed through these markets, and how to design into our programs appropriate ways to reinforce informal financial markets.

13. AFR will greatly appreciate addresses receiving the teams and facilitating their work as much as possible. Teams will, to the fullest extent possible, operate without burdening mission staff, but some assistance and guidance will obviously be required. The preferred schedule would be for the team to visit Senegal during the last three weeks of June, Zaire for the last three weeks of July and visit Kenya last during the month of August. Please advise as soon as possible to AFR/MDI if this schedule is acceptable. Detailed travel arrangements will be cabled as soon as we have your concurrences.

For various reasons, Kenya had to be dropped from the study. As the cable notes, the purpose of the study is to provide an overview of informal financial markets, their points of contact with formal financial markets, and what A.I.D. might do to "design into our programs appropriate ways to reinforce informal financial markets." Time constraints necessarily limited the team's ability to probe deeply into informal financial markets, so what follows cannot be regarded as a truly scientific work. Nonetheless, it reflects the best professional judgments of the members of the team.

# EXECUTIVE SUMMARY

## A. Background

"Informal" means casual, ordinary, without ceremony. Informal activity is direct, efficient. It is goal-oriented; means are secondary. Results are what count.

So it is with informal financial markets. They are direct, efficient, result-oriented. Their very lack of form or structure also makes them hard to define, describe, or measure. Therein lies their fascination on the one hand, and their capacity to frustrate on the other.

This study focuses on informal financial markets in two important African countries, Senegal and Zaire. Deeper understanding of the nature and importance of these matters can help A.I.D. decide whether assistance to them can promote the resource reallocation necessary to accelerate economic growth.

Formal financial markets are important, too. A.I.D. is currently supporting formal market restructuring efforts in both countries. In this study, however, they are discussed mainly to provide contrast to informal financial markets. Their narrowness and weakness help highlight the relative dominance and efficiency of informal financial markets. The question of linkages between formal and informal financial markets is also explored to determine the wisdom of efforts to strengthen the links.

An interdisciplinary study group composed of an institutional economist, an anthropologist, and a small business finance specialist was sent to these countries in June 1988. The group was asked to gather impressions which would provide a sharper focus for action aimed at informal financial markets, or for deciding to leave them alone.

The group spent relatively short periods in each country. With little prior information available, it explored these markets informally, allowing the subject to shape its methodology. Since the study *is* exploratory, it offers few new statistics and makes no claims regarding scientific validity. It does provide, however, an inductive platform for later and more rigorously detailed study, should that prove desirable.

The specific information about informal financial markets sought for this study includes their definition, characteristics, extent of articulation, linkages with formal financial markets, impact, and potential for improvement. Senegal and Zaire were selected for this initial exploration for several reasons. Both have suffered economic stagnation or decline for decades but are significantly different: Senegal is small, has a low inflation rate and moderately low income, while Zaire is larger, has accelerating inflation and very low income.

Central place theory, a tool used primarily by anthropologists and economic geographers, was employed to locate places with higher savings and investment potential. Central place theory assumes that the location of market centers is determined by the local pattern of demand, and that censpolling these centers provides a sense of income levels, savings potential, and income distribution in those market regions.

Once the market centers were located, small business people were interviewed to determine their savings patterns and the sources of their capital for start-up, operation, and expansion. Bank managers, managers of semi-formal financial intermediaries, and informal sector tontine managers and members also were interviewed. The impressions gathered from this approach form the basis for the report.

## B. Observations

### Size of Informal Sector

The informal sector, defined as that portion of economic activity which is for the most part outside the domain of the formal legal system and government, is very large in both countries. The team believes that approximately 60 percent of the population in Senegal and 85 percent of the population in Zaire earn their living primarily in this sector of the economy. Information regarding the amount of income or full-time employment generated by the informal sector is not available, but it is clear that *most people* participate in the informal sector at least part of the time. Informal sector activities touch virtually everyone.

### Impact of Macroeconomic Policies

Macroeconomic policies have a major impact on both informal sector and formal sector activities. Indeed, their impacts may be stronger on the informal sector than on the formal sector. In Senegal, tight monetary and fiscal policies appear to reduce liquidity in remote rural areas even more than in major cities, perhaps because cutbacks in parastatal activities have been especially severe in those geographic regions. In Zaire, inflationary macroeconomic policies appear to have much the same impact: compared to major cities, prices and incomes lag in outlying regions where informal sectors are more predominant. This phenomenon deserves further research, but the team is convinced that structural adjustment policies are not synonymous with help for the poor, and indeed that the reverse may more often be true. Much depends on where and how the adjustments are made.

**Importance of Informal Financial Markets**

The importance of informal sector financial markets appears to parallel that of the informal sector as a whole. Informal sector firms are financed largely by individuals and intermediaries within the informal sector, and informal sector savings are also largely placed within the same sector. Moreover, the relative importance of women, both as savers and as investors, is much greater in informal financial markets than in formal financial markets in both Senegal and Zaire.

**Nature of Formal Financial Markets**

In Senegal, the formal financial system, very much government-dominated, is currently retrenching with IMF and international debtor support. It has been plagued with poor management, high operating costs, poor earnings, and a long history of government-ordered debt forgiveness on farm loans. [Adams 1988: 360]

The financial austerity program has lowered inflation to under four percent, but it has also led to the disappearance of credit supplies for anything except short-term commercial purposes. Agriculture used to receive substantial amounts of credit from parastatals. The abolition of most debt-ridden parastatals, however, has left much of the sector with little except informal credit.

Moneylenders, who supplied much of the farm credit before independence, have not yet reappeared in sufficient numbers to make up for the disappearance of the parastatals, and a new agricultural bank has been able to reach only a claimed 30 percent of the country's farmers. In addition, the bank's collection efforts have been, and continue to be, hampered by memories of debt forgiveness by predecessors. The result is that rural area incomes and currency supplies have fallen, and that both formal and informal financial markets have suffered accordingly.

The formal financial system in Zaire finances the national government (which owns part of each domestic financial intermediary), international commerce, and domestic commerce, in that order. Most loans are short-term, but are routinely renewed for the national government, in effect converting them into long-term loans. Many loans have a concessional component, another indicator of lender nonviability and systemic weakness. [Adams 1988: 360-2]

Severe inflation and general economic uncertainty are reinforcing a traditional financial intermediary preference for commercial lending. Inflation is also seriously eroding the capital position of the financial system. As in Senegal, the management of the intermediaries is poor. They are overstaffed and highly political, many loans are in default, and real earnings prospects are bleak. Banks and other formal sector entities have little interest in accepting deposits or in lending to smaller businesses or consumers in Zaire. In addition, the outlying areas, where price increases and real incomes lag behind Kinshasa's, have no real liquidity and are especially vulnerable to falling real income due to inflation-induced forced saving.

**Nature of Semi-Formal Financial Markets**

Senegal lacks semi-formal financial intermediaries, primarily because of legal restrictions on their formation and operation. The demand for their services, especially as safekeeping agencies, however, is great.

Zaire's semi-formal financial markets are dominated by cooperatives, which lend primarily to the national government by purchasing treasury bills, The already small share of commercial and personal loans in the country's total financial system is shrinking further. However, coops do receive a substantial volume of deposits from members, mainly for safekeeping. Where they exist, they are well-located and accessible to small urban savers, but they pay negative real interest rates, are poorly supervised, and are subject to frequent fraud and theft. Inflation is also severely eroding their capital bases, while depositors, too, suffer from declining real liquidity.

**Nature of Informal Financial Markets**

In Senegal, informal financial markets are most important (in absolute terms) in urban areas, where the population density and the volume of savings are greatest. Money savings by participants in these markets are surprisingly large and are typically held as cash rather than deposits. Savers typically accumulate funds domestically through tontines or by means of periodic deposits with trusted individuals in their villages or neighborhoods. Collective savings, such as *caisses villageoises*, are perhaps most available for development purposes; a small proportion of these are regularly deposited in banks. Savers, and especially young men from the Fleuve region of northern and eastern Senegal, also frequently accumulate funds by working in formal sectors in other African countries or Europe; these savings often fund the building of mosques or the acquisition of wives.

Overall, participants in informal financial markets appear among those most negatively affected by tight monetary policies, since they are frequently forced into barter and subsistence activities; the common supposition that subsistence sectors are unaffected by macroeconomic policies appears incorrect in the areas the team visited. Tight financial conditions simply force more people (especially those in rural areas) into purely subsistence activities.

Most of the individual and group savings in Senegal are eventually used for "consumption"—that is, they are used to purchase durable goods, are held to carry the family through the "hungry season" (the period of greatest scarcity just before harvest) or are spent on religious celebrations. [Note: much of what Westerners call "consumption" in many low-income countries is actually regarded by their inhabitants as "investment"--i.e., bicycles can transport sacks of corn, and religious celebrations can cement security arrangements which act as informal insurance.] Some savings are also lent to other family members to help them during hungry seasons or during other emergency periods.

Some savings, however, do finance inventories or setup costs for small enterprises owned by friends or family members. For example, the Senegalese often form temporary partnerships to start businesses, with the primary partner buying out the others later. The cost of these loans obviously depends on business profitability. Loans to family and friends are always interest-free, but interest rates on supplier credits typically range from zero to 30 percent annually. Loans from moneylenders (typically merchants and marabouts) usually cost between 50 and 100 percent annually. These loans are normally used to finance emergencies. Zaire's informal financial markets follow much the same pattern. The country's savings are surprisingly large, especially in light of the 180 percent annual inflation rate. They are frequently accumulated by means of tontines, and generally in urban areas. As in Senegal, most loans are to family members or friends for consumption of durable goods in the urban areas, and to meet the hungry season expenses of poorer relatives and friends in the rural areas. Occasionally, savers make very short-term loans to acquaintances for business purposes, usually to restock inventories. Also as in Senegal, longer-term "loans" may take the form of partnerships between friends or family members to start a business, with the primary partner buying out the others after a year or so.

Loans to family and friends are always interest-free in a formal sense, but they do include expectations of reciprocity later if the lender faces a need (this "insurance" function may be thought of as an implicit interest since it has economic value, but its money equivalent is indeterminate at this point in our understanding of informal financial markets). Moneylender loans, usually from merchants or salaried people, cost up to 70 percent per month, but default rates are high and on it appears that the net return to lenders after inflation and risk are adjusted for is far below the nominal rate.

As noted earlier, inflation has severely hampered the operation of both formal and informal financial markets in Zaire, especially in regions other than Kinshasa where price increases lag behind the capital's. Poor transportation and communication facilities also hinder financial markets because person-to-person dealings are limited.

**Nature of Formal-Informal Linkages**

Linkages between formal and informal financial markets in Senegal do exist. Proceeds from tontines and market collectors, as well as village collective savings occasionally are put in banks, but the amounts appear small. Moreover, the banks are more dependent upon the government and donors for loanable funds, and show little interest in attracting them. Nonetheless, the banks do give informal-sector savers safekeeping facilities, and security is very important to these savers.

Formal sector financial intermediaries also indirectly assist informal activities, primarily by channeling remittances from abroad and by supplying wholesaler credits to retailers and artisans. In Senegal, however, the amounts are more significant than in Zaire, especially in the northern and eastern Fleuve region (for remittances) and in larger market centers (for wholesaler credits).

In Zaire there are similar linkages, although they appear to be both stronger overall and *less* beneficial to both financial markets than in Senegal. Some savings from people who operate primarily in the informal sector are deposited in semi-formal coop accounts, and are subsequently on-lent to the national government through coop purchases of treasury bills. In this case the informal market helps finance formal sector activity, much of it conspicuous public and private consumption. Depositors receive safekeeping services from the coops, but also lose substantially as inflation erodes their real incomes and the value of their money holdings. This is the major link, and it clearly benefits the government and the formal sector of the economy at the expense of small informal sector savers, who lose both income and capital.

In the opposite direction, there are some extensions of short-term credit by Zairian formal sector wholesalers and suppliers to their informal sector clients, mostly small merchants and artisans. These are not large, however, and they are quickly disappearing. Formal and informal financial markets appear to display different comparative advantages wherever they occur. The formal market provides a relatively high degree of security and structure to savers and borrowers, while the informal market provides more flexibility and, for business loans, higher rates of return.

**Shortages of Liquidity**

In Senegal, inflation rates have declined recently to under 4 percent annually, but the impact of the IMF-encouraged austerity measures has been uneven. The most severe effects appear to have been in the countryside, where informal financial markets are *relatively* more important, but are not as well articulated nor intermediation as well developed as in the cities. In relatively remote parts of the country, the scarcity of currency is reportedly worse, relative to prices, than it was two to three years ago, and considerably worse than it was before independence. In fact, bank branches which existed two decades ago have disappeared completely in some regional centers, and only now is there discussion of reopening some of them.

This scarcity of currency hampers market development in general by reducing the number of transactions, the degree of specialization in production, and thus income growth. It also reduces the degree of articulation and, hence, the risk-absorptive capacity of informal financial markets even more than it does that of formal markets, mainly because they make relatively heavier use of currency.

In Zaire, the accelerating rate of inflation disrupts the development of informal financial markets even more than that of the formal markets because it forces people, especially rural dwellers on the fringes of the money economy, increasingly into barter and subsistence activities. High inflation discourages money savings among those sensitive to real rates of return and encourages investment in largely unproductive outlets, such as urban real estate and inventory speculation.

Even though the money supply is increasing rapidly and one might reasonably expect the country to be "awash in liquidity," inflation actually contributes to rural illiquidity because of its uneven rates of transmission. Illiquidity is especially acute in regions whose "export" incomes (to other parts of the country) rise more slowly than their "import" incomes, and this condition applies virtually to all regions of Zaire except Kinshasa. High inflation has also led to a general breakdown of trust; few Zairians trust anyone outside their own families and friends. This lack of trust increases risks and innovation, dampening the prospects for economic growth.

At present, the desire for economic security appears to be the primary motivation for saving in both Senegal and Zaire. Savers wish to safeguard their funds from theft and from predatory relatives seeking loans, and also accumulate funds to meet family emergencies.

Savings are most common and most available for production lending where population density is greatest and/or where the transport and communications systems are best. The ability to concentrate and use savings productively naturally depends upon the ability of people to make contact with each other.

## C. Areas for Future Study

The following are areas recommended for future study:

- As noted earlier, macroeconomic policies--whether contractionary or expansionary--seem to have negative and magnified effects on informal sectors and their financial markets in Senegal and Zaire. More needs to be known about this phenomenon in both of these countries and in others, as well.

- The team recommends further research in the area of *property rights definition*. Insecurity of title and tenure appear to be major impediments to access to credit, either formal or informal. The team suspects that well-defined rights to use property could give Africans some of the security they so badly desire *and* help them mobilize regional savings for regional investment.

  The whole research area of *nonmonetary compensations* also bears investigation, because it is clear that networks of mutual obligations provide essential economic security or insurance services to their participants. The better the roots and extent of trust in low-income countries are understood, the better are the chances of articulating markets, expanding participation in national economies, and raising real incomes.

- The privately-owned savings organization in Kikwit, Bandundu province, Zaire, would be an interesting model to inspect further to see if a donor role encouraging similar types might be found. It invests savers' funds in contruction materials, beer, canned goods, and other widely-demanded commodities (which also serve as hedges against inflation) and thus in effect runs a supply depot in conjunction with its savings depository.

- Linkages between Zaire's semiformal coops and its informal-market tontines and mutual aid groups might be helpful to both semi-formal and informal markets. Surveys to determine responses to proposals like this might be donor-funded.

- A thorough study of investment patterns in market centers of different sizes could be valuable in highlighting where investment rates of return are highest or potentially the highest. Although the team was told that investment opportunities at the regional level are limited, the opening four years ago of a new section of improved road to Bakel and Senegal has had a number of positive results. The number of transporters, for example, has quadrupled, and the range of goods offered and the size of the marketplace have increased markedly. In addition, formal sector financial intermediaries have expressed interest in opening offices there. This seems to indicate that investment opportunities are far better in these centers than has been suspected heretofore. If so, a study of market centers might uncover regions with greater private investment demand and, thus, greater need for expansion of financial markets.

- A more thorough study of current agricultural market financing arrangements in both countries could contribute in time to greater market activity, a greater need for semi-formal or formal market financial services in those production areas, and a more generalized pattern of economic growth which could ease urbanization pressures.

- The study pointed up how little is known about moneylenders and the services they provide. People are usually reluctant to discuss their moneylender relationships with outsiders. Yet it is obvious that moneylenders absorb a great deal of risk in these countries, including inflation risk and default risk. They are literally the "lenders of last resort." Local consultants might be especially valuable in learning whether or not their rates of return are really as monopolistic as they appear to be at first sight.

- The team suspects that such research would find that moneylenders provide an essential set of financial services to marginal income groups which cannot be duplicated by formal financial intermediaries at the present time. It may also shed light on possible *alternate sources of collateral* besides crops, animals, land, business assets, and existing cooperative groups.

## D. Possible Action Points for A.I.D.

The following are possible action points for A.I.D.:

- The team does *not* recommend that the savings-credit cycle of informal financial markets be directly augmented or depleted by donor funds. This linkage is formed from long experience, and it is rooted in the indigenous process of building and extending trust. Increasing the amount of funds available for lending, without an equivalent domestic savings effort is not likely to lead to lending for self-sustaining productive purposes. Instead, funds may be regarded as windfalls and used for non-productive purposes. This type of intervention also discourages savings. [Adams 1978: 557]

  The team believes that the most appropriate role for donor assistance to these markets is *indirect* support for financial markets, including savings or credit activities, as discussed below.

- The team recommends that any activity undertaken by A.I.D. with respect to informal financial market development focus on maintaining and building these markets' intermediating and articulating mechanisms within *economically definable regions*. This approach will do more to foster long-run national development *and* expand local participation in the development process than any other approach.

- Financial markets do not exist in a vacuum. People must be able to move themselves and their goods if they are not to remain subsistence farmers or fishermen. And, in countries such as Senegal and Zaire which lack the electronic means of transfer, money must move physically. Resource reallocation usually requires physical mobility. Improvements in *transport and communications facilities* are therefore absolutely essential counterparts of attempts to improve the operation of financial markets, formal or informal.

- The team believes that donors could be helpful in supporting the start-up of various types of informal savings activities: for example, helping to meet start-up costs for "market bankers" (women if possible) in certain markets in Senegal or Zaire. These should be people already known in the marketplace and trusted by savers there. Reducing transactions costs for these agents by using motorbikes or travelling with trucker-suppliers on a regular basis might also be valuable. Experiments like these have the best chances for success in areas like north or central Shaba in Zaire, where agricultural output has been or is expanding quite rapidly, or in the Peanut Basin area of Senegal.

- Cooperatives and *caisses populaires* in Zaire could also be helped by donors with internal and external controls, training in the essentials of record-keeping, scholarships for foreign study, bonding of key employees, and possibly (*in conjunction with good controls*) some form of guarantee insurance program.

- The team believes that donor-underwritten guarantee funds may be helpful in mobilizing *regional* resources, such as regional financing agencies. Where lack of trust is endemic, these guarantee funds may make a major contribution. Such guarantee funds must be established in conjunction with tight control mechanisms in order to prevent them from being drawn down by "rescue operations" of organizations which are sloppily or mismanaged by individuals who *intend* to draw on the guarantee funds.

- Regional organizations could be established to sell inflation-hedged IOUs (perhaps denominated in some important local crop such as corn) to coops or *caisses populaires* in Zaire and on-lend these to new semiformal or informal lending entities until the coops feel strong enough to undertake greater lending activities on their own. The lending organizations might be empowered to lend to provincial governments on the basis of inflation-indexed bonds for infrastructure improvements *and* to businesses whose prospects of success are enhanced because of these same improvements. They might also be empowered to issue "regional bills" to be discounted and rediscounted to Kinshasa commercial banks and the Central Bank. This could help reverse the net flow of regional purchasing power to the capital and, perhaps, help stem capital outflow from the country by providing wealthy investors with a domestic alternative. This would advance informal financial market articulation and, thus, its intermediation potential and capacity to absorb risk, and while rendering more beneficial its links with the formal banking system.

This could also be applied in Senegal. The demand for safekeeping facilities is so great, the regional savings so untapped and liquidity so inert in some areas, that regularized networks of market bankers and/or motorcycle bankers (perhaps underwritten by donor support) might be developed. Better yet, the country's banking laws should be liberalized enough to allow smaller informal intermediaries to accept deposits in city neighborhoods as well as in smaller regional centers. Regional financing entities also could sell "regional bills" to commercial banks in Dakar or Kaolack, easing the shortage of local liquidity in remote areas, promoting transport and communications in these areas, and tying the country closer together financially. Not incidentally, to the extent that financial services are expanded in regions not now served, the attractiveness of moving to major cities could also be lessened, easing some of the pressures of rapid urbanization.

- The team was impressed with the Senegal and Zaire Missions' existing experiments in informal financial markets and encourages further extensions in this area. Although the team is not familiar with their complete project portfolios at the moment, it is recommended that existing projects be examined with a view toward adding support for informal financial markets. As noted earlier in this summary, these markets affect virtually everyone, but their impact is greater on the poor.

# Chapter I

# INTRODUCTION

## A. Background

This study was prompted by the conviction that the economy of sub-Sahelian Africa must achieve a substantial degree of self-sustained growth if severe economic and social problems (including possible outright starvation for millions of people in the region) are to be averted in the years to come. For this to occur, the region's allocation of resources *and* its resource allocating mechanisms must be improved, since major additions to the region's total stock of resources are not likely. The problem is both this simple *and* this complex.

Recently, the Agency for International Development (A.I.D.), along with other international donor agencies, has focused increased attention on the role of financial markets as mechanisms for improving resource allocation.

Financial markets exist wherever people live, but in most developing countries they are less articulated and thus less apparent to most outside observers than those in richer countries. For example, in subsistence sectors the producer or supplier frequently is also the consumer or demander of the produced goods or services, and the saver is also the investor of non-consumed resources.

To some, dividing a subsistence producer into both a producer and consumer and calling the interaction between these two roles a "market" may stretch the imagination too far; similarly, dividing a person's role between saving (refraining from consumption) and investing (using saved resources for later consumption or production) and calling the interaction between these two roles a "financial market" may seem absurd. Yet, this is analytically necessary because it is the evolving separation of these two functions that enables specialization in production to increase (normally increasing productivity in the process) and that allows risks to be shifted or shared by others.

Formal and informal financial markets exist side by side in most developing countries. In both markets there is an explicit or implicit contract between borrowers and lenders, or between sellers and buyers of "financial assets," which may be as formal as a bank deposit or share of stock or as informal as a handshake, a mutual understanding, or a sense of obligation. In either case, the contract or relationship implies the existence of some degree of trust or confidence between the parties.

A major difference between the two markets, however, is *where the focus of trust resides*. In formal financial markets, the focus of trust is primarily on the *system*--ideally, it is sufficiently established and organized to allow savers to entrust their funds to it and to impersonally screen out unsafe borrowers while allowing safe borrowers access to loan funds.

In informal financial markets, on the other hand, the primary focus of trust is on the *person* rather than on the system--the saver's personal knowledge of the safekeeper or borrower acts as a substitute for the formal procedure of evaluating that person's collateral value and capacity to pay debts. While these distinctions are relevant only in relation to one another (obviously, even in the formal system, a borrower's character is assessed in some fashion), they do offer some insights into the advantages and disadvantages of each type of financial market.

A formal financial market, with its trust focus on the system, involves written contracts and thus depends upon a country's legal system and the sanctions it can impose. There are substantial fixed costs to the society in establishing the system in the first place, and the system is relatively inflexible because of these fixed costs. Gaining access to the system for the first time is also usually costly for any particular saver or borrower: they must be somewhat literate and numerate, there is paperwork involved, legal fees, commissions, possible bribes, travel time and transportation costs, and the sometimes interminable delays. Certain types of deposits or loans may be favored over others. There is a relatively fixed maturity or repayment date which is often difficult to postpone or renegotiate.

The formal system is also dominated by men in Africa, although well-known women or successful and wealthy female entrepreneurs also have access to it. Businesses with access to the formal financial sector also tend to be relatively large in financial terms, but typically employ fewer people per unit of capital than smaller firms.

On the positive side, however, the systemic formal approach is relatively impersonal, so the family or political connections of a borrower mean relatively less and the viability of the proposed use of funds means relatively more than in informal financial markets. Formal financial markets are better articulated and involve more intermediaries, broadening their information flows and the potential scope for resource reallocation. Since these markets handle such large flows of savings and credit, interest rates on loans are usually lower than in informal markets. Also, savers find that their funds are often safer and returns more regular than in informal markets.

On the other hand informal financial markets, with their trust focus squarely on the person, treat each transaction separately. There are no fixed "systemic" costs in these markets. A saver puts money with a safekeeper only if she or he trusts that person. With loans, if the lender knows the borrower personally (as is usual), all systemic transactions costs are eliminated--paperwork, literacy, distance, time, conformity with preestablished standards, are all unnecessary. The loan is approved or disapproved instantly, depending on what the gossip mill and daily observation have done to the potential borrower's reputation, and the purpose of the loan is essentially of no importance to the lender.

The only entrance requirement to informal financial markets is that a borrower be generally trustworthy. It is true that sometimes collateral--perhaps a fraction of a crop, or some durable good--must be pledged, particularly if the borrower is a borderline risk. Generally, however, the transaction is completed with a mutual understanding and the real security behind the loan is the borrower's prestige and standing in the community. Women are quite often dominant participants in informal financial markets, both in numbers and wealth. Most business borrowers in these markets are very small, yet are major employers of labor per unit of capital. On the negative side, a borrower's interest cost in informal financial markets is sometimes quite high, and discrimination on the basis of family, clan, and so forth may be substantial, since this is the core of the informal system. These markets are relatively narrow, the information flows are deep rather than broad, and the scope for resource reallocation is reduced accordingly. And for savers, safety and regular returns are often difficult to find.

There are, therefore, important differences between formal and informal financial markets. Exhibit 1, at the end of this chapter, summarizes some of their characteristics. Clearly, each serves somewhat different purposes within an economy, and economies would perform considerably worse should either cease to exist. The issue is whether or not reducing the differences that exist between them is appropriate and desirable. Are the two sectors essentially complementary, or might expanded contact actually keep each sector from performing its tasks as well as it otherwise might, to the detriment of market expansion and economic participation? And what role, if any, could A.I.D. play to help bridge gaps if bridging appears to be desirable?

These questions are, at root, what this study was intended to address.

## B. Purpose and Focus of the Report

This study was prepared for the AFR/MDI office of the U.S. Agency for International Development. The main purposes of this study were:

- to *quickly* investigate and *generally* describe the informal financial systems of Senegal and Zaire;
- to suggest possible methods of linking the formal and informal markets of these countries; and
- to make recommendations on the most appropriate course of action for A.I.D. to follow in each country.

A three-person team was assembled to conduct the study: an anthropologist, Gordon Appleby, who focused especially on the social mechanisms which affect the supply of savings and the willingness to lend; a small-business specialist, Jan van Leeuwen, who focused primarily on the demand for credit; and an institutional economist, Robert Flammang, who focused on synthesizing the supply and demand information to provide a clearer picture of informal financial markets in Senegal and Zaire.

Originally, the team was asked to conduct in-depth interviews in both urban and rural areas in three countries: Zaire, a low-income country (by African standards) in central Africa which is suffering from severe inflation; Senegal, a middle-income country in western Africa with a current shortage of circulating currency, particularly in rural areas; and Kenya, a higher-income country in eastern Africa. Due to problems beyond its control, however, the team was unable to include Kenya in the present report.

The central focus of the study is the financial markets which provide a flow of services to the informal sector. Consequently, the study is concerned with the flow of financial services, e.g. safekeeping, savings and credit. It is also concerned with the facilities available to both formal and informal sectors. Completion of the study required an assessment of the following issues:

- the extent to which the formal sector provides significant safekeeping or savings services to the informal sector or, conversely, the extent to which the informal sector manages these services itself;
- the extent to which the formal sector provides significant credit services to the informal sector or, conversely, the extent to which the informal sector provides its own credit services;
- the linkages between savings and credit within and between the formal and the informal sectors; and
- the possibility of increasing the flow of financial services (emphasizing safekeeping, savings and credit) to the informal sector through the expansion of formal sector activities, through the creation of agencies to mediate between the formal and informal sectors, or through the expansion of existing informal sector activities.

## C. Study Approach/Methodology

This study was not intended to be scientific, but definitional. Due to the short time available and the generality of the information desired, the team's field methods involved an abbreviated inventory of urban (and to the extent possible rural) enterprises and occupations in selected market centers in each region visited. This shorthand method of weighing the relative importance of informal sectors vis-a-vis formal sectors is explained further in Appendix A.

Since time limitations meant that all market centers in each region could not be canvassed for economic activity, the team focused on the larger centers, including smaller centers whenever possible. In each market center, a number of abbreviated counts were carried out--of market vendors (by commodity type), of shops, services, artisans, and of transporters. These different counts provided a reasonable picture of the size and composition of the informal sector in each place. The team did not, however, attempt to census farmers or pastoralists, since the vast majority of these are clearly "informal" by most definitions. Instead, the team focused on those places where formal and informal can be expected to meet and interact: market centers of all sizes.

The team also interviewed a number of individuals who work in each of these subsectors. The focus of these interviews was on sources of set-up capital, sources of operating funds, and sources of expansion capital. In addition, the entrepreneurs, vendors, and artisans were questioned about their knowledge of and contact with the formal financial sector.

The nature of the interviews differed significantly in rural areas, where team members were more interested in overall production patterns, propensities to save, savings mechanisms, safekeeping arrangements, and access to and use of credit. Inasmuch as production patterns vary widely across regions, significant time was spent in each place on such matters as cash *versus* subsistence cropping, participation in the money economy (as craft producers, through livestock sales, or through seasonal labor migration), and on local perceptions of development needs. Some of the interviews were written up as case studies and are presented in Appendix B of the report. These generally represented cases where many different threads seemed to be brought together in one case, or where the informant was an especially lucrative source of information.

These field materials were supplemented with materials available in the literature on the informal sector, the formal banking sector, and the rural sector in each area. In addition, the team conducted interviews with donor representatives, government officials, and other development practitioners, particularly among the expatriate and national PVO community.

Given the generality of this mission's objectives and the short time allocated for each field trip, the materials gathered could not be, and are not to be taken as, systematic. The team collected as wide a range of information as time permitted in order to make defensible, pertinent observations about the linkages between the formal and informal sectors and, consequently, about the possibilities of promoting further linkages in each country.

In Senegal, the first country visited, the team decided to look especially at two economic regions where there had been reports that formal sector banking activities were expanding: the valley of the Senegal River in northern Senegal (the "Fleuve") where there has been considerable donor activity over many years, and the "peanut basin" in the region around Senegal's second most populous city, Kaolack.

In addition, the team was fortunate to find that in recent months surveys of small enterprises had been conducted by an African consulting group in three cities in Senegal (including Dakar, the capital), and while the surveyors made no claims to scientific validity, the team found their findings helpful in gaining general impressions about the importance of informal sector savings and financing. (A summary of the findings of this survey is provided in Appendix D.) Team members also were able to have helpful talks with some field personnel involved in a small enterprise financing project in the Kaolack area and to interview some of the small business borrowers there.

In Zaire, it was decided, after consulting with the Mission in Kinshasa, to focus especially upon Kinshasa and on the Shaba region in southeastern Zaire: Kinshasa because team members felt that they needed a better grasp of *urban* informal financial markets than they had been able to secure in Senegal; and Shaba because there were reports of expanding banking activity in that region. The team discovered that a study of the cooperative savings and credit organizations in the Bandundu region had recently been completed by consultant John Gadway, and his findings were immensely helpful.

In retrospect, the two countries selected proved to be excellent choices. Similar in many respects, both countries had markedly different macroeconomic conditions at the time of the team's visits, and the impact of these conditions on the form and functioning of informal financial markets in the two countries is substantial.

## D. Defining the Informal Sector

### The Informal Sector in Urban and Rural Centers

Providing a precise definition of the informal sector can easily become an endless and ultimately fruitless process. For this study, the team notes simply that the term contrasts with the term "formal sector", and that the essential difference concerns the extent of formal governmental regulation of business. Formal sector agencies are, by definition, bound by the laws and regulations that governments have enacted for the control, supervision, or facilitation of that sector. The informal sector, in contrast, generally operates outside the reach of these laws and regulations.

Of course, there are many possibilities between these two extremes. For example, a grocer might be obliged to purchase annually a patent or permit from the township (i.e., a formal sector characteristic), but he might well ignore the prevailing law on wage rates, working conditions, and the like for his employees (an informal sector characteristic). A common-sense definition of the informal sector might therefore be: the sector enclosing any productive service or enterprise beyond the effective reach of formal administrative control, apart from the periodic payment of certain basic taxes or fees for licenses to operate.

In this sense, almost all firms that operate in provincial towns are "informal." In most cases only a government-owned and operated grocery store or agricultural supply outlet, if any, would be excluded. Further, the size and composition of the informal sector in these towns is nearly identical to the range of enterprises that operate there. A census of the firms and service personnel in these centers (adjusted for government-owned entities) thus constitutes a workable measure of the informal sector.

While some definitions of "informal" exclude agricultural and pastoral activities at the village level, the team recognizes that most development practitioners now include these activities in their meaning of the term, and follow this usage since most rural agricultural production and processing is beyond formal regulation.

**Informal Financial Markets**

Informal financial markets include any and all agents, mechanisms, or activities which provide credit or facilitate savings (including providing safekeeping services) within the informal sector, i.e. which contribute to the flow of financial services to those individuals and businesses which conduct most of their economic activities in the informal sector. Credit may originate from a number of sources, either in the informal sector itself (self-financing, family or friends, merchants and other money lenders) or in the formal sector (banks, credit unions, cooperatives). Similarly, savings may be deposited with formal sector organizations (banks) or with any number of informal savings associations (tontines or money clubs, village treasuries) or individuals (clan chiefs, merchants, professional people).

In an agrarian region, agricultural production is the economic engine that drives urban commercial and entrepreneurial development. Consequently, there may well be credit or savings links between the primary agricultural sector and either the formal or the informal "urban" sectors or both. For example, farmers may obtain input supply credits from government sources, from merchants involved in the wholesale bulking of produce, or both. (There is typically an inverse relationship between government and mercantile credits such that the larger and more widespread the government or formal-sector program, the smaller the range and extent of mercantile credits.) For this reason, although agricultural credit itself lies outside the terms of reference of this study, the team has included some consideration of it to provide a more complete picture of the types of credit available in each sector and the linkages that occur within and between the formal and informal sectors.

## E. Organization of the Report

Following this general introduction to the study, the report deals with Senegal and Zaire in sequence in order to discuss informal financial market activity in the higher-income country first and in the lower-income country second. The chapters on each country begin with a discussion of the macroeconomic framework, followed by a review of the formal and informal economic sectors as a whole and general observations about existing and potential linkages between the two sectors. The final chapter of the report compares and contrasts the two countries and presents the team's observations and suggestions.

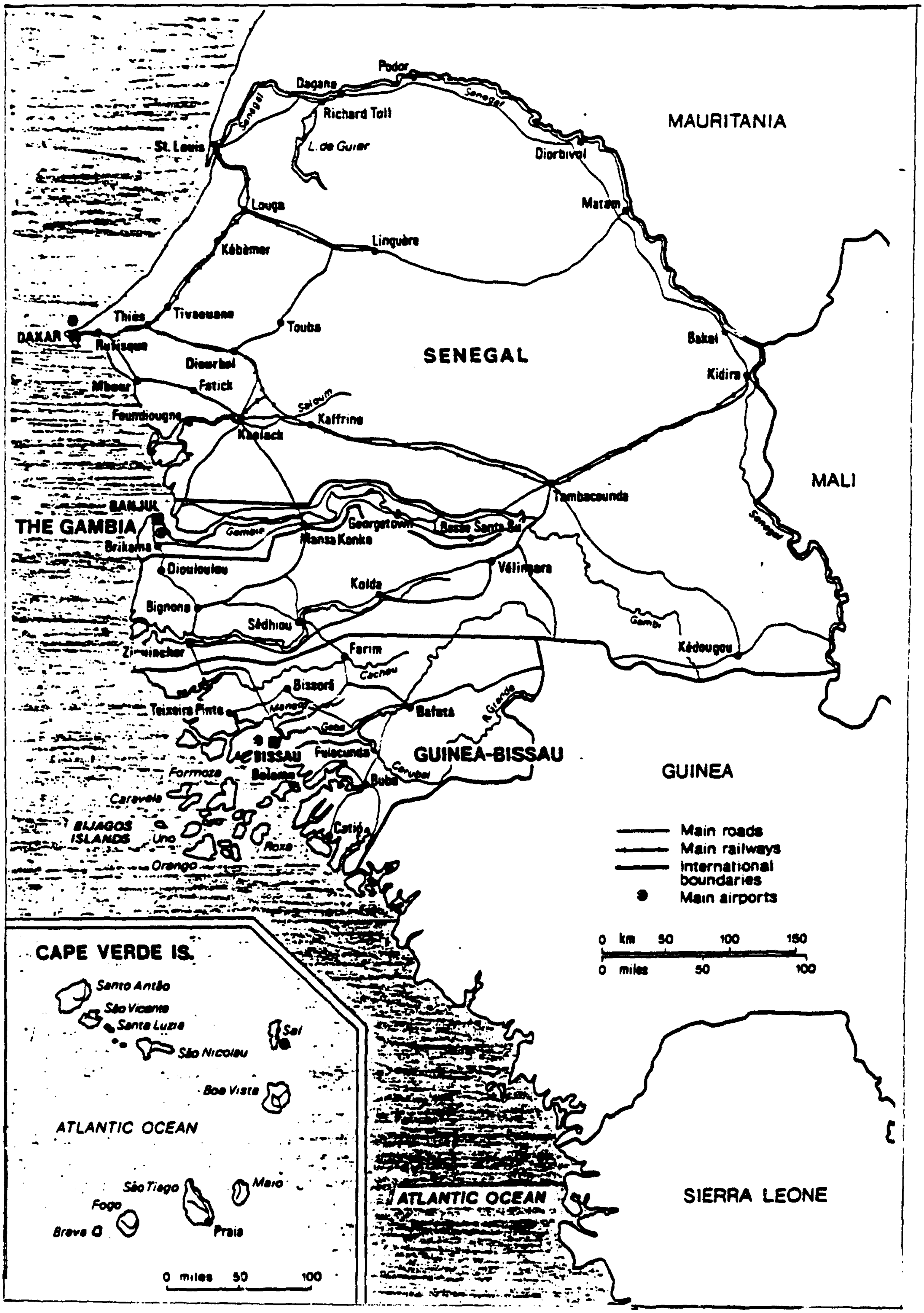
The report also includes the following five appendices.

- Appendix A explains the research methodology in greater detail.
- Appendix B provides a number of case studies that add flavor to some of the findings and experiences of the team during the field work.
- Appendix C presents the tables of census results and area maps.
- Appendix D summarizes the findings of a survey of small enterprises by an African consulting group in Senegal.
- Appendix E summarizes the results of a survey of small and medium-sized business financing in Zaire.
- Appendix F provides a selected bibliography.

EXHIBIT 1

Summary of Characteristics: Formal and Informal Financial Markets

| Formal Financial Markets | Informal Financial Markets |
|---|---|
| 1. High fixed, low variable costs. | 1. No fixed, high variable costs. |
| 2. Highly structured. | 2. Relatively flexible. |
| 3. Controlled by legal system. | 3. Uncontrolled by legal system. |
| 4. High degree of security. | 4. Low degree of security. |
| 5. High in static efficiency. | 5. High in dynamic efficiency. |
| 6. Broad spatial resource base. | 6. Narrow spatial resource base. |
| 7. Well-defined. | 7. Poorly defined. |
| 8. Impersonal. | 8. Personal. |
| 9. Private property rights emphasis. | 9. Communal property rights emphasis. |
| 10. Use of bank accounts and currency. | 10. Use of currency and goods. |
| 11. Complex organizations. | 11. Simple organizations. |
| 12. Large transactions. | 12. Small transactions. |
| 13. Profit-motivated. | 13. Security-motivated. |
| 14. Economic focus. | 14. High social content in focus. |
| 15. Universalistic. | 15. Particularistic. |


MAURITANIA
SENEGAL
MALI
THE GAMBIA
GUINEA-BISSAU
GUINEA
SIERRA LEONE
ATLANTIC OCEAN
Podor
Dagana
Richard Toll
L. de Guier
St. Louis
Diorbivol
Matam
Louga
Kébémer
Linguère
Thiès
Tivaouane
Touba
DAKAR
Rufisque
Diourbel
Bakel
Kidira
Mbour
Fatick
Foundiougne
Kaffrine
Kaolack
Saloum
Tambacounda
BANJUL
Brikama
Georgetown
Basse Santa Su
Mansa Konko
Gambia
Dioulouloy
Vélingara
Kolda
Bignona
Sédhiou
Ziguinchor
Farim
Cacheu
Kédougou
Bissorã
Teixeira Pinto
Bafatá
BISSAU
Fulacunda
Bolama
Buba
Catió
Formoza
Caravela
BIJAGOS ISLANDS
Uno
Orango
Roxa
Senegal
Main roads
Main railways
International boundaries
Main airports
0 km 50 100 150
0 miles 50 100
CAPE VERDE IS.
Santo Antão
São Vicente
Santa Luzia
São Nicolau
Sal
Boa Vista
ATLANTIC OCEAN
São Tiago
Maio
Fogo
Brava
Praia
0 miles 50 100

# Chapter II

# INFORMAL FINANCIAL MARKETS IN SENEGAL

## A. Introduction

Senegal is a relatively small country of 196,200 square kilometers, about 8 percent the size of Zaire or one-third the size of France. A Sahelian country, it has suffered droughts on average every other year for the last 16 years, and has relatively sparse supplies of minerals, mainly phosphates and some iron ore. Its population is now about 6.8 million and growing at 2.9% per year. Its per-capita income is estimated at between $375 and $400 per year, or more than double that of Zaire (though only about half that of the Ivory Coast or Cameroon); if the statistics are accurate, this income level in real terms is below the level at independence.

Dakar, the capital, has an estimated population of 1.6 million and is the administrative, commercial, financial, and manufacturing center of the country. It is located in the relatively wealthy Cap Vert region and is connected with most other parts of the country by a relatively good road system; in consequence, its population swells during hard times in the rural areas and contracts when the rest of the economy prospers.

Though clearly a poor country, Senegal's people are reasonably well-fed when times are good, with caloric intake averaging about 99 percent of the amount required and protein intake averaging about 70 grams per day during these periods. Most of the time, however, the country does not produce enough food to meet its own needs and must import the balance. Literacy is low, estimated at between 10 percent and 17 percent of the adult population, although interest in education and school attendance are both rising. Only about 18 percent of the population has access to electricity, and only 37 percent of their homes are served with safe water. Life expectancy at birth is 47 years.

About two thirds of the population lives in areas that are classed as rural by the World Bank, but that figure must be used cautiously in light of the relatively high mobility of the population. Much of the country is semi-desert; only a few crops like peanuts, millet, and sorghum can be grown in unirrigated regions during the relatively short rainy season. Rice is grown in the wetter southern part of the country and in irrigated areas along the Senegal River in the north (the "Fleuve"). Average rainfall amounts vary from under 10 inches annually in the Fleuve region to over 40 inches in the Casamance region in the south, and per-capita incomes tend to increase as the average rainfall rises. The northern boundary of the country is the Senegal River, which normally has a large flow and which is now the focal point of some ambitious and very expensive donor-supported irrigation projects.

The country's economic structure has changed little since independence: exports of peanuts and peanut oil have remained paramount and the share of industry in the overall economy has been essentially static. Subsistence agriculture still provides much of the income. Before 1980, government participation in the economy in the form of public agencies and parastatals tended to grow, especially when crops were good and export prices favorable. During periods of low export prices or droughts, however, the government would borrow heavily from both local commercial banks and foreign lenders. The result was that by 1980 the economy was stagnant, inflation had become a serious problem, the government's fiscal budget and the national balance of payments were seriously in deficit, and external debt was rising rapidly.

In 1980, Senegal's longtime President retired, handing his responsibilities to his former Prime Minister. The new President recognized that action was needed to reduce public spending and to reduce the size and power of the national bureaucracy. With the encouragement of the International Monetary Fund, the World Bank, the donor community, and various creditor countries, government expenditures have been scaled back, public receipts have increased through tax reforms, some parastatals have been abolished, and a tighter monetary policy pursued. In consequence, the rate of growth has increased and the government's fiscal deficit has been reduced to a much smaller fraction of GDP. In addition, a portion of the country's external debt has been rescheduled and the balance of payments situation has improved. These measures have helped to bring inflation effectively under control (it was only 3.8% in 1987).

Exhibit 2, *Senegal: Macroeconomic Picture*, brings out several additional points, some of them graphed on the exhibits following it. The real money supply (Row 12 in Exhibit 2 and in Graph 2.2) fell markedly after 1981, showing notable increases only by March 1988. The proportion of the money supply held as currency (Row 5 and Graph 2.1) has been increasing as money availability has tightened and inflation brought under control. This scarcity of liquidity was noted by several respondents, especially in rural areas, during the brief study period. A frequent remark was: "There is less money now than there was two or three years ago".

With the increasing money tightness has come an increased income velocity of money (last row and Graph 2.3) throughout the 1981-88 period, as the Senegalese attempt to make the existing money supply finance more production per unit of money. Moreover, real gross domestic product (Row 14) fell early in the period, but began growing again more recently, probably reflecting the recovery from the 1983 drought as well as an increased willingness to save and invest as inflation rates ebb.

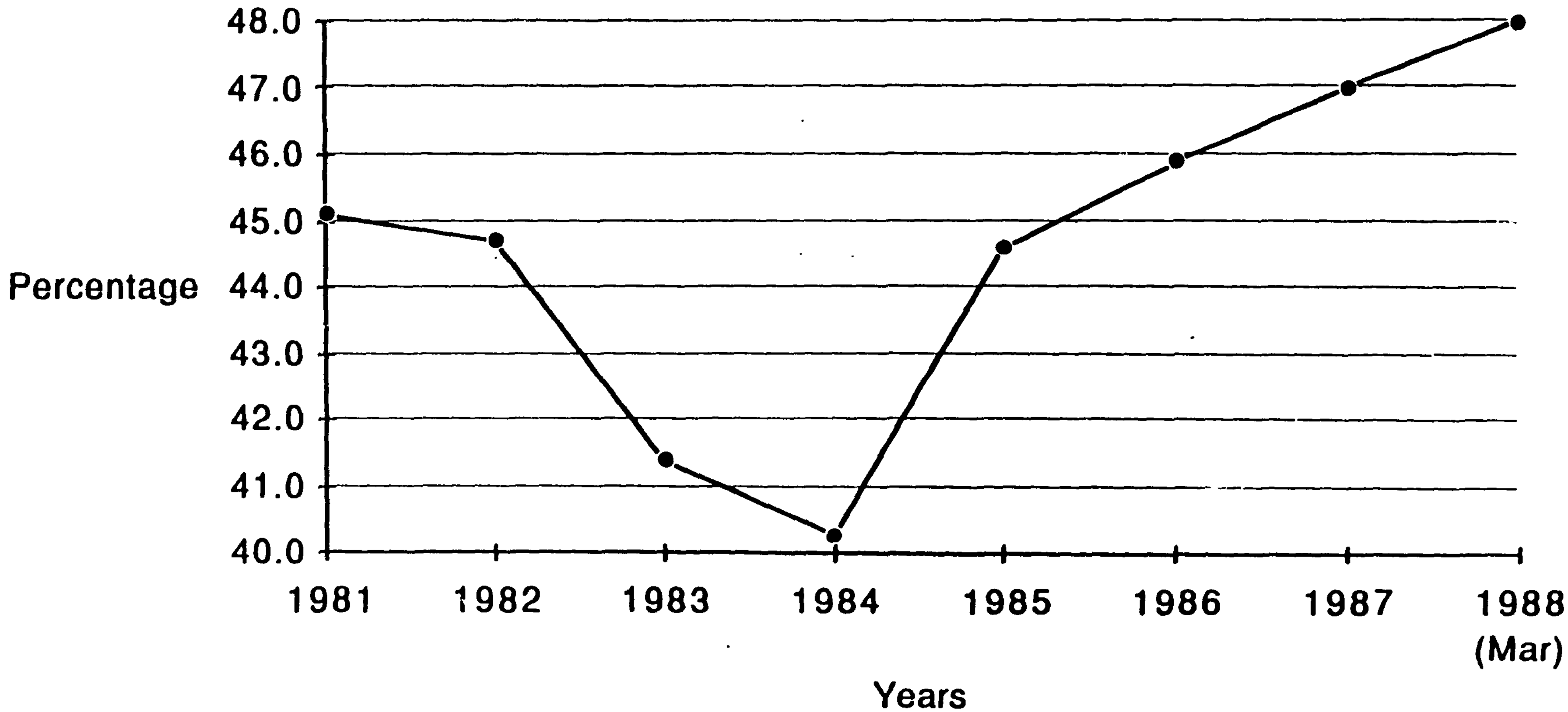
Exhibit 2

## SENEGAL: MACROECONOMIC PICTURE
(Figures in billions of CFA francs)

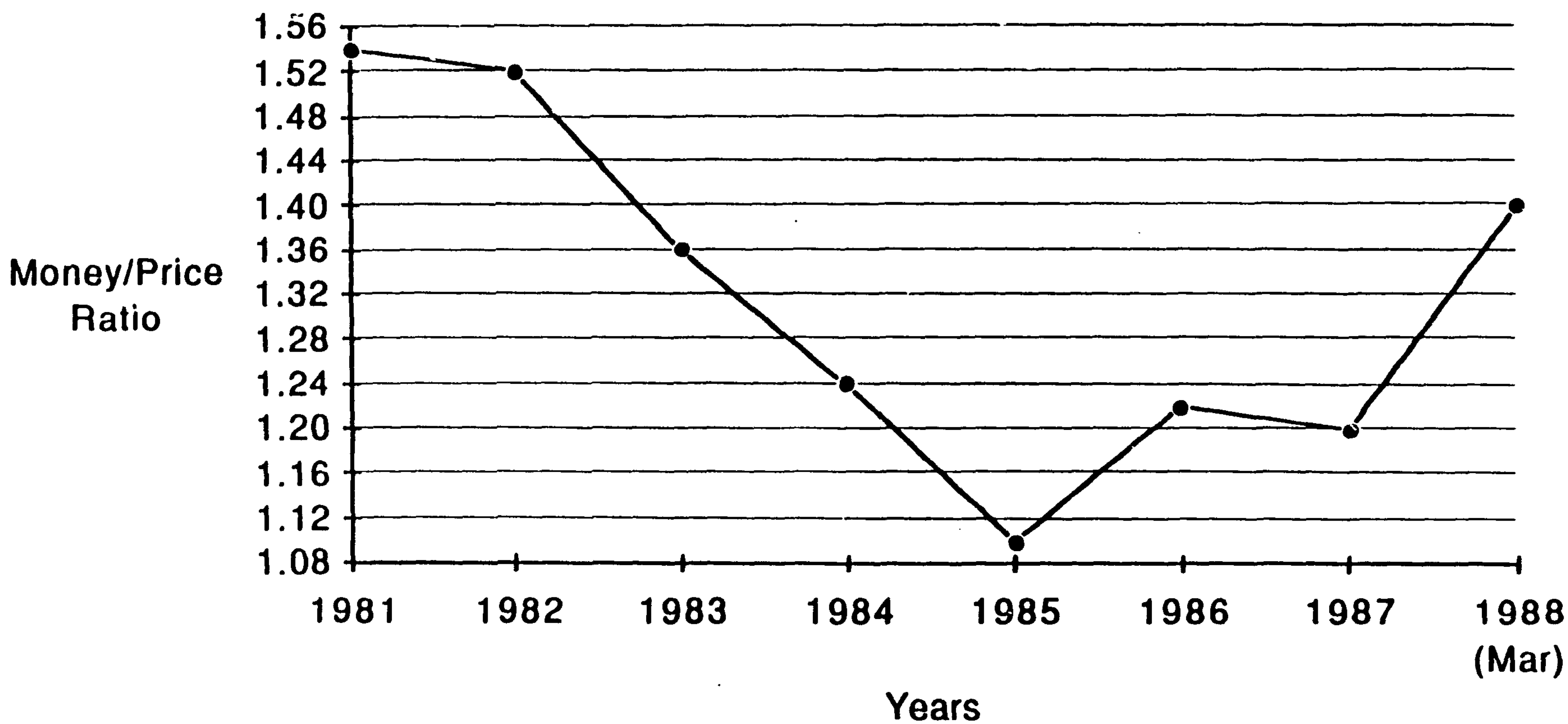
| | Year: | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 (Mar.) |
|---|---|---|---|---|---|---|---|---|---|
| (1) | Currency outside banks | 73.6 | 84.5 | 78.3 | 77.3 | 86.2 | 104.3 | 100.7 | 117.1 |
| (2) | Demand depos. | 85.1 | 98.7 | 106.1 | 109.6 | 103.4 | 117.2 | 109.7 | 122.2 |
| (3) | Money supply | 163.2 | 189.0 | 189.2 | 191.7 | 193.4 | 227.0 | 214.4 | 243.9 |
| (4) | Quasi-money | 53.7 | 73.3 | 83.9 | 95.5 | 106.6 | 106.7 | 118.4 | 123.0 |
| (5) | Currency as % of money supply | 45.1 | 44.7 | 41.4 | 40.3 | 44.6 | 45.9 | 47.0 | 48.0 |
| (6) | Total domestic credit | 368.9 | 441.0 | 477.1 | 489.9 | 530.8 | 535.7 | 538.9 | 588.6 |
| (7) | Central gov't | 51.6 | 98.3 | 116.3 | 131.1 | 150.7 | 153.5 | 146.0 | 147.9 |
| (8) | Percent share | 14.0 | 22.3 | 24.7 | 26.8 | 28.4 | 28.7 | 27.1 | 25.1 |
| (9) | Private sector | 113.5 | 339.0 | 356.1 | 353.6 | 373.4 | 374.3 | 385.0 | 432.7 |
| (10) | Percent share | 85.0 | 76.9 | 74.6 | 72.2 | 70.3 | 69.9 | 71.4 | 73.5 |
| (11) | Consumer prices (1980=100) | 105.9 | 124.3 | 138.7 | 155.1 | 175.2 | 186.5 | 178.4 | 174.0 |
| (12) | Real money supply (money/prices) | 1.54 | 1.52 | 1.36 | 1.24 | 1.10 | 1.22 | 1.20 | 1.40 |
| (13) | Gross domestic procuct (1985-87 est.) | 662.8 | 844.3 | 924.9 | 1015.0 | 1156.0 | 1282.0 | 1393.0 | n.a. |
| (14) | Real GDP (GDP/prices) | 625.9 | 679.2 | 666.8 | 654.7 | 659.8 | 687.4 | 780.8 | n.a. |
| (15) | Growth rate | - | 8.5 | -1.8 | -1.2 | 0.8 | 4.2 | 13.6 | n.a. |
| (16) | Real gross nat'l savings | -51.6 | -27.3 | -18.4 | -12.8 | -25.4 | 10.0 | n.a. | n.a. |
| (17) | Money velocity (GDP/M1) | 4.1 | 4.5 | 4.9 | 5.3 | 6.0 | 5.6 | 6.5 | n.a. |

Sources: IMF: International Financial Statistics and World Bank official documents

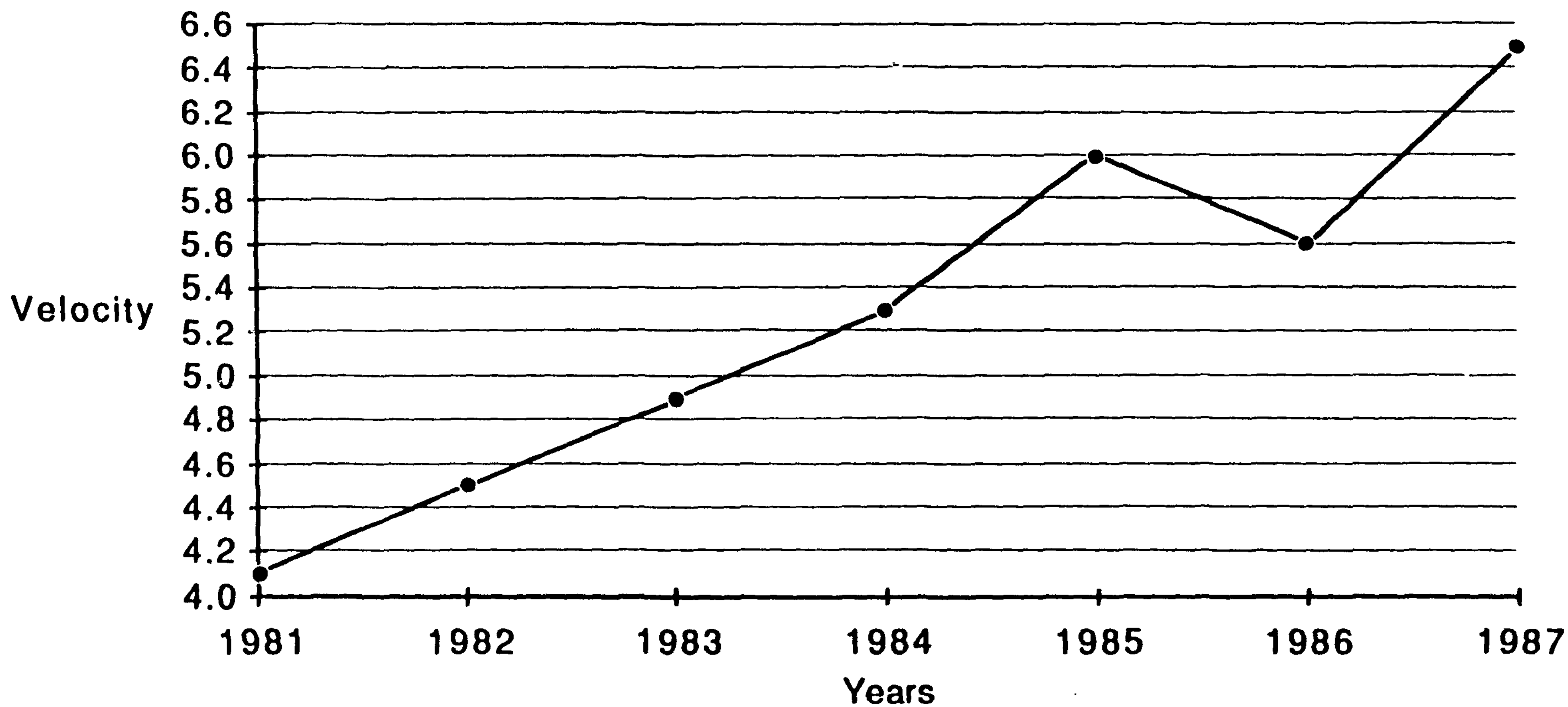
## 2.1: CURRENCY AS % OF MONEY



## 2.2: REAL MONEY SUPPLY-- M1/P



## 2.3: INCOME VELOCITY OF MONEY



Real gross national savings (Row 16) have become positive since 1986 after many years of being negative. The share of total credit going to the private sector (Row 10) has been increasing and the share absorbed by the central government (Row 8) has been decreasing since 1986. It should be noted, however, that Senegal designates its remaining parastatals as "private," so reality is less promising than the data suggest.

Clearly, there has been marked improvement recently in savings and growth rates as inflation fears have eased, but there is also a growing shortage of liquidity, which appears to the team to be most pronounced in rural areas. The liquidity shortage also appears to have increased the relative importance of informal financial market activities in both rural and urban areas. An injection of donor funds, perhaps through local infrastructure maintenance or improvement projects, may be helpful under these conditions.

This does not imply that supplying greater liquidity to rural areas, by funding road improvement projects, for example, is a developmental panacea (particularly where rainfall is sparse), but neither should such activities be summarily dismissed. Increased donor activity in the Fleuve region, for example, prompted one St. Louis bank to open a branch in Podor (mostly to service donors).[1]

The growing propensity to save shown in Exhibit 2 (Row 16) reinforces the team's impressions that the Senegalese, even the most rural, have a stubborn determination to save for various purposes which are important to them, whether for family emergencies, investing in a durable good, or financing inventories. As will be discussed later in the chapter, they, like many other Africans, participate in tontines and other savings arrangements in order to accumulate and/or to conceal or protect savings from relatives and friends, as well as for other reasons.

In addition, the Senegalese display a strong preference for investing their funds in commercial ventures with low risks and quick returns. This does not mean that there are no Senegalese willing to invest in longer-term or riskier outlets, because there *are* some. Tradition, however, is still very strong among the population, and the Senegalese have a long history of being sharp traders. The desire to market their loans to traders or investors in urban real estate, however, is not as pronounced as in more inflation-prone countries like Zaire. In Senegal, there are clearly relatively more and certainly safer lending and investment options available.

1 Unfortunately, only the local elite and the government appeared to be making use of its depository facilities at the time of our visit, and rumor had it that no loans had yet been extended within the community.

It appears to the team that cash shortages stemming from the tight monetary and fiscal measures have been especially acute in the countryside. This may be the result of the demise of major parastatals which were charged with transmitting loans and subsidies (more on this in later sections). Falling peanut prices in the Peanut Basin area centering on the city of Kaolack have no doubt contributed to deterioration in this region's terms of trade vis-a-vis the outside world, and so worsened the liquidity situation, as well.

Cutbacks in government outlays in rural areas for teachers, local officials, and publicly-owned vehicles and equipment also hurt. Remittances from urban areas of the country to their rural families and friends are probably lower than formerly, simply because the urban areas have been squeezed by the austerity measures, as well. Yet the regional leakages stemming from outlays for nonlocal (imported into the region) consumer goods, building materials, vehicle parts, pilgrimage expenses, jewelry and precious metals, and the like have probably not dropped off all that much. The net result appears to be a disproportionate deflationary burden placed upon rural areas by national macro policies, a burden which donors may wish to address through further study and perhaps project development.

## B. The Formal Financial Sector

### 1. Background

Senegal's formal financial markets reach a minority of the country's savers and borrowers, at most 40 percent. Depositors in formal sector organizations outweigh borrowers, as is true with financial intermediaries anywhere in the world. Informal financial markets service the remainder of the population.

From a structural standpoint, Senegal has a relatively well-developed formal banking system with 14 commercial and development banks. The sector is heavily dominated by government interests, however, with the state controlling the largest commercial and development banks and holding a substantial minority interest in 5 other banking entities.

State influence dates back to independence when the government established a state-controlled commercial bank and development bank to break the hold of European banks over the country's formal financial markets. In addition, a parastatal trading company was established to control all aspects of agricultural marketing, including credit distribution. Thus it was the state, rather than the private sector, which replaced formal European-controlled financial and trading companies in the Senegalese countryside.

Privately-owned banks tend to be located in the major urban centers and concentrate heavily on trade financing. Development financing is almost exclusively the domain of state-controlled financial intermediaries, as agricultural lending was earlier. However, since the 1980 demise of the *Office National de Cooperation et d'Assistance au Developpement* (ONCAD), a large state agency which controlled internal marketing functions and the state's agricultural assistance program, the government has withdrawn from many agricultural lending activities, contributing to the liquidity problems noted earlier. The *Caisse National de Credit Agricole de Senegal* (CNCAS), a new agricultural credit bank in which the state holds only a minority interest, has been gradually assuming the government's role, but still has a long way to go.

Over time, Senegal's formal banking system began increasing its involvement in high-priority industrial and agricultural projects. The financial viability of many of these, however, was questionable. As a result, outstanding debt increased rapidly without a concomitant increase in performing assets. The system was (and is) further plagued by poor management, high operating costs which could not be covered by the inadequate lending spreads allowed by the Central Bank, shrinking deposit bases, and worsening repayment records. Consequently the financial health of the banking system deteriorated gradually, until it reached a state of crisis which now seems to have stabilized.

Conditions became particularly acute in the agricultural sector where formal loan repayment discipline was gradually undermined by a succession of government-ordered debt forgivenesses. The repayment rates in formal agricultural lending programs have steadily decreased, averaging only 60 percent over the last decade. By 1980 the debt arrears of the ONCAD, the parastatal in charge of rural credit, had reached a level sufficient to cause the government to abolish the organization and suspend its agricultural lending activities. ONCAD's debts were consolidated by the Central Bank with the government responsible for payment of interest and principal.

By 1984, only 5 of the 14 banks had a positive liquidity position with deposit levels exceeding their loan portfolios. Significantly, these banks account for only 17 percent of total credit outstanding, while the two state-controlled banks, which hold 70 percent of the bad debts, account for more than 50 percent of outstanding credit. It can be expected that the current tight financial situation will only intensify the banking system's traditional reluctance to expand its small-scale and rural lending operations.

It is generally agreed that a further and more comprehensive reform of Senegal's formal financial markets and the banking system in particular is essential to economic growth. Currently, the government, with the assistance of the World Bank, USAID and the French government, is in the process of designing a comprehensive restructuring program to restore financial health to the banking system. The process would include the settlement of cross-arrears between government, private and state-owned enterprises, parastatals and commercial banks. Further and more fundamental changes to the sector may be required, but indications are that the various parties involved have yet to reach an agreement on what approach to take. Meanwhile, as noted earlier, the banking system and the economy are suffering from a serious liquidity squeeze. While awaiting the restructuring, the system remains in a state of uncertainty with the currently prevailing tight credit conditions likely to continue for some time.

**2. Financial Intermediaries and Regulations**

Senegal is part of the West Africa Monetary Union, a group of countries with one central bank, the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO), which imposes credit ceilings and strict guidelines for interest rates on each of its member countries. The bank is headquartered in Dakar. BCEAO regulations stipulate that banks and financial intermediaries have the exclusive right to accept savings deposits. However, the national savings rate is low in Senegal and average annual savings had been declining, as Exhibit 2-A (found at the end of the chapter) shows, until recently. At present, domestic savings rates remain quite low, clearly far lower than the 13 percent rate which is generally considered necessary for a sound financial base.

In the absence of a strong savings deposit base, the formal banking system has come to rely heavily on central bank discounting to finance its lending operations. The BCEAO imposes a limit on the proportion of loans that can be discounted and most banks are operating close to that limit, with several having exceeded it. Clearly, the challenge for the banks in the future will be to mobilize savings more effectively in order to strengthen their lending base, and that would doubtless require liberalization of interest rates and selective credit controls, which the government opposes.

Senegal's banking system consists of five commercial banks with foreign, mostly French, participation, four development banks and a group of smaller banks owned by Senegalese private interests. In addition, the country has a national postal savings system, five finance companies, fifteen insurance companies, and a private-sector pension fund. The state holds a majority interest in one commercial and one development bank, and it has substantial minority holdings in two other commercial and the remaining development banks.

Although by law commercial banks are allowed to make long-term investments, they have increasingly concentrated on short-term trade financing, with little evidence of turnaround at present. In response, the development banks are attempting to extend medium-and long-term credit for manufacturing activities, but their resource bases remain too small to have significant impact.

Agriculture is another area where formal-sector financing has become less active, particularly since the abolition of ONCAD in 1980 and the government's partial withdrawal from agricultural finance in 1984. As noted in the introduction to this section, the CNCAS was established in 1984 to help fill this void. To date, it has opened 6 branches and extends credit to approximately 30 percent of the country's farmers.

More than 60 percent of outstanding bank credit is short-term, 22 percent is medium-term and the remainder is long-term. Loans to government and parastatals account for over 50 percent of all outstanding formal credit; they particularly monopolize long-term credit (97 percent). Private-sector enterprises only have access to short-term and some medium-term credit.

Formal-sector statistics suggest that 45 percent of the country's total formal credit is for commercial purposes, 18 percent for services, 21 percent for industrial enterprises and only 3 percent for agriculture. The team suspects that if informal credit information was available and added in, the portions for agriculture, commerce, and consumption would rise substantially, while those for services and industrial enterprises would fall somewhat.

Apart from the CNCAS, other formal banks have been reluctant to assume the role of agricultural financier from the parastatals. Besides facing credit ceilings and suffering from low liquidity, which limit their ability to expand activities, banks are discouraged by low interest rates, the notoriously poor repayment discipline in the agricultural sector, and past interference in agricultural lending decisions by powerful political and religious pressure groups. Significantly, the CNCAS has an unstated policy of not opening branch offices in areas where the Islamic religious leaders (marabouts) are particularly powerful.

### 3. Financial Controls and Practices

In Senegal bank interest rates are governed by BCEAO regulations and, at the time of the team's visit, varied from 9 to 13.5 percent, depending on the nature of the loan. Reportedly, banks are resorting to various types of fees, minimum deposit requirements and loan discounts to realize an additional "hidden interest rate." On savings deposits, banks pay interest varying from 2.5 percent up to the maximum allowed 6.75 percent, which has worked out to an effective negative reward to most formal-sector savers. In general banks have been able to charge a positive effective interest rate to their borrowers over the last decade, but deposit interest rates have not generally kept up with inflation (which itself has represented an obstacle to greater savings mobilization).

Traditionally, banks have based their lending decisions more on the value of the collateral offered than on a thorough assessment of the cash flow projections underlying the loan request. The preferred form of collateral in Senegal is an officially-registered mortgage on housing or commercial real estate. Bank insistence on this form of collateral effectively precludes most small business people and farmers from access to formal credit. Farmers are particularly handicapped as there is almost no security of land tenure, let alone of property rights, in rural Senegal and most rural or provincial housing thus has no financial value to a bank.

To accept future income as a loan guarantee, banks usually insist that these funds pass through a bank account, something which rarely occurs in the small business and rural sectors. Banks practice little or no loan follow-up and rarely resort to enforcement once a borrower defaults. Repossession procedures are costly and time-consuming; reportedly it can take up to 3 years to repossess urban residential real estate, which *is* largely formal-sector registered.

Certainly the flow of savings into more profitable investments with higher job content could be enlarged considerably if property rights, common and private, rural and urban, were more clearly defined in Senegal. There are stories of multiple titles of the same type to the same property, all perfectly legal; of poor people living on the outskirts of Dakar being uprooted and their homes bulldozed to make way for government buildings, stadiums, and upper-income subdivisions--all made possible by indefinite ownership.

Those familiar with the formal legal system, who know the system of private property rights and are friendly with individual judges, are essentially free to do as they please in practice; those more rooted in the informal sector see property rights more broadly, as based on mutuality within cohesive groups, i.e. as common property rights. If the differences between these two property rights conceptions could be bridged by truly national legal entities sensitive to both traditional and modern views of both common and private property, economic development could doubtless be accelerated in Senegal, as well as in many other developing countries. Hernando de Soto's streamlined system of registering homes built by squatters in Peru is a case in point. [Main, *Fortune*, January, 1989: 106]

To overcome the handicap of lack of collateral in the rural areas, various attempts have been made at group lending methods using cooperative groupings as the security base and relying on social pressure to enforce repayment. This financial innovation combines formal sector elements (registration) with informal-sector elements (social pressure). In practice, however, these methods have not prevented repayment rates from sinking to unacceptably low levels when loans were made to older cooperatives which had been organized from the top-down.

The CNCAS is currently using a variation of this group lending principle as the base of its agricultural lending program by accepting only recently-formed village groupings (*section villageoises*) or common interest groupings (*groupements d'interet economique*) as loan recipients. The argument is that the previously-used cooperative groups were imposed from above and were too large to ensure social cohesion and group solidarity.

The *sections villageoises* and, particularly, the *groupements d'interet economique* are supposedly based on the initiative and common interest of people in the group and are smaller in size, comprising not more than 100 participants. (Actually, they appear to be successor-groups to the older coops.) It is too early to tell whether the CNCAS' strategy will be successful, but early indications are positive with repayment rates averaging 96% in the first two years of operations.

**4. Lending to Small Businesses**

Currently, only a few formal-sector organizations in Senegal are specializing in making loans to small businesses. SOFISEDIT and CNCAS are cases in point. SOFISEDIT (*Societe Financiere Senegalaise pour le Developpement Industrielle et du Tourisme*) has been supported by a series of investments and credits from the World Bank and the International Finance Corporation. Currently, it is being proposed as the intermediary recipient of a $5 million line of credit from the World Bank to re-train laid-off employees from the public, parastatal, and formal manufacturing sectors and to lend them money to set up small enterprises. The interest rate would be 8.5 percent on which SOFISEDIT would earn a spread of 5 percent.

Unfortunately, SOFISEDIT is suffering from high operating costs and loan default rates, and will require a substantial financial rehabilitation before it can become an effective lender. Even then, it is questionable whether the new program will have a widespread effect because the main office is located in the capital and it has no branch offices. In addition, it restricts lending to a few clearly-defined categories of new entrepreneurs. Moreover, it is not clear whether the effect will be lasting since SOFISEDIT does not employ a loan supervision or follow-up staff, and experience has shown that a lending spread of 5 percent is insufficient to make an entrepreneurial lending program self-sustaining.

In contrast to SOFISEDIT, the CNCAS has a sound liquidity position with deposits exceeding outstanding loans by a substantial margin. The bank charges 13.5 percent interest on agricultural loans and pays 6.75 percent on savings deposits. According to the bank's Managing Director, a 13.5 percent interest rate will not be enough to break even, even if the current high repayment rate continues. Instead, the bank will need to attract additional inexpensive funds through increased savings deposits.

In 1986, less than 5 percent of CNCAS deposits were in interest-bearing savings deposits. Since then, the bank has embarked on a savings mobilization drive with notable success: following a recent series of meetings to inform people about the use of savings, the number of savings accounts at the branch office in that region nearly tripled from 100 to 280.

So far CNCAS has concentrated on agricultural credit only, but it is considering diversifying its lending into small agro-processing and other agriculture-related (including restaurant) businesses. Loans to these businesses would have to be individual rather than group-based, a departure from the bank's current practice, and would require a different type of loan evaluation expertise than its staff presently has. Moreover, CNCAS is thinly staffed (a unique situation in Senegal) with the branch directors in effect functioning as the only loan supervision agents. Without adequate staff for loan analysis and supervision, it remains to be seen if it can mount a self-sustaining lending program to small business.

In its present state, Senegal's formal banking system is singularly unresponsive to the needs of small borrowers, be they farmers or business people. Judging from their location and lending policies, the banks are mainly geared to serving larger-scale merchants located in major urban areas. For instance, 86 percent of all bank branches in Senegal are located in the large cities compared to 49 percent in the Ivory Coast. In addition, only the two state-controlled banks have extensive branch networks, but their liquidity position is particularly tenuous, essentially forcing them to suspend their small-scale lending operations. And finally, bank insistence on formal collateral effectively excludes the majority of the rural and urban business population from access to formal financing.

Their lack of outreach also keeps the banks from becoming effective savings mobilizers. Presently, the only formal savings organization accessible to the rural population is the postal savings system which currently offers notoriously bad service and periodically suspends payment altogether because of liquidity problems. Improvements in this system is another area for potential donor activity.

**5. Summary**

Senegal's banks do not differ from those in many other parts of the developing world in their preference for short-term trade credit in the major urban areas. To the extent that the banks earlier became involved in agricultural lending, they did serve as a conduit for government-sponsored agricultural lending, but that has largely ended. Also, because the government had no lending programs to small agriculture-related enterprises, these firms were not serviced at all by banks. The government's withdrawal from agricultural lending has left a critical void in rural Senegal which is only gradually being filled by the CNCAS. For the time being, however, an important part of the agricultural economy remains shut out from formal sector financing.

## C. The Informal Financial Sector in Rural and Urban Regions

### 1. Background

From an economic perspective, Senegal may be viewed as a set of five regions or economic zones:

- The Fleuve region is the northernmost band of land bordering the Senegal River, which has significant irrigation potential in a land of varying but generally low rainfall.
- The Peanut Basin, centered on the regional capital of Kaolack, extends north from the Gambian border to the Fleuve. This area depends upon rainfed agriculture for both its subsistence (millet) and its commercial (peanut) production, is dominated by smallholders, and has benefitted greatly from earlier government credit and equipment programs.
- To the east, in Senegal Oriental, commercial cash cropping by peasant smallholders is less important, and investments in agricultural equipment such as horse-drawn plows is less pervasive.
- West of the Peanut Basin, along the coast, lies a narrow band of small, hand-irrigated garden plots (*les niayes*) characterized by a very efficient production and marketing system in combination with a well-developed "artisanal" fishing industry.
- Finally, in the south, the better-watered Casamance region is involved in the subsistence production of rice, along with the commercial production of fruit and other exports (e.g., palm oil) to the major cities of Senegal.

The team was able to visit two of these regions for several days each. First, it drove through the Fleuve region, stopping in St. Louis, Matam, Podor, and Bakel. Later, it spent four days in Kaolack, with various side trips out to lower-level urban and village market centers. In each place, the team contacted local authorities, project officials, merchants, marketers, and transporters, as well as different entrepreneurs. These conversations provide the basis, albeit unsystematic, for the observations presented below.

#### *a. The Fleuve*

The Fleuve region is traditionally divided into three sub-units: the lower delta, a vast underpopulated plain with great potential for irrigated agriculture; the middle valley, a very dry area where irrigated agriculture is the major economic activity; and the upper valley between Matam and Bakel, which because of its higher rainfall supports both rainfed agriculture and pastoral production, as well as many small irrigated perimeters.

Agriculture is the major occupation of villagers in the Fleuve region. In the lower delta and parts of the middle valley, irrigated (or recessional) agriculture in the riverine area is the only major activity apart from locally favored areas where natural springs permit gardening. In other parts of the middle valley and in most of the upper valley, irrigated and recessional agriculture are practiced along the river, while rainfed agriculture continues further to the interior. Producers throughout most of the region are primarily involved in subsistence agriculture, except for some areas in the lower delta where commercial crops such as tomatoes and sugar are grown.

Earlier in this century, because of the severe limits on rainfed agriculture in this region, the middle and upper valley areas became important zones of outmigration to Europe, particularly France, as well as to other countries in West Africa. This long-term labor migration continues today, and provides a significant source of income, through remittances, to the people of the area. In one village of 300 inhabitants, almost half of the adult men were resident elsewhere--15 men were working in Europe, and another 15 were living and working elsewhere in Africa, such as the Ivory Coast. Those in Europe customarily came home about once every other year, bringing on average 500,000 to 1,000,000 f.cfa ($1 = 300 f.cfa at this writing) each time to be distributed among family and friends. Those living elsewhere in West Africa tend to return home less often and usually with less money.

These remittances from abroad are a very important part of informal financial markets in this region. They are used for a combination of consumption and investment purposes. The acquisition of wives and the construction of mosques are leading consumption uses, and start-up or expansion money for small enterprises (like selling dry goods or buying taxis or trucks) are leading investment uses. Many small entrepreneurs interviewed by the team got their start from remittance money, usually a combination of their own and that of close relatives. Quite often, too, working abroad built contacts with foreigners who, subsequently, became business partners (often silent) with the Senegalese in domestic ventures.

*b. The Peanut Basin*

The Peanut Basin is classically considered the economic core of Senegal, the area which produces the major agricultural export crop of the country. Unfortunately, scant rains in the last fifteen years or so have reduced yields just as the international price for peanut oil, a high quality vegetable oil, has dropped. As a result, the Peanut Basin is no longer the crucial motor for Senegalese development that it once was.

Agricultural production in the Peanut Basin very much resembles peasant production elsewhere in that it is a combination of cash crops (peanuts) and subsistence production (millet), allied with livestock raising (sheep, goats, and cattle). Fruits, a few chickens, and some garden vegetables are also grown, mostly for home use. The division of activity between subsistence and cash production varies with prices, income, and access to liquidity. Producers in the Peanut Basin have benefitted greatly since independence from government programs to extend the use of agricultural machinery and inputs.

In the twenty-plus years since independence in 1960, the number of horse-drawn peanut seeders increased over 30-fold, from some 3,500 to over 130,000. Also, the use of fertilizer increased nearly 15-fold, from nearly 3,500 m.t. per year to some 47,000 m.t. per year. It is in large measure this use of agricultural machinery and inputs that distinguishes production in the Peanut Basin from that of much of the rest of the country (e.g., Senegal Oriental and the Casamance).

#### c. *Differences and Similarities of the Study Area*

For all their differences, the Fleuve and the Peanut Basin present several similarities. The rural economy is a complex mix of cash production, subsistence production, and livestock raising in each area. The major difference is that in the Fleuve, cash resources are the result of long-term labor migration to other countries, while in the Peanut Basin peanuts are the cash generator. Nevertheless, in both areas, people produce much of their own consumption needs, while at the same time they obtain cash (from crops or remittances) to satisfy current requirements for manufactures and other goods and services, and they maintain flocks of animals, often as a store of value.

### 2. Informal Savings in Rural Senegal

There are basically two forms of savings in the villages of the regions studied: village savings associations of different types, and family savings.

- *Village Savings Associations*

  The village savings associations (*caisses villageoises*) are of several types, each with a distinct origin and objective. Many village savings groups were initiated under one or another development project, so that their funds are usually destined for some communal undertaking. In other instances, residents in a village or a *quartier* (section) of a village make a periodic payment into a neighborhood fund in order to sponsor religious feasts or to hire a vehicle to make a religious pilgrimage each year; these funds can also be used in part as mutual aid funds for people in exceptional and difficult circumstances. Finally, in some cases, groups may farm collective fields to obtain funds; again, these are often used for communal projects.

- *Family Savings*

  In contrast to these collective funds, families may keep savings in the form of cash, livestock or jewelry. These family or individual savings are for the use of that particular family, although others can ask for a gift or loan in times of need.

There is a remarkable amount of money held in collective and family savings in the villages of both the Fleuve and the Peanut Basin. While the sums may be small in an absolute sense--a *caisse villageoise* may hold 100,000 f.cfa (about $300 US at today's exchange rate)--the total amount of funds in any village is impressive, and the aggregate total of farmer savings in any region would appear to be quite significant. At the same time, it must be emphasized that these funds are inert, that is, they are stored under a mattress or in another hopefully safe place ("under the floor" is a common local expression). They are often not invested (except in livestock or perhaps occasional vendor inventory), and thus earn no interest.

The result of this in a rural economy which is short of circulating cash is that savers further reduce the supply of money available to meet transactions demand. This in turn appears to be driving up the price of money relative to goods, reducing the incentive to invest in production-based activities and increasing the incentives for speculation via short-term, quick-turnover transactions. It also requires that the remaining transactions balances be spent even more rapidly to finance a given amount of income-generating activities, suggesting that even the rising income velocity of money reported in Exhibit 2-A significantly *understates* the velocity of money held as transactions balances. The size of the idle balances also suggests that transactions costs are substantial in rural areas, as was noted earlier.

Some notion of the extent of village savings may be gained from the example of two villages visited at random, one in the Fleuve and one in the Peanut Basin. In the village of El Heyna, some 15 kilometers east of Matam, one women's development group had two savings accounts, one for the maintenance and repair of a water pump and another for the depreciation and ultimate replacement of that pump. The first fund held 90,000 f.cfa; the other 110,000 f.cfa. (A new pump today costs approximately 500,000 f.cfa.) In addition, there were one or two other community treasuries, each with an undetermined sum of money.

In all, this village of 300 inhabitants probably held locally a total of 400,000 f.cfa (over $1,000 US) in various collective funds. In addition, each of the 60-odd families probably had various amounts of cash reserves from commodity sales or from remittances. Assuming that each family held on average only $20 US (6000 f.cfa), family savings in this village would total another $1000 US, without considering other less liquid assets like livestock or jewelry. In other words, this one small impoverished village in the rainfed area of the middle Senegal valley probably held in inert savings over 600,000 f.cfa ($2000 US).

The team found a similar situation in the village of Latmingue, about 30 km east of Kaolack. In this village each of the five neighborhoods maintains a *caisse de daira*, which is a neighborhood fund to rent a vehicle so that residents can undertake the annual pilgrimage to a religious center on a feast day. Residents contribute to the fund just after the harvest is in and sold. The funds are then held in the village until they are needed for the pilgrimage or for mutual assistance. In addition, neighborhood groups and outlying hamlets have in many instances formed an association to farm a collective field, the proceeds of which are earmarked for some communal undertaking such as building a warehouse or depot for agricultural inputs. (This type of association actually began under a program initiated by SODEVA, the regional development agency at the time.)

Although it is not possible to quantify the amounts held by each religious treasury and self-help group, it would not be unreasonable to assume that in the village of Latmingue alone there were probably some 500,000 f.cfa ($1500) in inert collective savings at the time of the visit. Although Latmingue is the major village in the area, it can readily be appreciated that, with 80 villages in a 20-kilometer radius, the aggregate total of rural savings in this area is potentially quite large. But, because they lie beyond the reach of trusted financial intermediaries, virtually all of this money lies inert.

In Latmingue, a rural village with a weekly marketplace, there are tontines, a type of rotating savings group. Significantly, however, the tontines in this village, and also in similar market centers throughout Senegal, are restricted to salaried employees and marketers. There are several examples of tontines in Latmingue:

- one tontine operates among the ten school teachers in town, each of whom contributes 1500 f.cfa per month.
- another operates among the four development workers employed by a national PVO, each of whom contributes 2500 f.cfa per month.
- a third functions among about 15 marketers, each of whom contributes 100 f.cfa per day.

In each of these cases, payment is made to one member of the group, who acts as a sort of treasurer and disburses the total each time in a predetermined order of payment to each member.

These tontines very much follow the pattern described by Clifford Geertz [Geertz 1962]. The members typically use the proceeds for various personal expenses such as family festivals or domestic purchases (some of which typically have some degree of "investment" content in that many of the goods purchased with these funds tend to be more durable than ordinary daily purchases).

The fact that the farming population does not participate in many, if any, tontines underscores the importance of regular income to tontine participants. Farmers, who typically receive a lump sum payment at harvest, may contribute annually to a neighborhood fund for self-help or religious purposes, but typically do not participate in tontines. Salaried workers and marketers, who receive funds on a regular schedule, are more likely to participate in them and the periodicity of their contributions is timed to the frequency with which they are paid--daily for marketers, bi-weekly or monthly for salaried employees. For this reason the topic of tontines is treated in more detail in the section on urban savings associations.

Finally, it should be noted that villagers make little use of formal sector banking services, even when they are available, for a number of reasons. Banks are heavily concentrated in the capital city of Dakar. Even though some banks have branches in regional capitals, rural producers have little contact with the formal banking sector for a variety of reasons: account maintenance fees, travel time, literacy requirements, and the general strangeness and coolness of formal bank staff, surroundings and procedures to rural people.

Especially in the Fleuve region, villagers do use the postal system banking facilities, most often for receiving postal drafts sent by relatives abroad. The postal banking system, however, is reportedly so inefficient that villagers who have received a postal draft often find themselves unable to cash it promptly at the post office. It is partly for reasons like this that expatriate laborers return home periodically carrying the funds themselves or send remittances with fellow expatriate villagers who are returning home. As noted earlier, there may well be a useful role for A.I.D. in helping improve the operation of the postal savings system.

In summary, rural savings take two major forms, village associations and family assets, but lie entirely within the informal sector. Although the total aggregate sum of such savings may be large, the savings are retained by the family or group until they are needed. Essentially, there is no way to aggregate small savings pools into commercially viable aggregates so they can be invested, given the failure of the formal banking system to reach the small producer. Simply put, formal and informal financial markets are poorly articulated and poorly served by financial intermediaries in Senegal.

**3. Informal Credit in Rural Senegal**

Agricultural credit markets in Senegal are currently in a state of tremendous flux. Regional development agencies installed after independence to provide credit, inputs, technical advice and marketing services are being abolished or cut back.

During the colonial period, French mercantile houses handled the wholesale bulking and marketing of peanuts from rural producers, as well as the flow of merchandise down the market chain from industrial Europe to the small rural producers in Senegal. But these French firms, which were established in the national capital as well as in provincial and regional centers, were only the apex of the import-export marketing system. Below them, and dependent upon them, were smaller trading establishments, often owned by Lebanese or Syrian traders. Agricultural credit at the time may have been supplied by the French firms to the Lebanese firms, but the Lebanese firms without doubt lent to farmers funds that were to be repaid with interest in kind or in cash.

At independence, the government intervened in this wholesale peanut market to eliminate what were judged to be credit abuses leading to serious peasant indebtedness, and to secure more macroeconomic control. In each region of the country, the government organized cooperatives at the local level which were coordinated by a regional development agency, SAED in the Fleuve and SODEVA in the Peanut Basin. Through a variety of organizational arrangements over time, these regional development agencies provided credit and other services needed by rural producers.

By the early 1980s, poor repayment rates by cooperatives, as well as repeated government forgivenesses of loans in years of poor rainfall, had created an impossible financial burden for these organizations. As a result, Senegal has had to begin reorganizing its system of providing rural credit.

The current arrangement for agricultural credit replicates the earlier structure while strictly limiting the role of each agency. To recall the earlier discussion, farmers must form productive groups (*groupements d'interet economique*, or GIE) in order to apply for loans to the National Bank for Agricultural Credit (*Caisse Nationale de Credit Agricole Senegalaise*, or CNCAS). The GIEs are equivalent to the earlier cooperatives, except they have no role other than agricultural input supply at present (medium-term credit for agricultural equipment is foreseen in the future); similarly, the CNCAS is the successor to the earlier ONCAD and other credit programs, although only with a role in credit provision. The hope is that by clearly defining the roles of each organization, repayment rates--and thus the overall economic viability of these entities--will improve. (GIEs that are in default will be disqualified for future loans until the debts are repaid.)

Although the government channels its entire agricultural credit programs through the CNCAS to GIEs, the system, which was initiated only two years ago, is only partially effective. The CNCAS has yet to establish branches in many centers. The CNCAS system extends from its headquarters in Dakar to St. Louis and Matam in the Fleuve and to Kaolack in the Peanut Basin. At the same time, GIEs are only now being formed by villagers, although donors such as the CDRI and the Ford Foundation are lending important support to this process through the national NGO association (called FONS, for Fonds des Organizations Nongouvernmentales). For example, in the village of Latmingue in the Peanut Basin, development workers estimated that only a third of the farmers had as yet affiliated with a GIE in order to obtain input loans. A similar situation probably exists in other regions of the country.

The vast majority of farmers, still without access to public sector credits, are essentially dependent on their own resources at this time. According to the development workers in Latmingue, over half of local peanut farmers (which is about a third of all farmers in the country) have either kept their own peanut seed from the last harvest or have sold small livestock such as sheep and goats to obtain funds for peanut seed. A sizeable number of poorer farmers, however, have neither their own seed supply nor the personal resources to obtain seed. As a result, they will probably be forced out of commercial peanut production into exclusive production of millet for subsistence. This, therefore, is one of the negative effects of austere monetary and fiscal macro-policies (the positive effects are substantial, too, as noted in the Introduction) which should be of interest to policymakers.

At present merchants in the regional and provincial centers have no interest in providing agricultural input credits to farmers precisely because this has been largely the domain of government programs for the last 25 years. This situation will most likely change in the near future. Even in the post-independence period, small local traders, mostly Mauritanians who superceded the Lebanese as shopkeepers in the countryside after 1960, have provided small loans for foodstuffs to poor farmers during the pre-harvest "hungry season." Reportedly, other people who have their own resources or access to credit--wealthier farmers and various salaried employees--are already beginning to supply input loans to needy farmers for a share of the harvest. Such supplies of informal credit may be expected to increase if the CNCAS-GIE program is not quickly extended more effectively throughout the countryside.

If this unequal access to formal input credits continues, it could well lead to excessive indebtedness for poorer farmers, with the strong possibility of loss of lands and ultimately urban migration. Although this process, which is best documented for The Gambia in the late 1960s, can be seen as a natural and necessary result of the rationalization of agricultural production, it must also be recognized that a major influx of landless rural workers into cities limited employment opportunities could lead to explosive political situations in Senegalese cities. It would appear that better articulated informal financial markets could help ease at least some of this pressure.

Since agriculture is the primary activity in villages, there is little demand for other types of production credit. Nevertheless, even in villages there are normally a few full- or part-time artisans, most often a tailor, a leather worker, and perhaps a blacksmith. These tradesmen typically finance their capital equipment (which is small) and their operating capital themselves. Further, there is little need for expansion capital because demand in their area--essentially the village itself--is very limited.

Other nonagricultural economic activities in villages generally concern agricultural processing. Threshers are usually purchased by families out of their own funds. Millet and rice mills, in contrast, may be bought by an individual entrepreneur or by a collective association. In either case, the equipment tends to be financed out of the purchaser's own savings, either entirely in cash or coupled with a short-term loan (for a year at most) from the equipment manufacturer or supplier.

In summary, village credit in rural Senegal is essentially limited to agricultural input supplies and pre-harvest consumption loans. Until recently, these had been the domain of various government programs with the transition to a new organizational structure now underway, there may be a resurgence in mercantile credits, which were the dominant form in the colonial period. In contrast, demand for non-agricultural investment funds is very small in most villages, mostly coming from artisans and processors. These investments are usually financed by their own or family-pooled savings, although in some cases suppliers do provide small credits.

### 4. Urban Market Centers in the Fleuve and Peanut Basin

The regional areas of Senegal are fairly distinct, as noted earlier. The Fleuve comprises the narrow band on the south bank of the Senegal River from St. Louis to Bakel. The Peanut Basin, in contrast, is more extensive: it effectively includes the entire central interior of the country from the Fleuve in the north to The Gambia in the south, and from the coastal region in the west to Senegal Oriental in the east. The "urban hierarchy," then, is the system of market centers that lies within each of these areas.

Since the Fleuve is part of a river valley, it might be expected that the level or size of market centers would decrease gradually with distance from the entry port city of St. Louis at the mouth of the river. Certainly this is true in a broad sense in that St. Louis *is* the largest center in the region, and several of the next lower-level centers (e.g., Ricard Toll, Rosso, Dagana) are also in the lower delta area. If this usual interpretation of urban market locations in riverine areas were wholly true, however, Podor would be expected to be a larger center than upstream Matam (including its twin market center of Ourossoge), and similarly Matam to be a larger center than still more remote Bakel.

In fact, the market centers in the Fleuve region do not exhibit this regular decrease in centrality with distance from the port city. Podor is a demonstrably lower-level center than either Matam or Bakel, as indicated by vendor counts in the marketplaces of each center.

The explanation for this unexpected development of urban market centers throughout the Fleuve region has several bases. First, urban entrepreneurial development is a function of the rural economy in each area. Podor is in an area of very low rainfall, and its population necessarily depends upon irrigation from the river. Thus, both rural population and rural income are lower than in the areas farther upriver, and urban market development is consequently stunted.

Like Podor, Matam lies along the river and somewhat off the main highway. As a result, Matam remains the administrative capital of the area even as it loses commercial importance to the emerging market center of Ourossoge, which lies at the junction of the St. Louis-Bakel highway and the road to Linguere and the Peanut Basin. In a very real sense, the higher-order market goods and services (metal cots, repair garages) that might be expected in Matam have now been displaced to Ourossoge. At the present time, however, these two towns may still be considered competing "twin" market centers.

Finally, Bakel, which is in a better watered area still, has a stronger rural economy which benefits both from foreign remittances and from the surfacing of the highway from Matam about four years ago. In fact, the number of vehicles based in Bakel has quadrupled from 6 to 24 in that time, which is a reflection both of local investment demand and of the improved transportation infrastructure. (The lack of minibuses in Bakel is reportedly due to the poor road surface south of the town. Transport operators prefer more durable pickups to the urban minibus in this difficult area.)[2] It is also suggestive of some of the private profit opportunities which may emerge when key infrastructure improvements are made.

Economic activity in Bakel has improved enough recently that the Matam CNCAS manager makes weekly runs to Bakel to conduct banking business, and one of the country's major banks is considering opening a branch there. (The city had one at independence in 1960 which closed not long thereafter.) Bakel's main marketplace also displays a surprisingly sophisticated range of goods, including specialized hardware vendors, indicating the presence of some quite substantial per-capita incomes by Senegalese standards. And construction is reportedly being delayed by shortages of certain building materials.

The urban market center system in the Peanut Basin could not be studied in the short time available to the team. Nonetheless, it may be surmised that the main urban centers lie along the major highway from Mbour to Tambacounda. The regional market center here is Kaolack. Secondary centers, some 60 km to the west (Fatick) and to the east (Kongheul), are located interstitially between the regional market centers of Kaolack and Mbour in the former case and of Kaolack and Tambacounda in the latter case. Figure I in Appendix C diagrams this distribution of higher-level centers. There are

2 The team's vehicle also blew two tires and a rescue vehicle blew one over a distance of about 25 miles.

assuredly important urban market centers north and south of Kaolack, but these were not included in the current abbreviated survey.

In addition to the market centers discussed above, there are various weekly marketplaces on the highway between them, as well as in the interior, off the highway. Many of these are small village markets that attract no outside sellers and offer only local foodstuffs and a few shop goods, mostly packaged groceries (salt, sugar, cigarettes). Others, like Latmingue, are village market centers that draw some vendors from higher-level centers that sell cloth and enamelware or plastic containers. In addition, a few villages might be called "high-level marketplace centers," because of their wide array of merchandise and services; these places would likely be the first to evolve into minor urban centers if the rural economy were to revive.

A comparison of this study's censuses of various marketplaces and the statistics available from the *Chambre de Metiers* (Chamber of Commerce) indicates that many firms are not registered with the authorities, and are thus part of the informal sector. For example, Matam has at least 25 tailors in the marketplace alone, even though the Chambre registers only seven such enterprises in the town. This marketplace also has one bicycle repairman, two watch repairmen, two radio repairmen, and two mechanics - not to mention at least four restaurants - versus three *registered* enterprises of this type.

When the enterprises in Ourossage are included in the Matam counts, the differences are even larger. There are in these two neighboring centers at least 65 enterprises that are registered with the *Chambre de Metiers* in the regional capital of St. Louis. At least 85 percent of the firms in this place, then, are informal.

In summary, each region has a major market center or focal point surrounded by subcenters, each with its own set of economic functions. The market chain in each region basically runs from high to lower market centers for more heavily processed goods and from lower to higher centers for less processed goods. Thus, in the Fleuve the system is focused on St. Louis; in the Peanut Basin it centers on Kaolack. Away from these regional centers lie second-, third- and fourth-level market centers, defined by the *number of types* of firms each supports (the diversity dimension) and the *number of each* type of firm (the specialization dimension).

The urban enterprise and market counts that were conducted for the upper Valley centers in the Fleuve thus constitute a rough but indicative census of the informal sector in each place. Moreover, were a systematic count to be carried out for each place, it would be clear that the size and diversity of the informal sector (and, for that matter, of the local population and its income level) varies directly with the level of market center.

## 5. Informal Savings in Urban Senegal

Savings patterns in the urban areas may be classified into three major categories: personal or individual savings; marketer or commercial savings; and small business savings. (Marketers are individuals who do nothing but sell a variety of small wares; small businesses are larger, employing other family members or unrelated employees, and may be merchants, service firms, or goods producers.) Each of these categories is loosely associated with a particular type of savings.

Individuals, mostly women, often participate in rotating savings groups (tontines), and may invest in small livestock, durable goods, or jewelry. Marketers, who are at once individuals interested in personal savings and merchants who need investment funds for their businesses, commonly also resort to tontines and may, in the highest-level markets, also form a type of banking association. Small businesses, in contrast, are mostly self-financed; only the larger small businesses ever take out a bank loan for operations or expansion. Moreover, while the employees of a small firm may operate a tontine among themselves, the owner seldom appears to depend upon tontine funds for business capital or operating expenses.

### *a. Rotating Savings Associations (Tontines)*

Rotating savings associations are strangely elusive entities in that many people may participate in them but very seldom talk about their participation unless directly prompted. (A desire to conceal funds from relatives may be the main reason for this reticence.) *Moreover, despite the pervasiveness of these groups, no one can estimate the number of tontines operating in a place at any time because the groups are formed among neighborhood friends or workplace colleagues, with the result that no one knows just how many tontines exist.*

Nonetheless, it would appear that tontines are now essentially an "urban" (i.e., associated with some degree of population density) phenomenon and that they are more common in the larger market centers. Informants in a small village market center, Latmingue, reported that tontines existed only among salaried employees and marketers, while informants in a provincial center, Bakel, reported that there were relatively few tontines there and that most of these tontines were among market women, but implying that there were some neighborhood tontines.

Informants in larger regional market centers such as Kaolack and Dakar reported that tontines were common among women in the neighborhoods, among salaried workers, and among marketers. Indeed, tontines are so pervasive in Dakar that books have been written about their organization and operation [O'Deye 1985; van Dijk 1986]. This apparent increase in the number of tontines in the higher levels of market center is probably a function both of simple population size and of the regularity of disposable income.

Tontines in Senegal are organized along fairly standard lines. In a group of individuals, each pledges to contribute the same sum of money into a collective pot on a regular schedule, usually monthly but sometimes bi-weekly or daily, depending on the periodicity of their salary or income receipts. These funds are kept by one person, the treasurer, who pays out the total sum collected each month to one individual. (In recognition of the contribution of the treasurer to the operation of the group, he or she usually receives the first payment or something like the equivalent of one person's daily contribution each month, that is, 3 per cent of the pot.)

The order of payment to the other participants is usually determined by lot, with the order in which names are drawn out of a hat determining the order in which people will receive their payout. The tontine ends when the last recipient receives his or her payout, whereupon the group may reform with the same or new members or it may disband, as people wish.

The economic impact of tontines is thus to encourage savings *and* to speed up the velocity of circulation of money. Savers need no longer leave their funds idle for the entire tontine period, for one member receives his or her entire proceeds on the first payout date, another on the second, and so forth. Where they exist, therefore, they can contribute materially to overcoming the rural shortage of liquidity. Unfortunately, most farm incomes are not regular enough to support widespread tontines in the most rural areas (see below).

The viability of these accumulation systems naturally depends upon the degree of trust among the participants. Nonetheless, certain rules may be created in order to enforce compliance. For example, a person who fails to meet his or her monthly obligation may have his or her pot reduced by a stipulated amount, typically two months' payment. A more severe penalty is sometimes imposed by some groups, i.e. anyone failing to make his or her monthly contribution is eliminated from the group and loses whatever money he or she had contributed up to that point. Of course, these measures are fundamentally ineffective against someone who has already collected his or her pot and subsequently fails to make payments. In such cases, the only recourse short of violence is to ostracize that individual, a punishment that is truly effective only in stable communities.

Most personal savings tontines of this type vary in membership from 10 to 15 people, although there is no standard limit. The size of the group appears to be a function largely of the payment period. Thus, for example, a monthly tontine comprising 12 people would complete its payment cycle at the end of one year. With fewer people, the cycle would be shorter. But with more people the cycle could become inconveniently long, unless the periodicity or contributions and repayments is shortened. Membership size and periodicity thus appear to be interrelated.

The amount of the monthly contribution is largely a function of the amount of disposable income the participants regularly have available. Smaller towns with poorer populations tend to have less costly (and less renumerative) tontines than larger, wealthier towns. In some tontines, the contribution may be as little as 5 or 10 f.cfa; among salaried professionals, the monthly contribution might go as high as 100,000 f.cfa or more. Generally, the size of a tontine is stated in terms of the size of its monthly (bi-weekly, or other) payout, not in terms of the size of the individual monthly contributions.

The use of the proceeds from a tontine is at the personal discretion of the recipient. Senegalese are generally uneasy in discussing this matter, noting only that the recipient may use the funds for personal consumption, for the purchase of consumer goods or durables, or for business investment. Nonetheless, it appears that women's neighborhood tontines are most often used for certain religious ceremonies, particularly baptisms, or for household equipment, such as pots and pans or blankets.

Tontines with larger payouts are more likely to be used for the purchase of more expensive consumer goods and durables, such as a television or the financing of the construction of part of a house. The payout from some of these larger tontines is also used by some participants for business investment. One of the team's interpreters had gone into the fish wholesaling business with his tontine proceeds. The team also heard of cases where parents had set children up in business with tontine proceeds.

As a system of voluntary "forced savings," tontines appear to serve three primary purposes:

- They enable the purchase of relatively costly (and often durable) items on an infrequent basis.
- They represent a source of funds for use in exceptional situations, such as baptisms, sickness, or death.
- They are a savings mechanism.

The monthly payout system accords well only with the first purpose: an individual can plan a purchase for that time when he or she will receive the scheduled pay-out. The strict payout schedule poses certain difficulties with each of the two latter purposes. In each case, these difficulties are usually resolved through individual solutions. Exceptional situations cannot be planned; they simply occur and have to be dealt with. Thus, a participant who faces an emergency can approach the next scheduled participant and ask to exchange pay-off slots. Such a request would usually be agreed to if the scheduled recipient had no pressing need for the funds. (Alternatively, the treasurer may attempt to arrange a reordering of payoffs among some participants.) Such rescheduling is possible because the participants of a tontine are all friends or colleagues familiar with each other's needs. To a much lesser extent, rescheduling is also easier because the tontines the team encountered are not interest-accruing--one usually gets back what one pays in, so there is no gain or loss in rescheduling, apart from the implicit interest cost.

Short-term emergencies can also be dealt with by the tontine treasurer under very strict conditions. One such example given by participants in several tontines involved family loans. In one particular case, the uncle of a tontine member paid the family an unexpected visit. The uncle, however, lacked funds and requested a 10,000 f.cfa loan. The tontine member did not happen to have that much cash in the house, so he went to the tontine treasurer, explained his situation, and received the loan *on the condition that he would reimburse the funds within 48 hours*. This condition is of course critical because the treasurer must have all the members' contributions by the time of the scheduled pay out. However, it is also important to recognize that tontines do represent a source of funds for very short-term personal emergencies.

The third purpose of a tontine, voluntary forced savings, is achieved through the proliferation of savings groups over time. In one office in Dakar, for example, a tontine for 100,000 f.cfa was started several years ago among ten members, each contributing 10,000 f.cfa per month. Over time, some of these original participants accumulated significant savings which they did not wish to deposit in a bank account because of the fees and difficulties involved. Instead, these people, along with a few other colleagues in the office, organized a larger tontine.

Today there are three tontines operating in this office, one for 50,000 f.cfa a month, one for 100,000 f.cfa, and one for 1,000,000 f.cfa, and a few people participate in all three. Thus, clearly, tontines can contribute to national propensities to save and, in many instances, offer promise for evolving into (or being replaced by) something more permanent. Moreover their existence is often a social commentary on the shortcomings of formal financial markets.

As mentioned at the outset and as the above example illustrates, tontines become larger and their nature or purpose becomes more diverse in the higher-level market centers. In higher-level market centers, however, there are other types of tontines. For example, in the regional capital of St. Louis there is a tontine comprized of eight men, each of whom contributes 100,000 f.cfa monthly. The payout is made once a year to an individual who uses to proceeds to underwrite his expenses for the Hadj, the pilgrimage to Mecca.

Specialized tontines exist in other major cities also. In the national capital of Dakar, for example, it is reported that a large tontine involving 300 members and millions of f.cfa has been organized among high level government personnel, big businessmen, and other notables. Unlike most other tontines, this one has been legally registered and incorporated as an association, and it reportedly operates almost as a venture capital fund, providing the funds for various business undertakings by each of the participants. It is important to note again that such specialized tontines as the Hadj and the venture capital fund occur only in the largest centers. The latter is unique to Dakar.

*b. Marketer Rotating Savings Groups*

Tontines among market vendors are very much like those among other individuals in their organization and operation. There are, however, differences in periodicity, organization and purpose.

Marketer tontines have much more varied periodicities for contributions and for payouts. Often, the involve contributions every day, every other day, every week, every other week, or every month. Similarly, the payouts may be made every day, every other day, every week, every other week, or every month. Usually, the periodicity of contribution and payout are the same but, in those cases in which they differ, the payout occurs over a longer period than the contribution. For example, contributions to a tontine may be required every other day, with a payout once a month. Marketer tontines that operate in this fashion typically involve a small, frequent contribution--100 f.cfa every day or every other day--and a single, relatively large payout. For example, 20 vendors contributing 100 f.cfa every other day would accumulate a payout of 30,000 f.cfa by the end of the month.

The formation of tontines among marketers depends upon the size of the market and personal friendships. In smaller markets, all vendors know each other, and those who wish to will participate in a single tontine. This is true in Latmingue, for example, where some 15 people participate in each of two tontines. In each case, the members contribute 100 f.cfa per day, with a bi-weekly payout in one case and a monthly payout in the other.

In larger markets, the vendors may organize themselves according to commodity array. That is, the sellers of plastic shoes have one tontine, the sellers of radios and cassettes another, and so on. These tontines are not exclusive--members' friends who sell other goods can join such tontines--but there is a tendency to break down into such groups because of the size of these markets and the physical proximity of sellers of the same goods.

Marketers can use the proceeds of a tontine for personal consumption, just as do the members of personal tontines. Marketers, however, also are small enterprises, and many use the funds to restock their inventories. Marketer tontines, unlike personal tontines, are much more likely to represent a form of business saving.

The complexity of marketer tontines and their importance for business operations increases with the size and level of the marketplace. Vendors in smaller marketplaces use the proceeds for personal purposes or to restock their inventories with purchases in the regional market center. In the larger markets of Kaolack and Dakar, which support a wide array of very specialized goods, there are some very specialized tontines. Participants in these tontines contribute and collect large sums of money, which they reportedly use to finance trips abroad in order to purchase merchandise for import into Senegal (e.g., Italian shoes, American cosmetics). Of course, many of the smaller tontines are also found in these large markets. The key point is that the larger market centers support new and different types of savings associations, in addition to the types found in the lower-level market centers.

### *c. Other Marketer Savings Groups*

In addition to marketer rotating savings groups, the largest markets--in Kaolack and Dakar--also have groups that bank their savings in an interesting way. Each day, an informal banking agent makes his rounds among participating vendors. Each vendor contributes the same sum each day over the course of a month. Unlike tontines, however, the sum contributed by each vendor is determined by what that vendor believes he or she can afford to pay in regularly. Some vendors pay 500 f.cfa a day; others pay in as much as 100,000 f.cfa a day during the busy harvest months.

The informal banking agent collects money daily from each vendor and deposits the total contribution into a savings account that he maintains at a commercial bank. (Herein is formed a link between informal and formal financial markets.) At the end of the month, the agent returns to each vendor the total amount that the vendor had deposited over the course of the month minus one day's contribution. In other words, the agent is paid a 3 percent fee for his service of collecting and depositing funds.

The vendors, on the other hand, are effectively receiving a negative interest rate for this service. This highlights the relative importance of *safekeeping* as a motivation for smaller savers.

### *d. Small Business Savings*

Small businesses in Senegal are essentially family firms, headed by the husband or wife and employing some of their children, various relatives, and some friends of the family. Thus, business finances are commonly intermingled with family finances, adding to the complexity of informal financial market demand and supply. If a family crisis arises, funds may be appropriated from the business to cover the unexpected need. Conversely, if the business is strapped for funds, the family may reduce its consumption for a time in order to finance the firm's needs. This intermingling is common to family firms the world over, although the larger firms may make a clearer distinction between business and family resources.

Because the distinctions between business and family matters become clearer with larger size, these economic entities become easier to identify and analyze. This is one reason why so much is known about the formal sector--its constituents are more distinct and specialized--and so little is known about the informal sector. It is also one reason why informal sector statistical information, the accuracy of which depends squarely upon consistency in definitions, seems so unreliable.

Informal sector small business savings are typically kept by the owner or proprietor in a safe place in the home. Most small entrepreneurs do not keep bank accounts, either because they lack access to a banking center or because of the difficulties imposed by banks. Only the largest, most dynamic entrepreneurs find it useful to open savings accounts with banks, and then only in the largest market centers, the only places with bank branches.

*e. Summary*

There are essentially three types of savings in urban areas.

- *Personal savings*: These savings may be kept in cash or in kind (as jewelry or durable goods) at home. Some of the cash savings may be put into a tontine, which is a rotating savings association, usually for larger consumption purchases.
- *Marketer tontines*: These types of savings are more common (on a per-capita basis, at least) among market vendors, whose business activities allow them to contribute sums more frequently for a larger ultimate payout. While personal tontines are mostly for consumption, marketer tontines can be used by the individual for business purposes, such as restocking his or her inventory. All of these tontines speed up the velocity of money circulation, a key contribution in cash-starved regions.
- *Business savings*: These are commonly kept at home with the proprietor and with family funds. Only the largest small enterprises resort to formal bank accounts, and this happens only in the largest market centers where a bank has opened a branch.

At this time, personal savings are essentially inaccessible from a systematic or programmatic point of view--people keep their money "under a mattress" because they lack access to or confidence in a bank. Tontine-accumulated savings *may* be deposited in banks when payouts are collected, and sometimes are, but typically they are expended quite rapidly for their intended purpose. Of the three types of savings, business savings, although largely treated as personal savings, appear the most accessible and the most easily mobilizable for economic development in the short run.

Marketers in several of the larger centers such as Kaolack have organized themselves into an informal banking network. The daily deposits they made into a bank account, which are redistributed at the end of each month, demonstrate both the need for depository services for savings and the fact that some individuals have the confidence to use those services, albeit through a responsible intermediary. On this point, Dale Adams has noted the role financial markets (formal or informal) play in economic development:

> *They should provide a flow of financial services to an increasing number of individuals and firms. These services include making loans to a few individuals and providing deposit facilities to a much larger number of people. A financial system must be able to sustain the quantity and quality of these services over prolonged periods. Having reliable access to a financial system that provides sustained loan and deposit services of high quality and working with intermediaries who impose only modest transaction costs on the users of financial services result in increased efficiency, more output, and more savings. Intermediaries are usually not reliable unless they cover their costs of operations, recover most of their loans, protect or increase the purchasing power of their loan portfolios, and innovate to reduce transaction costs.* [Adams 1988: 363-4.]

**6. Informal Credit in Urban Senegal**

Credit in the informal sector may come from family or friends, from moneylenders, or from merchants and suppliers. This section examines credit sources among both marketers and small private enterprises. Personal credit for consumption, which largely comes from family and friends, lies outside the scope of this study.

*a. Marketer Financing*

Marketers typically use their own savings or loans from family or friends to establish their businesses. Thereafter, market vendors typically finance expansion of their arrays through business savings, either through participation in a tontine or through individual accumulation. In either case, the process of saving enough money to expand one's business is long and difficult, particularly given the various family emergencies which may arise.

An alternative source of marketer loans is found from suppliers who deal in the commodities sold by the market vendor. Suppliers, however, will provide goods on short-term credit only to vendors who have established businesses and who are known to the supplier. Generally, the supplier and the vendors live and work in the same town, but vendors of higher-level goods, such as radios, may go to higher-level market centers or even to the capital city to restock.

Typically, merchandise credit is provided for a period of two or three months at a *monthly* interest rate of about 10 percent. Most supplier credits are extended during the post-harvest season when commercial activity in the countryside reaches a crescendo. These loans are less common--and less necessary--during the cropping season when most rural producers have few funds available for anything other than basic necessities.

*b. Small Enterprise Financing*

Credit for small informal sector enterprises very much resembles the patterns found among marketers. Start-up capital comes from personal savings or from loans from family and friends, sometimes in the form of partnerships which may later be dissolved when one partner buys out the other(s). Operating capital comes either from retained earnings or from supplier credits, while capital for expansion comes mainly from retained earnings.

The lack of operating and expansion capital is evident from the use of expensive supplier credits and from the slow growth of many firms. Of course, small business owners universally and tautologically cite a shortage of funds as a reason why they remain small (see Appendix D for an interesting informal survey of urban small enterprises in Senegal). It may even be true when financial markets are as unarticulated as they are in Senegal.

*c. The Impact of the Commercial and Small Enterprise Loan Program*

The USAID-funded small enterprise credit project, begun in 1986 and based in Kaolack, offers interesting insights into lending possibilities in the urban market centers of agrarian regions. The project centers around a $450,000 revolving loan fund run by a staff of 2 expatriates and 8 business agents. These agents operate from small one-room offices located in Kaolack and several small urban communities in the surrounding region. Equipped with mopeds, they are encouraged to be highly mobile and are charged with locating and attracting new borrowers, helping them with their paperwork, monitoring repayments, and following up on overdue payments. They receive bonuses based on loan placements and repayment rates.

Since the project is not considered a bank under the law, it is not bound by interest rate ceilings. Presently its loans carry a 24 percent annual rate. This rate is well above the legal limit of 13 percent imposed on banks but far below the rates charged by merchant suppliers and informal moneylenders, which may be as high as 60 percent. Guarantee requirements have been kept flexible, but a guarantee of at least the value of the loan is required. Interestingly, real estate collateral is not officially registered with the courts (an expensive process), but with the local police.

The same law which permits the project to set its own interest rates reserves the right to accept deposits to banks only. Consequently the project does not play a role in mobilizing savings, a serious weakness since the agents are frequently approached by people wanting them to accept deposits for safekeeping. The common-sense *flow* of financial services is thus interrupted.

This project takes a so-called "minimalist" approach. That is, project loan officers assist entrepreneurs in assessing their current cash-flow situation and in projecting their future position if the loan is granted. This assistance is necessary because many small business people keep no books, even though they have some knowledge about what their business position is at any point in time. (Indeed, nearly a quarter of all small businessmen and women are illiterate and lack numeric skills.) Once the loan is granted, however, the project loan officer provides little or no technical assistance in management or accounting. This follow-up is largely unnecessary because the project accepts loan applications only from entrepreneurs who already have established successful businesses. The many problems of neophyte businesses are thus avoided.

The project committee which considers loan applications takes into account a single fundamental criterion: the current and future economic viability of the firm should the loan be granted. Although additional factors may be considered if there are more applications than there are funds available, the basic concern is with the ability of the enterprise to repay the loan. In consequence, the repayment rate of the Kaolack credit project, about 95 percent, is exceptionally high by Senegalese standards.

Precisely because this project uses the profitability of existing firms as its primary selection criterion, the sectoral and spatial patterns of its loan portfolio provide a significant diagnostic of the nature and composition of the regional economy in the *Kaolack*, which is both the domain of project action and the core of the Peanut Basin.

Sectorally, a third of all loans in number--and nearly half (45 percent) by value--are allocated to commerce. These loans permit businessmen to expand their inventories or, in periods of intense business activity, to avoid recourse to expensive supplier loans. A significant proportion of these loans are granted during harvest season, when commercial activity will be at its peak. Two-thirds of the loans by number--and slightly more than half by value--go to noncommercial enterprises. A number of these loans are made in rural areas (as shown in Table 4, Appendix C).

The types of firms that prove profitable are interesting. Taxicabs, bakeries, and pharmacies are all highly competitive subsectors with slim profit margins in Kaolack, and the project has avoided making loans in these areas. Other occupations that require technical skills--such as goldsmiths and jewelers--are also highly competitive, but established firms with a steady clientele can still be profitable, and in a few cases these have received loans.

Finally, some firms--and here metalworking is an outstanding example--are fairly new enterprises which have major development potential. Loans to these firms typically not only finance capital expansion but also create significant employment opportunities (and in the case of metalworking, a labor training effect as well). Moreover, metalworking has historically had high linkage effects on other economic sectors, both upstream toward the primary suppliers and on downstream users.

The project has been extended until 1992, has received additional funding, and is being expanded beyond the Kaolack-Fatick core to Theis. Meanwhile, it needs an organizational framework to support it. Banks and local investors have not indicated significant interest, leaving the project in limbo for the moment. Ideally, it would be empowered by the West African Monetary Union to accept deposits. The team suggests that *linkages* with a commercial bank might still be a possibility: perhaps field agents could collect savings and transfer them to a local branch of the CNCAS; perhaps, too, a special loan fund at the CNCAS could be created, with project agents doing the screening, processing, and supervising, with the project itself carrying the default risk.

In summary, the USAID small enterprise loan project based in Kaolack demonstrates the clear need not only for business credit and a continuous and reliable flow of financial services, but the remarkable capacity of small firms to repay these loans at relatively high rates of interest. The project has been able to adopt a "minimalist" approach partly because lending activities are presently limited to ongoing businesses. This necessary and understandable limitation means that the project loan portfolio well reflects the financing requirements of the small enterprise sector.

It is to be expected that short-term commercial credit will predominate in the loan portfolio of any agency financing small enterprises in a region such as Kaolack. Nonetheless, an effort should also be (and perhaps has been) made to seek out, in particular, those activities where profitable *and* employment-generating investments with high linkages to other sectors may exist. And the team suggests that linkages to existing banks, in particular the CNCAS, be reconsidered in the search for a permanent home for the project.

#### d. *Formal-Informal Financial Market Linkages*

Senegal's formal and informal financial markets presently have relatively few and fairly weak functional linkages between them. Larger urban wholesalers of goods borrow from commercial banks when they can, and quite often extend some credit to smaller informal-sector firms, most of them retailers, but some of them artisans and repair shops. Similarly, there are tontines and other informal savings organizations which sometimes deposit the proceeds of individual members into banks or which may advance funds to formal-sector firms on a short-term basis.

Many economically active middle-income people, especially those in urban areas, participate simultaneously in both the formal and the informal financial markets. For example, teachers and civil servants on a scheduled salary will often belong to some kind of tontine on one hand and maintain a checking account at a bank on the other.

In addition, there appear to be attempts on the part of some formal financial sector organizations (such as the CNCAS) to reach out toward the informal sector through their various extension activities. Similarly, some of the informal savings groups (such as the savings collectors and safekeepers in the Kaolack marketplace) show signs of being interested in reaching out toward the formal sector through their collection and deposit of funds into bank savings accounts. The team was also encouraged by reports of inte· 1ediate-level organizations like those sponsored by the PfP (formerly Partners for Productivity), an NGO in Liberia, which perhaps could be tested in Senegal.

**D. Chapter Summary and Observations**

Senegal, though a low income country, appears to have positive money savings in both formal and informal financial markets throughout the urban market center system as well as in rural areas, even in the face of a serious current liquidity shortage. As the liquidity problem grows, it may be that the savings incentives generated by the existing economic conditions will contribute to its further worsening. Falling goods prices (or a rising price of money in terms of goods) could conceivably induce savers to increase their efforts to hold money idle in the familiar "paradox of thrift" fashion. It may be argued, as J. M. Keynes did in *The General Theory of Employment, Interest, and Money* [1936] that these efforts will ultimately be self-defeating, as incomes fall enough to make further savings efforts impossible. But this would appear to be counterproductive if the object of policy is to promote economic development and growth.

It would be wise for policymakers to recognize the limits of disinflationary or deflationary policy, particularly when the rural poor appear to feel the squeeze the most.This is an area which bears further investigation, and the results may vary by country. Certainly in Senegal's case, the rural areas seem most affected, probably beacuse of the demise of the ONCAD parastatal and the winding down of debt forgivenesses. Deterioration in rural terms of trade with urban areas could also have contributed to this, expecially in the Peanut Basin. It is only speculation on the team's part, but it also appears that remittances from abroad which are transmitted through the postal savings system may have been slowed even more than those destined for urban areas. If any or all of these have in fact occured, rural illiquidity has only been worsened. It is doubtful whether donor injections of funds via infrastructure projects, especially in impacted rural areas, would have any direct or even long-term inflationary impact on the country as a whole, especially if leakages from these regions into the major urban centers can be minimized by parallel projects aimed at substituting locally-produced goods for imports from outside the region. Also, if intraregional resource and money mobility is enhanced by infrastructure projects, long-term inflationary pressures should be *eased* rather than increased.

The existing savings, which are mostly informal, take different forms, depending upon time and place. In rural areas, there are several types of village treasuries whose funds are kept by a nominated official. In urban areas, there are various types of tontines, as well as other types of saving agents (e.g., merchants who accept deposits for safekeeping).

From a developmental point of view, the most promising source of savings--that is, those most readily mobilized for directly productive investment--appear to be the rural *caisses villageoises* and the urban small enterprise savings. Both of these are essentially sums of money that are kept in a safe place, if not actually under a mattress. Personal savings in the countryside appear less promising in the short run because of the normally high transactions costs involved in capturing them. Personal savings in urban areas, however, have lower transactions costs because of shorter distances and higher population densities and, therefore, might be more easily mobilized for investment. Tontines are useful ways to *accumulate* savings, and tontine-accumulated funds could be tapped, especially if there were depository facilities readily available to their members.

The optimum type of mediating agency for aggregating and facilitating the use of these savings differs according to the major savings categories. In the rural areas, where distances are great and populations sparse, it is essential to devise a system that minimizes transactions costs. One such possibility is a "market banker." This might be a responsible individual based in a regional town who attends the higher-level marketplaces on their meeting days each week in order to accept deposits, pay out withdrawals, and possibly even make small loans.

The advantage of higher-level markets is that they attract consumers (and savers) from a larger hinterland, and thus concentrate demand and reduce transactions costs. The "market banker" could attend different markets each day of the week, probably riding with a transporter with merchandise for those markets, and thus cover a significant portion of the outlying areas. He or she would have to be responsible to a coordinating agency, whose structure and form is yet to be determined. This is obviously a topic for further research; however, the team believes it would be possible to design such an organization.

Urban savings, in contrast, could be aggregated, and some fraction of them probably lent, through branch offices located in each major center. Alternatively, a "bank" agent could visit lower-level centers on a regular once-a-week schedule, perhaps once again taking advantage of the weekly marketplace schedule. (This strategy is being used by the Matam office of the CNCAS in order to service Bakel.) In this case, the agent could accept deposits from individual and group savers on each day of his or her visit, and (possibly with some notice) could pay out withdrawals as well. It may well be that over time the present-day tontines could be converted into term savings organizations.

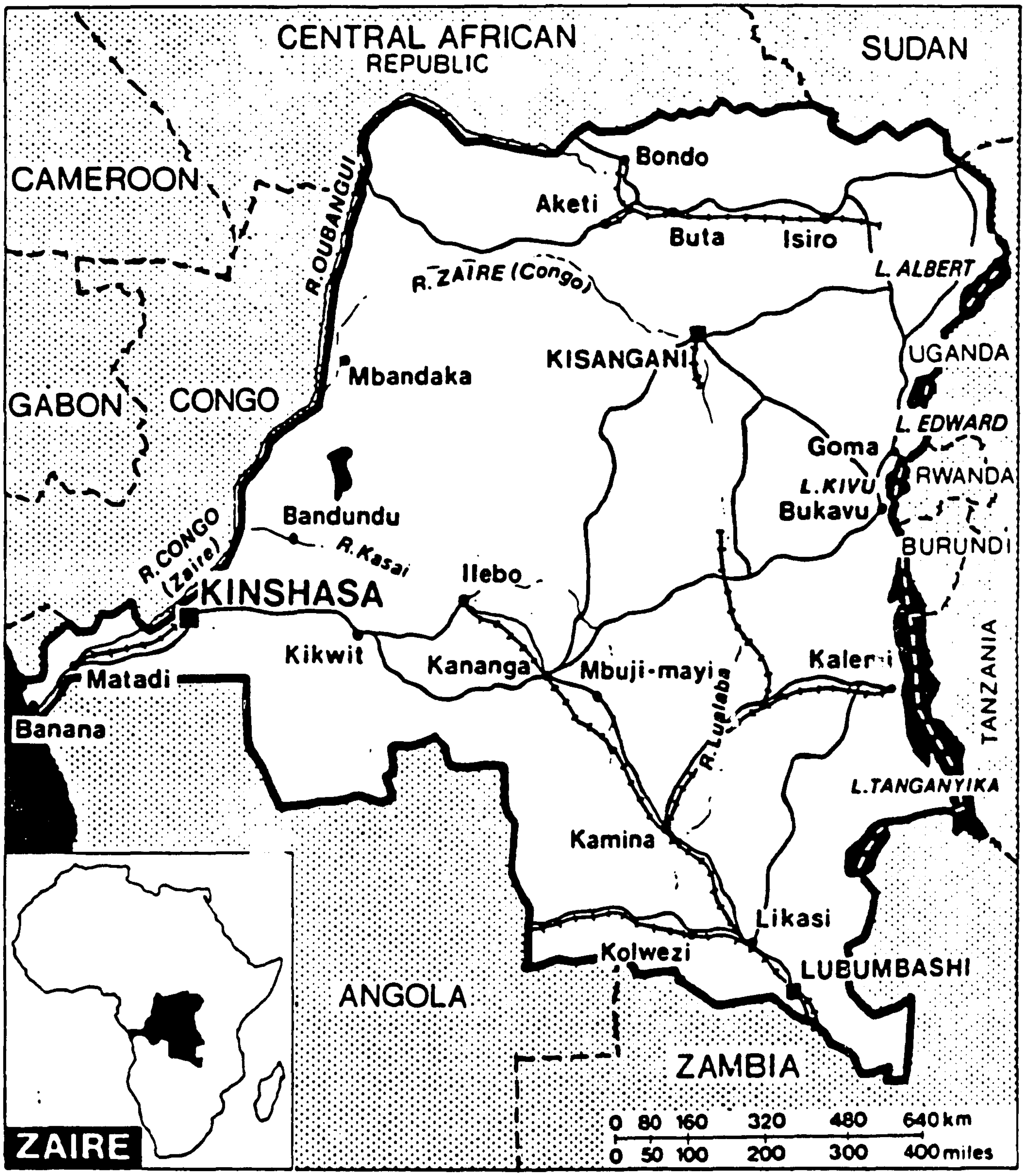
The other side of informal financial market services is, of course, credit. In Senegal, marketers and small enterprises have no effective recourse to credit. They are necessarily self-financed from personal savings or retained earnings. As the Kaolack small enterprise project demonstrates, there is a definite need for a flow of credit services to these firms, and with legal changes the *flow* could be established quite readily, since savers in medium-level and higher-level market centers have already expressed a desire to use the project agents as holders of their money savings. Moreover, the profitability of the firms appears great enough to enable them to pay considerably higher interest rates than banks charge.

With both a demand for credit and a demand for depository facilities, the loop is capable of completion. It is true that presently the credit demand appears to be primarily for short-term commercial purposes. The potential longer-term employment-generating investments in smaller enterprises appear best in such areas as metalworking, machine repair services, and agroprocessing equipment like millet mills. Urban construction also has a large (but temporary) employment effect. However, it must be remembered that Bakel's number of transporters quadrupled in four years when its main road link with the rest of the country was finally surfaced over its last 30 miles. This clearly indicates that there should be sizeable investment opportunities awaiting if particular blockages (like poor roads or laws inhibiting the formation of new financial intermediaries) can be removed.

The flow of financial services in Senegal could be enhanced considerably if property rights were more clearly defined in both urban and rural areas. Titling property with greater clarity could both provide mortgageable assets for borrowers and security for savers/lenders. Without collateral of this or some similar type, the growth prospects of financial markets are greatly diminished. This is an area practically begging for additional study in Senegal.

Financial markets, both formal and informal, involve safekeeping, savings *and* credit; the flow of these financial services must satisfy the needs of safekeepers, savers and borrowers to be self-sustaining in promoting economic growth. Safekeeping and savings entities must be able to pay positive real interest rates to their depositors if they are to survive. Lending entities must be able to lend where loans are both profitable and safe if they are to survive. The current legislation imposes very stringent conditions on different types of organizations, in accord with their role or roles.

Some argue that new organizations should not be overburdened with too many tasks at the outset, and that keeping savings functions and lending functions somewhat separate may make sense in the early stages. The real need, however, is to recognize that safekeeping, savings, and credit must all be interlinked if sustainable and reliable flows of financial services are to be extended to Africa's people.


CENTRAL AFRICAN
REPUBLIC
SUDAN
CAMEROON
R. OUBANGUI
Bondo
Aketi
Buta
Isiro
L. ALBERT
R. ZAIRE (Congo)
UGANDA
Mbandaka
KISANGANI
GABON
CONGO
L. EDWARD
Goma
L. KIVU
RWANDA
Bandundu
Bukavu
R. Kasai
BURUNDI
R. CONGO
(Zaire)
Ilebo
KINSHASA
Kikwit
Kananga
Mbuji-mayi
Matadi
Banana
R. Lualaba
TANZANIA
L. TANGANYIKA
Kamina
Likasi
Kolwezi
LUBUMBASHI
ANGOLA
ZAMBIA
ZAIRE
0 80 160 320 480 640 km
0 50 100 200 300 400 miles

# Chapter III

# INFORMAL FINANCIAL MARKETS IN ZAIRE

## A. Introduction

Zaire is a large country, four times the size of France and twelve times the size of Senegal, with vast natural resources and relatively low population density. The population of 35 million is growing at 3 percent per year. Per-capita income, estimated at $170, is one of the world's lowest and statistics suggest that in real terms it is below that of 30 years ago, just before independence.

Kinshasa, the capital, has a population of 3.5 million and is the administrative, commercial, financial, and manufacturing center of the country. An informed source estimates that perhaps 80 percent of the country's money is in Kinshasa. This reflects a national policy which for the first twenty years after independence, focused on building up the capital without regard to the burden imposed on the remainder of the country. This policy continues today.

Zaire's currency (the zaire) has depreciated constantly since independence due to inflation while, between 1973 and 1983, averaged about 48 percent, and is currently estimated at between 150 and 200 percent annually. The main cause is persistent national government budget deficits financed by central bank credit expansion. Public borrowing has all but totally squeezed private borrowing from the domestic formal banking system; domestic borrowers are essentially forced to borrow abroad or self-finance. But even abroad, government borrowing has so mortgaged the country's future foreign exchange earnings that private credit availability is scant.

Since the late 1970s the Zairian government has been attempting (at least on paper) to reverse the centralization of economic benefits and power by allocating more functions to the provinces, by abolishing or trimming back parastatals, by focusing more on agriculture, and by giving private enterprise freer rein. Austerity measures were undertaken in 1983 as a condition for IMF and World Bank financial support and to satisfy international debtors.

Some of the burden seems to have been borne by lower-level public employees, whose salaries were frozen in the face of severe inflation; the supply of luxury goods in Kinshasa reportedly has not declined noticeably. A considerable portion of the burden also seems to have been borne by the outlying regions of Zaire. Their regional terms of trade appear to have been negative for many years. More specifically, there is a heavy burden on rural dwellers who have increasingly returned to more self-sufficient production and barter activities because, in their words, "there is no money." In 1986 the austerity program disappeared as credit expansion accelerated again.

Exhibit 3 offers a partial view of Zaire's macroeconomic situation. The following items stand out:

- Circulating currency represents a large and increasing percentage of the total money supply (Row 5). Obviously, holders of money are increasingly reluctant to hold funds in the form of demand deposits in formal sector banks with inflation accelerating as it is;
- "Quasi-money," or time deposits (Row 6), shows a remarkable rate of increase even in the face of inflation, a matter of some significance that is dealt with later;
- The *real* money supply (the money supply deflated by the consumer price index--Row 12) has remained quite low, and even in early 1988 was below its 1982 and 1983 levels; and

The central government commands an incredibly high proportion of total domestic credit, peaking at 88 percent in 1985 and down modestly since then (Row 7), doubtless because of IMF and creditor country pressure on the government.

Real liquidity for transactions purposes has remained stagnant for some years, even though inflation induces people who can to increase the number of their transactions. This shortage of real liquidity coupled with the desire to turn money over more quickly to avoid inflation-induced capital losses further suggests rising overall transactions costs and declining levels of efficiency within Zaire's market system. The higher volume of transactions increases pressure on the velocity of money (last row), which has indeed been rising since 1982 (although 1986 is the latest year for which data are available). The private credit share (Row 9) has been contracting until recently and, as noted above, the stock of real liquidity has been stagnant.

The private sector, especially in outlying regions, can only be described as starved for access to liquidity and credit. This can only mean that standard macroeconomic prescriptions are not having their expected effect. Indeed, they *cannot* have this effect unless they are coupled with measures which ensure that either contractionary or expansionary actions do not disproportionately burden the country's most productive sectors, agriculture and mining.

Since independence the relative importance of agriculture has increased in the national economy and that of industry has declined; this accords with the simultaneous growth in the relative importance of private consumption (especially foodstuffs) while omestic investment and net exports of goods and services were declining. It also accords with

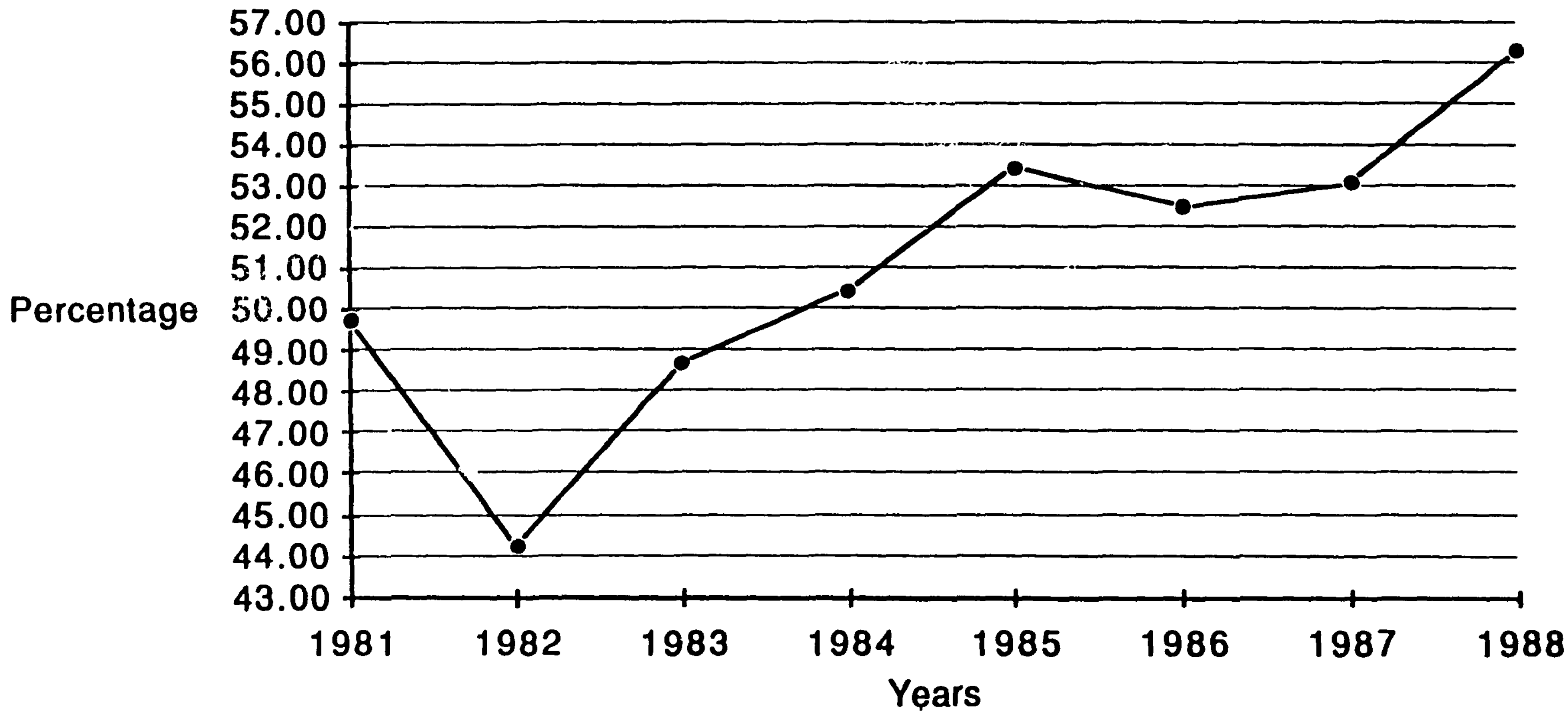
Exhibit 3

# ZAIRE: MACROECONOMIC PICTURE
(Figures in billions of zaires)

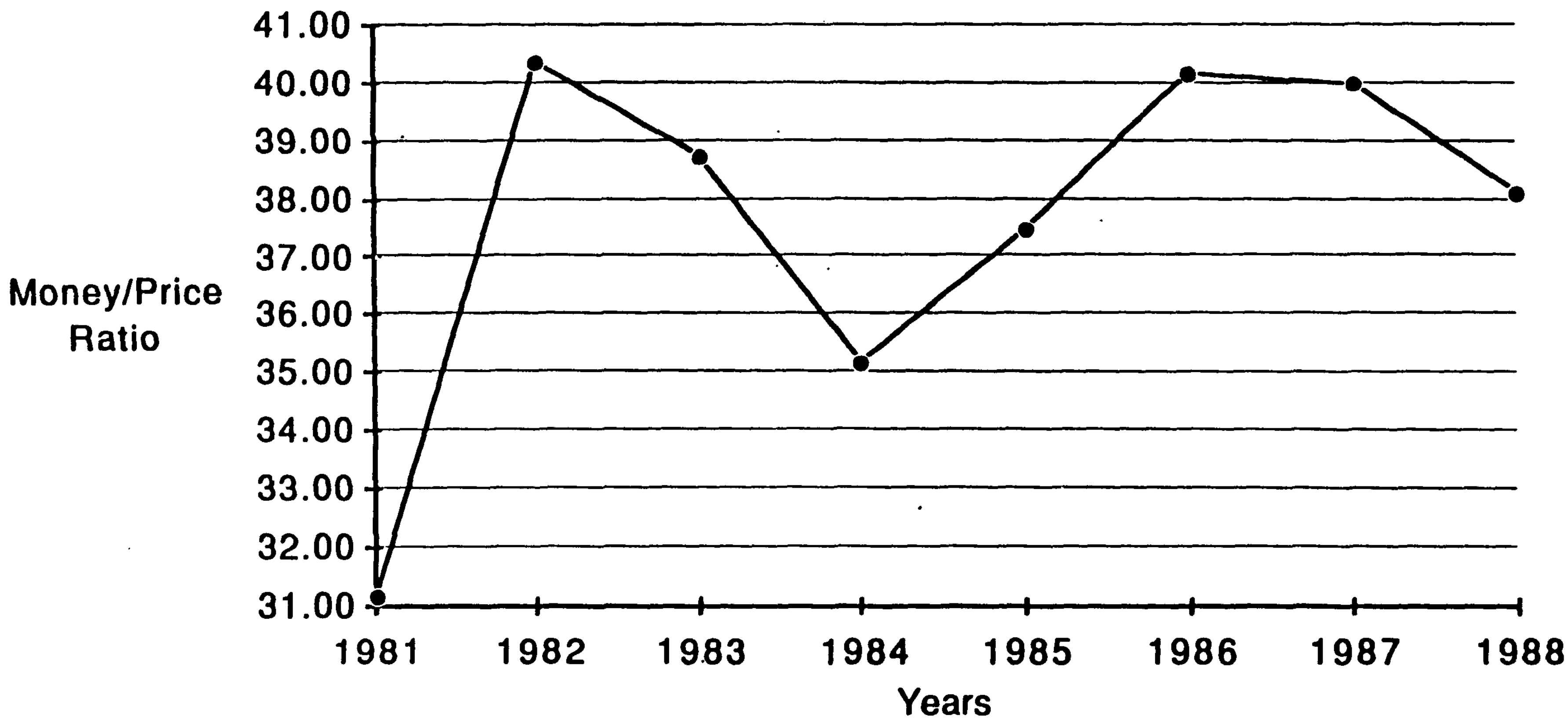
| | Year: | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 (Mar.) |
|---|---|---|---|---|---|---|---|---|---|
| (1) | Currency outside banks | 2090.0 | 3283.0 | 6141.0 | 8802.0 | 12294.0 | 18987.0 | 36422.0 | 44864.0 |
| (2) | Demand depos. | 1912.0 | 3681.0 | 6236.0 | 8213.0 | 9927.0 | 16516.0 | 30958.0 | 32941.0 |
| (3) | Money supply | 14201.0 | 7420.0 | 12609.0 | 17434.0 | 22983.0 | 36156.0 | 68549.0 | 79648.0 |
| (4) | Quasi-money | 638.0 | 803.0 | 936.0 | 1349.0 | 1852.0 | 2771.0 | 7240.0 | 16165.0 |
| (5) | Currency as % of money supply | 49.8 | 44.3 | 48.7 | 50.0 | 53.5 | 52.5 | 53.1 | 56.3 |
| (6) | Total domestic credit | 5327.0 | 9964.0 | 14655.0 | 34393.0 | 53020.0 | 86500.0 | 171569.0 | 155456.0 |
| (7) | Central gov't | 4023.0 | 8027.0 | 11713.0 | 29662.0 | 47066.0 | 75069.0 | 146473.0 | 126757.0 |
| (8) | Percent share | 75.5 | 80.6 | 79.9 | 86.2 | 88.8 | 86.8 | 85.4 | 81.5 |
| (9) | Private sector | 1272.0 | 1811.0 | 2838.0 | 4510.0 | 5606.0 | 10777.0 | 24390.0 | 27958.0 |
| (10) | Percent share | 23.9 | 18.2 | 19.4 | 13.1 | 10.6 | 12.5 | 14.2 | 18.5 |
| (11) | Consumer prices (1980=100) | 134.9 | 183.8 | 325.5 | 495.6 | 613.6 | 900.3 | 1714.0 | 2089.7 |
| (12) | Real money supply (money/prices) | 31.1 | 40.4 | 38.7 | 35.2 | 37.5 | 40.2 | 40.0 | 38.1 |
| (13) | Gross domestic procuct (Zs) | 23781.0 | 31110.0 | 59134.0 | 99723.0 | 147263.0 | 203416.0 | n.a. | n.a. |
| (14) | Real GDP (GDP/prices) | 17628.0 | 16926.0 | 18167.0 | 20121.0 | 23999.0 | 22594.0 | n.a. | n.a. |
| (15) | Real Growth rate | - | -4.0 | 7.3 | 10.8 | 19.3 | -5.9 | n.a. | n.a. |
| (16) | Money velocity (GDP/M1) | 5.7 | 4.2 | 4.7 | 5.7 | 6.4 | 5.6 | n.a. | n.a. |

Sources: IMF: International Financial Statistics

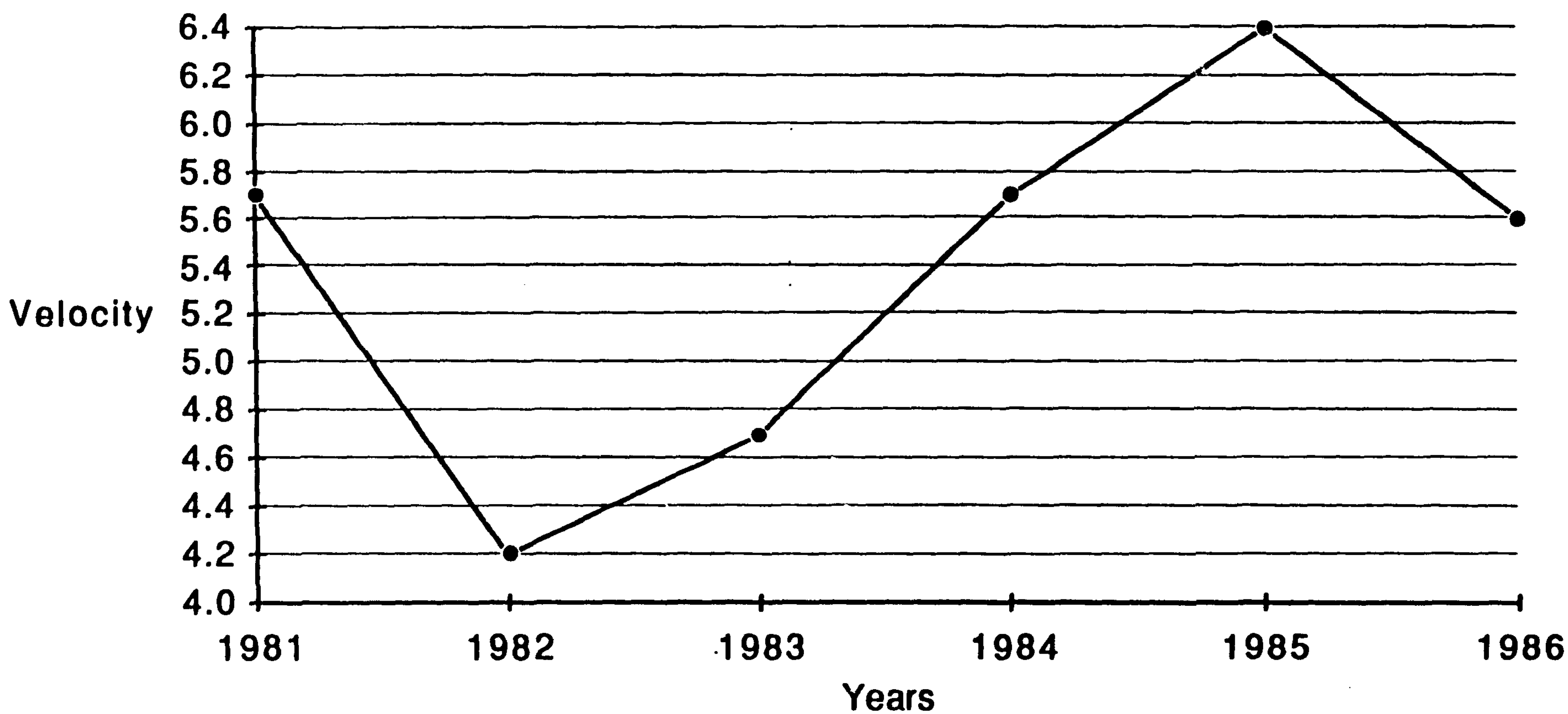
## 3.1: CURRENCY AS % OF MONEY



## 3.2: REAL MONEY SUPPLY-- M1/P



## 3.3: INCOME VELOCITY OF MONEY



the fact that real per-capita income, as noted above, has fallen in most years since independence.

After the 1983 reforms, growth rates did improve and price increases moderated; tax receipts improved and balance-of-payments deficits began to decline. In 1986, however, the government again resorted to credit expansion to finance its budget deficits, as can clearly be seen in Row 6 of Exhibit 3. Early in July 1988 the president of Zaire issued a "declaration of economic independence," and announced that the country would again choose its own economic course, free of foreign influence. Inflation was then running at an annual rate of about 180 percent, judging from foreign exchange rates. AID disbursements were suspended for the time being, and opinions vary concerning the motives for the announcement.

Inflation is also worsened by resource immobility. After independence from Belgium, maintenance of infrastructure in Zaire virtually ceased. Roads, railroads, and ports deteriorated, and today Zaire has essentially become a collection of economic regions, sometimes having more contact with neighboring countries than with other parts of Zaire. (The pro-Kinshasa pattern of spending and taxation is doubtless partially responsible for this.) Internal communication is so poor that businessmen in Kinshasa routinely communicate with each other by telex or by runners, and in many rural areas missionaries with radios are the only rapid communications link with the outside world.

Voluntary private savings in the country are generally very low, both because of the low average income and the high rate of inflation. Generally, they are channeled into commerce for quick profits in preference to longer-term fixed investments.

Trust in the financial system itself is also low, stemming in part from a currency changeover in 1979 when old currency (5 and 10 zaire notes) had to be exchanged for new within three days (unless it was held as deposits). Millions of currency holders in rural areas lost their accumulated savings because they lived in areas which were too remote to make exchange possible. But deposit holders did *not* lose, and the effects of this experience continue today: a surprising amount of savings are held in the form of deposits, particularly in semi-formal cooperatives and *caisses populaires*, but also in formal market organizations. This helps to explain why "quasi-money" (Row 4 in Exhibit 3) has expanded so rapidly in the past three years.

Property rights are very poorly defined in Zaire, in some cases so poorly that several people hold exclusive legal title to the same piece of property. Moreover, there may be different traditional types of ownership to the same property--one person may own it for growing crops, another for pasturing animals, and so forth. This makes it virtually impossible for innovators, even if they *do* own property, to use it as collateral for a loan.

Despite the high rate of inflation, the poorer people the team encountered in Zaire show a stubborn determination to save, even in the form of currency or deposits, although they tend to opt for better stores of value such as animals, malachite necklaces, diamonds, foreign exchange, real estate, radios and the like whenever they are available. The desire for economic security appears to be the primary motive for saving throughout the country; the rate of return is clearly secondary in importance, especially among the poor.

The willingness to save *openly* is somewhat conditioned, however, by the requirement in Zairian society that money be given or lent to relatives upon their request. Sometimes the requests seem to come when there is no greater need on the part of the requestor than of the requestee. Accordingly, women frequently join *ristournes* or tontines (discussed later in the chapter) to conceal funds from their husbands or other relatives, and wage earners occasionally deposit funds in *caisses populaires* or cooperative savings groups for the same reason.

Reportedly, the Zairian political and economic system is virtually "for sale"--anything can be had for a price. The primary purpose of laws and regulations has apparantly come to be "rent-seeking," i.e. to create barriers which can be removed only by paying a sum of money or knowing the right people. This translates into general uncertainty, and with so little functioning *structure* or commonly understood rules in the economy and society, the typical Zairian has very little economic or personal security. The police or the army appear to be as likely to steal as an ordinary thief. So most Zairians have become increasingly reluctant to accept risk, and the economy stagnates or declines as a result.

In some respects, the Zairian economy may be described as an example of "pathological capitalism." That is, a government, whose primary role is normally to preserve and protect (to provide structure and security--or "freedom from"--to a society) now offers its jobs and contracts to the highest bidder. In other words, government, instead of providing structure, has come to offer mostly *process*, and not equally to all citizens.[3] The capital city has been enriched, but the remainder of the country has remained stagnant or deteriorated.

Consequently, regions of Zaire other than Kinshasa suffer from a liquidity crunch in real terms while inflation is accelerating. The illusion of national growth in Kinshasa is denied by the deterioration of real income and financial conditions elsewhere in the country. To assist in overall economic development, then, donor projects might well

3 Market systems require a degree of structure and certainty to work properly. Ironically, a political system which becomes excessively "marketized" can undermine an effective, broadly, participatory, market system.

explore measures which are especially beneficial within *impacted regions*, i.e. where there are good prospects for the benefits to remain within those regions. In this connection, the impacts of projects on the flows of funds between regions--that is, regional balances of payments--would be useful references if they could be obtained. Even *general* indicators might suffice.

## B. Formal Financial Markets

### 1. Background

Foreign ownership and management play an important role in Zaire's formal banking sector where, interestingly, there are no indigenously-owned private commercial banks. Of the 9 commercial banks in the country, 5 are entirely foreign-owned, 2 are of mixed foreign and Zairian state ownership, and 2 are entirely state-owned. Officially, the government of Zaire has tried to wean itself from its longstanding practice of forcing banks to engage in priority lending to targeted sectors, but in practice individual banks are told what percentages the government prefers to go to which sectors. By concentrating on a few profitable lending areas, notably trade financing and international business, most banks have remained surprisingly healthy through the economic upheavals of recent years although their ratios of capital to assets remain critically low.

In addition to the 9 commercial banks, the formal banking sector in Zaire is comprised of 2 development banks, one savings bank, a postal savings establishment and an insurance company, all with at least partial state ownership. The commercial banking network is relatively well-dispersed geographically with the 4 largest banks operating 113 branches, 16 in Kinshasa and the other 97 in a dozen regional centers. The 5 foreign-owned banks are all concentrated in Kinshasa and service primarily large corporate and international clients.

The commercial banks have traditionally concentrated on financing import-export trade and domestic commercial activities. The volume of commercial or trade finance constitutes more than two-thirds of all outstanding credit and international transactions account for from 50 percent to as much as 90 percent of a typical commercial bank's profits. Not surprisingly, short-term financing dominates their operations, with overdrafts and loans of less than one year representing 75 percent of the credit outstanding. Virtually all private commercial bank lending is for business purposes, with personal loans being negligible.

Their geographic dispersion notwithstanding, commercial banks have only a limited outreach beyond the major urban areas. Bank deposits from urban enterprises represent approximately 70 percent of all deposits, most of which are short-term to cover letter-of-credit transactions. Only 12 percent of the bank deposits are for a period of more than six months.

On paper, commercial banks are free to set their own interest rates except for general agricultural credit. In practice, however, interest rates vary from 45 percent to 57 percent. With inflation running near 200 percent, banks clearly have been unable to adjust their rates accordingly, but their ability to borrow reserves from the central bank at 24 percent enables them to show a profit on paper while suffering serious erosion in their real capital positions. The tight foreign exchange situation also makes it difficult for them to service their export-import clients.

Zaire also has two development banks, the *Societe Financiere de Developpement* (SOFIDE) and the *Banque de Credit Agricole* (BCA). SOFIDE, founded in 1970, is 40 percent owned by the government with the balance held by a group of local private investors, foreign banks and international finance organizations, notably the International Finance Corporation. Ninety percent of SOFIDE's portfolio consists of long-term loans denominated in foreign currency to well-established firms with import requirements, and it has become the single most important source of long-term private financing in the country. In 1986 its portfolio represented one-third of all private sector lending and two-thirds of all medium and long-term financing. Ninety percent of its loans and 60 percent of its loan value is lent to "small and medium enterprises" which SOFIDE defines as any enterprise employing 100 people or less. But with an average loan size of US$100,000, it appears that most of the emphasis is on medium-sized rather than small enterprises.

SOFIDE's loan terms are 14 percent to 18 percent per year, and on most loans the foreign exchange risk is carried by the borrower. Until recently the currency exposure was manageable for most borrowers and SOFIDE enjoyed good financial health. As the devaluation of the zaire accelerates, however, borrowers are having more difficulty meeting the increasing size of their payments, which are made in local currency but denominated in foreign exchange. As of this writing, an estimated 50 percent of SOFIDE's outstanding loans are in default and default and loan disbursements have fallen dramatically.

BCA is a totally state-owned entity created to make short, medium and long-term loans to agricultural producers and marketers. With a loan portfolio only one-sixth the size of SOFIDE's, it has yet to make a noticeable impact. It is overstaffed, poorly managed, and has about 20 percent of its loans currently in default. Most observers note that its loan portfolio differs little from that of other lenders, and outside observers have recommended that it be abolished. [Wharton Econometrics, 1987]

Zaire has one specialized formal savings bank, the publicly-owned *Caisse General d'Epargne* (CADEZA) which dates back to colonial times. With 72 branches throughout the country, it has the largest network of any bank and formerly played an important role in mobilizing the nation's savings. Initially it financed low-risk construction and public works, but as it became more involved with lending to parastatals its performance deteriorated until today it is close to insolvency and attracts few savings.

Zaire's national insurance company, the *Societe' Nationale d'Assurance* (SONAS), is also worth mentioning. Traditionaly, insurance companies can be important sources of long-term financing for banks in the form of deposits. But SONAS, a 100-percent state-owned insurance monopoly, has not been effective in either providing liquidity to the banking system or adequate insurance services to the country. Experts generally agree that opening up the market to competition from other insurance companies is essential.

### 2. Banking Regulations

Under pressure from the IMF to curb inflation, the government of Zaire has instituted a set of stringent mandatory reserve requirements and credit limits for the banking system. Reserve requirements, recently set at 47 percent, earn no interest and thus restrict the banks' earnings base. The credit ceilings are allocated to individual banks according to their equity and deposits, except that 40 percent of the amount is reserved for longer-term loans, priority sectors, and non-coffee agricultural credit. The net effect of these regulations include:

- Loans cannot be made for the most profitable uses unless these happen to fall within the guidelines. This means that capital resources cannot be optimally allocated, and growth suffers accordingly.
- Banks are reluctant to attract deposits and actively mobilize savings, since the reserve requirement is so high. When all costs are considered, it is cheaper to borrow reserves from the central bank.
- Banks prefer to finance foreign trade over domestic commerce or manufacturing because customers for international letter-of-credit transactions have to make interest-free advance deposits; this just covers the loss of foreign exchange, so there is no net extension of bank credit and no reduction in their credit allotments for these transactions.
- Credit allocations are made without considering the number of branches or ranges of activity of a bank, and large foreign banks with a single outlet thus receive disproportionately more than domestic banks with large branch networks.
- Medium- and long-term loans need central bank approval, which can take up to three months. Consequently, many banks refuse to accept loan applications without a "prior reading" from the central bank.

The government and the Central Bank introduced treasury bills to the market in 1984 to counter inflation and provide the government with some alternative to simply running the currency presses. These bills have short 30 to 90 day maturities and currently pay a 49 percent tax-free interest rate. Commercial banks were forced to increase their interest rates in response, but have found that they cannot compete with the tax-free treasury bill rates. With private borrower paper distinctly inferior, the government has thus crowded most domestic private borrowers out of financial markets, and small businesses especially so. But it has done this with instruments which, due to their short maturities, have a minimum anti-inflation impact.

### 3. Conclusions

Bank preference for lending to larger, generally more profitable businesses is common in developing countries, as it is elsewhere. In Zaire, this reluctance to lend to smaller businesses is reinforced by the high rate of inflation, the chaotic regulatory environment, the uncertain economic outlook, and a generally unfavorable investment climate. This is compounded by competition from a cash-hungry national government, which is both the primary source of the inflation and its principal beneficiary.

## C. Cooperatives: Semi-Formal Financial Markets

### 1. Background

The growth of the cooperative savings movement in Zaire over the last decade is remarkable. The first "coops" began in 1970 with help from missionaries and donor agents, in particular the Canadians. In the first decade, 70 coops were founded with a total of 51,000 members. Since 1980, growth of the cooperative movement has accelerated. At present there are approximately 225 coops with over 300,000 members and the numbers continue to grow. Collectively these organizations hold close to one billion zaires in savings or between 7 and 8 percent of all financial deposits combined.

This growth was assisted by two factors: the decline of the national savings bank (CADEZA) into virtual insolvency and the earlier-mentioned currency changeover (remonetization) of 1979. In December 1979 the government announced that the nation's currency was to be changed and gave the population three days to exchange their old money for newly-issued notes. In the chaotic period following this announcement, several exceptions were made to this time limit; money held in cooperative savings accounts was one such exception. Even today some coops still experience a sudden surge in deposits in December followed by withdrawals in January, presumably by people who fear that another changeover might be in the making. As noted earlier, this experience probably also explains the stubborn determination of Zairians to keep building their deposits in these organizations in the face of accelerating inflation.

**2. The Regulation and Structure of the Cooperative Movement**

The savings coops are not covered by banking laws, but find their legal base in the Law on Cooperatives of 1956. This law is not directly concerned with financial coops and limits itself to regulating deposit interest rates, now fixed at 5 percent. In 1972 a law was passed to protect savings and regulate financial intermediaries. It is unclear to what extent this law applies to membership organizations like coops, but the stipulations forbidding a financial intermediary from engaging in commerce and limiting its real estate investments to the amount of its capital base are generally considered to apply to coops as well.

Essentially the coops were free to handle their affairs as they saw fit until 1985. At that time, the Central Bank, alarmed over the rapid growth of the movement and a growing incidence of fraud, issued a number of binding guidelines regarding their organizational structure and financial management. Each coop now must have a general assembly and a general manager supervised by credit and audit committees. At least 10 percent of the deposits must be kept as cash, at least 45 percent must be placed in government treasury bills, up to 40 percent can be lent to members and up to 5 percent can be put into equity investments.

Coops may not extend long-term credit and medium-term credit cannot exceed their capital base. The guidelines do not include minimum capital requirements or other conditions for starting a coop other than registering with local authorities and securing approval from the Department of Rural Development and the Central Bank. This lack of significant regulation also leads the team to characterize these organizations as "semi-formal," rather than strictly formal or purely informal.

The cooperative savings movement is a logical outgrowth of the many informal mechanisms that have long existed in Zairian society, such as rotating savings and credit associations and mutual aid societies. Nonetheless, its appeal may initially appear surprising, since none of the coops pay more than 5 percent interest while annual inflation rates have exceeded 40 percent for the last five years. This seeming inconsistency can be explained by the strong desire people have to keep their money in a safe place away from their ill-protected homes and outside the reach of predatory family members. As one depositor put it: "When a member of my family comes to my door in the afternoon to ask for money I can tell him that I have no money at home and if he knows I have an account, I can tell him that the coop is closed." For two-thirds of the members the security and the secrecy that the coop provides are the most important reasons for having an account.

Formal banks, as was discussed earlier, are not interested in attracting deposits because of high reserve requirements and because of their ability to borrow reserves profitably from the Central Bank. They actually discourage small deposits by setting minimum deposits in the Z 10,000-50,000 range. In contrast, coops offer easy access to small savers with simple formalities and no minimum deposit requirements. They are also highly liquid and offered, until recently, relatively inexpensive credit.

A typical coop member is an urban male, either salaried or engaged in commerce. The Kinshasa region and the urban centers in the Shaba province account for 80 percent of all coop deposits. Civil servants, teachers, other salaried people and merchants constitute 75 percent of the membership and over 80 percent are men.

The coop movement operates on three organizational levels. Most of the local savings coops belong to one of 9 regional organizations. Although no single national federation has emerged yet, 4 of the regional organizations are grouped in the *Union Centrale des Cooperatives d'Epargne et de Credit* (UCCEC). By far the largest of the regional organizations is the Caisse Populaire de Credit Luymas (CPCL), which operates 36 branches in the Kinshasa region and Bas-Zaire and accounts for over half of all coop deposits. It was founded in 1971 with help from Presbyterian missionaries and has maintained strong church affiliations since then.

The cooperative movement, unfortunately, has been beset by factional strive and personality clashes. Several of the regional organizations, in fact, originated in splits from earlier groups. So far, the CPCL has refused to join UCCEC, reportedly because of differences in outlook between the leaders of the two organizations.

CPCL is organized much like a bank with several branch offices, with all important decisions made at the central office. Other coops seem to be following that pattern as well, with decision making and money management functions gradually shifting from the individual coops to the regional organization to which they belong.

**3. Strengths and Weaknesses of the Movement**

The interviews conducted in Kinshasa and Shaba province revealed a picture of a cooperative movement that meets a tremendous demand among the population for an organization to hold their savings. Contrary to conventional wisdom, there seems to be a very strong propensity to save among the poor people of Zaire and the semi-formal cooperative movement is playing an important role in capturing those savings. Savings coops have sprung up in urban neighborhoods and provincial centers and, being largely unregulated, they have multiplied rapidly and reached into communities where people had never seen the inside of a bank before.

These organizations have become very effective at mobilizing small savings even when paying only symbolic interest rates. This only hints at the potential that this movement could have for domestic capital mobilization if it were able to offer truly significant rewards for savings.

Nevertheless, despite its apparent success to date, the movement is suffering from some serious weaknesses which, if not addressed quickly, may imperil its future. These weaknesses can be identified as follows:

- Structural

  Many coops carry the name "development," but they have been unable to invest their growing savings deposits into a growing and increasingly diversified loan portfolio. In 1987, only 17 percent of the movement's funds were lent to local borrowers; most went to the national government in Kinshasa when the coops bought treasury bills. Presently, with their focus on safekeeping savings and without the capital base to absorb risk, these organizations are unable to play a significant role as pro-development financial agents.

- Financial

  Judging from the fact that most coop managers put more money into treasury bills than they are required to by the Central Bank, these Central Bank regulations seemss to have come in handy for them. It saves them from the trouble of finding alternative investments and confronting the fact that they are not charging enough for their loans. However, this should not obscure the fact that the spread they are earning on treasury bills is less than half the current inflation rate and it does not allow the coops to build a capital base through retained earnings.

  In fact, to the extent that coops are solvent, it is due more to increases in deposits (the safekeeping function) than to the returns they are earning. For most coops a continuing increase in their deposits is essential and, if for some reason this increase begins to level off, they would quickly find themselves in financial trouble. And yet this is precisely what would *have* to happen if a more realistic and effective national macroeconomic policy to counter inflation--which the team strongly favors--were to be adopted.

  It is clear that the tendency of coop managers to invest in these central government financial instruments reduces the circulation of money supplies in outlying regions, transferring liquidity to Kinshasa. To the extent that these and other similar leakages exceed financial injections in regions throughout the country, there is contractionary pressure on rural economic activity. The reverse appears to be the case in Kinshasa, which is clearly the inflationary pressure point.

- Organizational

The fact that these coops are community-based and are not part of some large intimidating organization adds to their appeal, but at the same time is part of their problem. Fragmented as it is, the movement cannot presently draw upon a pool of qualified managers or develop effective internal control procedures to counter the numerous opportunities for theft. Government supervision consists of monthly inspections by the Department of Rural Development and yearly audits by the Central Bank, but this has proven to be inadequate.

Churches have been the only effective outside policing agency, but as churches withdraw for various reasons (see Appendix B, Zaire Case Study 4) the potential for serious fraud increases. As one saver who had lost money in the bankruptcy of a coop union in Shaba put it: "I need a safe place to keep my money and I am thinking of opening an account at Tujenge. But first I want to find out the church is behind it, because if is not, then I am not going to put my money there".

In one scenario, for example, a group of savings coops flush with cash invest an increasing amount of their funds in real estate and for loans for "unspecified purposes." As people discover the church is not supervising this group any more, they stop depositing their money. Deposits begin to level off and the group runs into liquidity problems. Unable to quickly liquidate their holdings, management instead decides to take the remaining money and run. A similar situation took place in 1987, and it could happen again.

## 4. Conclusions

By emphasizing the failure of the savings coops to turn more of their funds into productive loans, the success these organizations have had in mobilizing small savings can be easily overlooked. To the vast majority of people in Zaire, the savings coops are the only organizational form of saving outlet which they have access to. Therefore, the movement is likely to continue to be successful, provided the serious problems from which it is suffering are addressed. Once they have become stronger, the coops will be in a better position to take on more aggressive lending policies without becoming overly dependent on the vagaries of donor-supported credit programs.

As savings collectors the coops are meeting a strongly felt need and, once they have developed into lending organizations they should play an even more important role as providers of access to funds to those with no prior access. However, action in the areas suggested above is essential.

## D. Informal Financial Markets

### 1. Background

Zaire has very distinct regional economies. Kinshasa's spending drives the agricultural economies in Bandundu to the east and Bas-Zaire to the west. Other regions either tend to be oriented to neighboring countries or are stagnant. Kivu in the northeast produces coffee, much of which is exported illegally through Rwanda and Tanzania; Kasai in the east-central exports diamonds outward through Shaba; Shaba in the south survives on mineral exports (copper, cobalt), much of it through Zambia. Equateur and Haute Zaire in the north, mostly isolated and without minerals, rely mainly on subsistence agriculture.

How separated these regions are may be best illustrated by differences in free-market exchange rates: when we visited, the dollar rate was Z 260 in Shaba, Z 230 in Kinshasa, and reportedly somewhat less in Equateur--while the official rate was Z 200. Transportation and communication are so difficult in Zaire that not even money flows very freely between regions (but when it does, the terms of trade inevitably benefit Kinshasa).

This regional diversity, coupled with the very difficult transportation and communication conditions between the regions and the very limited amount of time available, convinced the study team to focus attention on the Shaba region, which plays a key role in Zairian economic development. Consequently, the findings of this report cannot be indiscrimately extrapolated into other regions. To cite one revealing example, cooperatives, credit unions, and small private banks have become very common in Shaba in recent years, but are far more prominent in urban than rural areas. In contrast, a recent study of Bandundu, an important agricultural area near Kinshasa, found such organizations flourishing in both the urban and rural areas of that region. Meanwhile, a foreign NGO that conducted a study of cooperatives in the Equateur region, which is much more isolated and poorer, concluded that there was too little demand for deposit and loan facilities to warrant continued action there. In other words, it is possible to generalize to other areas only after taking into account the very different conditions of each regional economy.

In addition, the team decided to focus attention at the level of the market town. At that level, it is possible to distinguish the different types of products flowing to the regional market centers for sale, and this can serve as an indirect general indicator of i) the degree of specialization in production and, thus, of overall productivity in the region, and ii) the degree of diversity in consumption and, thus, both the level of consumer incomes and their dependence upon local products relative to extraregional ones. (For more details on this approach see Appendix A.)

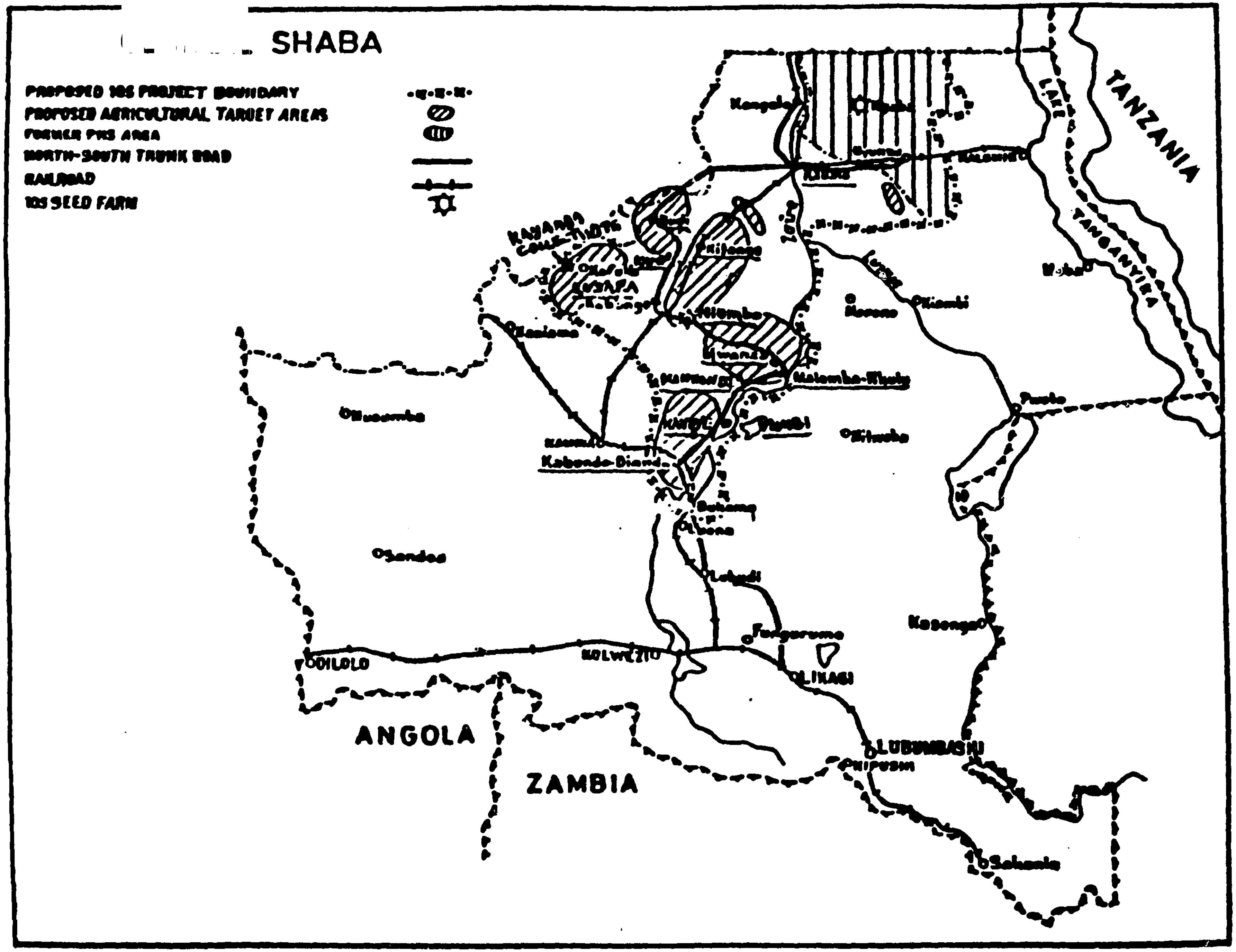
Finally, the team decided to focus its study of informal financial markets in the Shaba region on the urban, rather than the rural, centers for *several reasons*.

- Previous research in the agricultural areas of northern Shaba suggested that the rural areas (at least in this part of the region) are very poor and have simple and largely unarticulated savings and credit mechanisms. Although earlier research had not examined these questions directly, these assumptions proved essentially correct.
- While in Senegal, the team had directed its attention primarily to the extent of rural savings that exist in certain areas. While the team did investigate urban enterprises and their financing in several centers, it did not have the opportunity or the time to examine an entire regional system. For this reason, it was decided to focus on the urban system in a single region in order to build on and go beyond the findings in Senegal.
- USAID/Kinshasa was at the time of our visit particularly interested in the topic of informal sector financing--savings and credit--in regions other than Bandundu, which had then recently been studied [Gadway 1988]. Since this was precisely the topic that then most concerned the team, the decision was collectively taken to focus particularly on urban savings and credit in the Shaba region. Even so, a significant effort was made to understand savings and credit patterns in the rural areas also.

**2. The Study Area: Shaba Region**

Economic activity in the Shaba region is geographically divided between the southern third of the region which depends on mining (a major regional and national enterprise) and the northern two thirds of the region, which depends mainly upon agriculture and agricultural commerce. This northern portion is separated from the mining economy to a surprising extent. Although significant tonnages of corn are traded from the north to the capital of Lubumbashi and to the mining centers of Kolwezi and Likasi and much merchandise is wholesaled back in return, but transportation is so poor that the subregions still remain very distinct from each other.

This difference is reflected in the level of urban enterprise development in equivalent market centers in the two subregions. For example, the mining centers of Kolwezi and Likasi are very active secondary market centers with substantial commerce traceable to the strength of mining, yet their private goods-producing enterprises are stunted in their growth by the machine and repair shops of Gecamines, the Zairian mining monopoly. Meanwhile, equivalent market centers in the agricultural area--Kamina in




MAP OF PROJECT AREA

the west and Kalemie in the east--have both very weak goods-producing sectors and essentially stagnant commercial sectors.

Shaba's capital, Lubumbashi, has the largest and most diverse goods-producing and commercial sectors, even though the industrial zone there (glass works, plastics, tube rolling, cable and wire) has been described as an economic cemetery.

Among tertiary or third-level market centers, including most of the administrative zonal centers, there is only artisanal production and limited commerce--except for Bukama, a major junction of rail, road, and river transport which might be better considered a secondary agricultural market center. Fourth-level market centers have even more limited artisanal production and commerce. At the lowest level, the village supports only very limited and local artisanry and trade; nonagricultural activities here are destined for village consumption only.

Table 1 in Appendix C, *Levels of Urban Centers in Shaba Region*, lists the levels of urban market centers in the Shaba region and their respective level of productive and commercial activity. The map at the end of the chapter locates these centers within the region and delimits the zones of mining and agricultural activity.

Compared with urban market centers, which can be ranked in hierarchies and are spaced systematically, villages are much more homogenous. Their major differences are usually rooted in rainfall or soil differences. So, for example, fishing villages along rivers are usually larger and have more commerce than farming villages, and small farms in the south tend to be more mechanized and larger than those further north. And farms are smaller and closer together when land is fertile than when it is not.

There are also important ethnic differences throughout Shaba. During the colonial period, central Shaba was the center of the great Luba empire. There were then (and still are) important populations of Hemba and Pygmies in the north and Sanga in the South. Also, numerous Kasaians (a related but distinct Luba group) were imported during the colonial period to work the mines in the south. The different village organizational structures and values of these groups are important when, for example, someone is planning the location of specific enterprises.

**3. Informal Savings in the Rural Areas of Shaba**

Savings in rural Shaba, especially in the form of money, are limited for many reasons. Production is low. People work the land by hand and largely without purchased inputs. There is little incentive to produce more than historical levels because farmers can market their products only in limited areas where effective demand is low and its growth is very slow if not nonexistent. Roads are extremely poor and trucks are few and unreliable. Inflation compounds these problems by eroding farm cash hoards during the hungry season (the period just before harvest) and the tendency of Zairian government programs to absorb cash in rural areas and transfer it to the cities is making the situation worse.

Still, there *are* some money savings in rural Shaba and they appear to be slowly increasing. Savings in areas like central Shaba currently depend entirely on agriculture, which, given present conditions, is a direct function of area cultivated. *In this area*, where a new AID-supported roads and agricultural development project is just getting under way, this is determined in turn by access to labor, since productive land here is relatively abundant. To increase savings, then, farmers are likely to require either greater access to labor or a more efficient means of combining capital and labor so that improved productivity results.

The socioeconomic breakdown among farm families in any village can be determined from the ownership of household equipment. Knowing this is basic to an understanding of which villagers will save and how they will do so. The major consumer durables in central Shaba today are bicycles, radios, and sewing machines. These are expensive: a used bicycle costs about one hundred 100-kg sacks of corn and a radio or sewing machine about twice that. (A more detailed consumption survey might include enamel bowls, beds and chairs of different types, and other furnishings.) The residents in most villages and hamlets know exactly who owns these things, and they can tote up (often on their fingers) the total ownership in the village.

In one hamlet of some 60 families about 15 kilometers east of Niembo in Kabongo zone, four families (7 percent) owned radios, four (7 percent) owned sewing machines, and 20 (33 percent) owned bicycles. Since any family that owns a radio or sewing machine (or both) probably also owns one or more bicycles--but not vice versa, that is, ownership of a bicycle does not necessarily imply possession of a sewing machine or radio--the household equipment of villagers effectively constitutes a socioeconomic stratification of the village.

Even though the percentages vary across the project area, in general, 7 to 15 percent of the families in any village constitute the local elite (that is, have radios or sewing machines, and a bicycle), 30 to 50 percent constitute the "middle class" (and have a bicycle), and some 60 to 35 percent constitute the rural poor (who have few household possessions).

The small producer harvesting ten bags of corn from one hectare clearly has limited access to labor--perhaps only he and his wife--and almost certainly lacks funds to hire field hands or construct adequate storage capacity. This producer, therefore, must sell virtually his entire marketed crop at the peak supply period to a merchant who comes to the village to buy corn. His wholesale produce price is that prevailing in his area at the time of sale. In contrast, medium-sized producers--those with, say, 30 sacks--farm larger areas, typically between two to three hectares. These farmers have extended the area of their fields over the course of several cropping seasons, usually with family labor. They may sell at the farm gate but, when they can buy stocks from other producers, they often contract with a trucker to haul their production to the railhead where prices are better than at the farm gate.

Larger farmers, with 60 or more sacks, almost necessarily resort to hired labor for specific, critical agricultural operations like clearing, planting, weeding, and harvesting. (The going wage rate at the time of this study was about Z 1,500 per hectare per operation.) These producers clearly have funds enough to finance the marketing of their produce themselves. They will likely contract with a trucker for transport to the railhead and then themselves accompany the shipment to an urban consumption center for sale.

The ability of the larger farmers to market their crops themselves represents a significant increase in their return. Last year, a 100-kg sack of corn sold at the farm gate returned some Z 1,600 near the end of the buying season. The same sack sent to Lubumbashi returned between Z 4,000 and Z 5,000--nearly a Z 3,000 increase in value. From this the farmer must deduct the transport costs of Z80 for shipment from field to the railhead (about 40 km.), Z 150 for rail shipment to Lubumbashi (about 600 km.) and the seller's own transport, food, and lodging costs. Typically, the proceeds realized from such direct sales by the producer would be reinvested in merchandise that he would then bring back to his home village for sale. In other words, the large farmers tend to become marketers and, subsequently, small merchants in their local areas.

There are tremendous risks in this evolution, all of which must be borne by the individual. Corn sacks are often scarce; without them, a producer must sell to a merchant who has them. Contracting with a trucker to move the produce from the field to the railhead is risky, too; vehicles break down, costs increase, and deadlines may be missed. Expediting the shipment along the rail-line is equally difficult because of the need to reserve scarce train-car space (with all the sorts of facilitation from local railroad officials that this might require), fill a wagon, and avoid theft or other loss. In the consumption center itself, the marketer must find a buyer and hope that Zambian imports at that point in time have not flooded the market and depressed prices. He must then purchase merchandise for the return trip and guard against theft of his money and/or goods during that phase.

This process of greater agricultural production leading to commercial development through investment by larger farmers is at this time embryonic in *central* Shaba. To be sure, there are several former farmers who are now large merchants (by local standards) in several of the small railhead towns in the area. Both merchants the team interviewed, one in Kamunga and one in Kime, had started out by growing manioc with hired labor for sale in Mbuji-Mayi (a diamond-mining center in nearby Kasai Oriental). On the return trip, the farmer-marketer brought merchandise for resale in his home village. Over time, each man accumulated enough savings to be able to open a fair-sized dry-goods shop in the nearby railhead.

Farm savings were invested in commerce, which allowed the businessman to expand the scale and scope of his activities. Although each man is now a full-time merchant, each also still farms in his native village with hired labor. Cases of recent economic development in central Shaba, however, are limited mostly to the rail-line, where market centers have already benefited from the expansion of the corn market.

How this expansion can occur is clearer in *north* Shaba, which benefited from the project mentioned earlier. In that area there were few shops and little commerce before the project began. As roads improved and farm production increased, more farmers began investing in mercantile activities and small boutiques began to open in smaller and smaller centers. And, too, little weekly marketplaces were successfully established where none could be sustained before.

The density of this commercial development appears to relate directly to the diversity of agricultural production. In Kongolo, with its relatively diverse commercial cropping system, larger population, and denser road network, commercial development intensified throughout the area. New types of shops and services (pharmacies, hotels) opened in the higher-level centers, while small boutiques were opened by local residents in many smaller ones.

By contrast, in Nyunzu, where corn is the only commercial crop, population sparser, and the road network less dense--as well as project activities far less intensive--the higher level centers evolved somewhat but rural centers remain devoid of any commercial development. Here large producers opened shops in Nyunzu and to a lesser extent in Lengwe (which came to support a small marketplace for the first time in 20 years). There was no rural commercial development, however, because effective rural demand remained low. If commercial agricultural production had been more diverse (so that people had money beyond the short corn marketing season), or population been denser, or transport more efficient, then commercial development in rural Nyunzu would probably have evolved more like that of Kongolo.

In summary, the supply of money savings in rural Shaba is very limited in form and extent. There are very few collective savings. In a few villages and rural centers, residents may farm a collective field, the proceeds from which are devoted to church activities. Apart from these, which are small, there are no communal savings in the area.

The possibility of rural savings groups organized along clan lines could not be investigated reliably during the course of the short field visits. It is quite likely that villagers in some areas farm collective fields in order to finance clan activities. Certainly, in Kabondo Dianda, the wife of the Grand Chef has organized a collective women's field, although the aims of the group have yet to be well defined. Other such examples are quite probable throughout the project area. From a systemic point of view, however, the extent of such savings is likely to be limited and the savings are likely to be scattered over a wide area.

Rural savings are thus essentially personal savings, and they come largely out of agriculture at present. The extent of these personal agricultural savings depends very much on the extent of the individual's production, as well as on the presence of convenient marketplaces for the purchase of goods in the near future (few desire to hold much cash for very long with inflation running at current rates). The larger the area farmed (which implies access to hired labor), the greater the production, and hence the greater the personal savings.

Small farmers and most medium-sized farmers have little beyond that needed for personal consumption. But large farmers earn significant enough sums to be able to fund small commercial enterprises, first in their villages, and later in the local or regional centers. Thus it is in this way that agricultural development leads in time to regional development.

**4. Informal Credit in the Rural Areas of Shaba**

If savings in rural Shaba are limited, credit is all but nonexistent. Farmers especially need credit at two points in the production cycle: just before the planting season opens in order to buy seed and inputs, and just before harvest when their foodstocks and finances are depleted.

Smallholder agricultural production in this region is notable for the complete lack of purchased inputs. Farmers clear a field in the forest, plant, weed, and harvest all by hand. There is no use of any herbicide or insecticide, let alone of any natural or chemical fertilizer. There is no mechanization at any stage of the process--indeed, the crop is headloaded (carried on the top on a person's head) into the family compound in many instances. Seed is saved from one season to another, one reason for the deplorably degenerated corn seed, despite reasonable storage measures. (Seed corn is stored in the smoky kitchen area, which fumigates the ears in the husks; nevertheless, open-pollinated corn seed must be renewed every four or five years if yields are to be maintained.)

A new innovation in the input credit area is developing from the central Shaba project. A private firm is charged with the distribution and sale of improved seed. Certified seed stocks are limited, and the sale price of Z 35-50/kg is quite high from the farmers' point of view. Inflation has forced the company to distribute seed to farmers (a loan) with payment due in kind after harvest, with a 10 kg. loan requiring 30 or 40 kg. in return. Since both the loan and its repayment are in kind, there is no direct impact on the local circulating money supply, but the fact that it *is* in kind serves as a commentary on the inadequacies of current macroeconomic policy. It will be interesting to see how this arrangement works out.

Consumption or "hungry season" credits are most necessary for the poorer farmers who have exhausted their personal stocks in the weeks and months before harvest. Such credits appear to have been more common in the recent past, before inflation increased to its present levels, than they are today.

One reason for the current scarcity of hungry season credits can be traced to occurrences in 1987. Earlier, poor farmers would sell their crop while it was in the field for cash or merchandise, usually to a small itinerant buyer, an effective extension of credit. The buyer would take delivery after harvest, whereupon any additional payment that had been agreed upon would be made.

In 1987 the increase in farm-gate corn prices caused many poor farmers' to renege on their original contracts because corn was then selling locally for two to three times the earlier agreed-upon price. The continuing inflation has further eroded this system. The itinerant buyers, who are merchants as well as lenders, appear to have abandoned early purchases from strapped farmers as a buying strategy, although it is likely that large farmers in many villages are still extending some food credits to their less fortunate neighbors. And farmers now hold on to more of their salable crops if they have storage facilities because they hold their value better than currency and can be consumed in the household or village if necessary.

Farm credit, never common in rural Shaba, has thus virtually disappeared under the pressures of inflation. Seed loans from the seed company are virtually the only exception, and they are in kind. Hungry season credits are also drying up; even merchants, who usually weather inflation relatively well, have had to let their merchandise stocks run down during the crop buying season in order to have the necessary funds to buy the crops. Fellow villagers, friends, and family are thus having to take up the slack to the extent they can. The marketed portion of the crop decreases accordingly.

**5. Informal Savings-Credit Linkages in Rural Shaba**

Most rural savings thus come from larger farmers and merchants and are used mainly to finance dry goods inventories, trucks, and construction tied to commercial expansion. Farm loans have come to be restricted to project-generated seed loans in kind for a relatively few well-located farmers. Personal savings are used mainly to buy bicycles, radios, sewing machines and other household items, and to finance people through the hungry season. Interest rates are zero on personal loans to family members and friends, based on expected reciprocity in the future. Inflation has essentially eradicated any other lending in the form of money.

**6. Informal Savings in the Urban Areas of Shaba**

Urban savings take various forms: personal savings, marketer savings, and small enterprise savings. A major difficulty is that some of these savings particularly personal savings, are both ephemeral and unorganized. The savers have no special characteristics to help identify them. For this reason, the following discussion of urban savings provides information only about the better-known forms, although the team suspects that there are other hidden forms.

The following section is divided into two major parts: personal savings and business savings. Business savings are then subdivided into marketers and small and medium-sized urban enterprises.

*Personal Savings*

a. *Individual Savings*

Very little can be said about individual savings which are kept at home, except that they exist. Almost certainly, most people have small amounts of cash on hand, if only to cover recurr household expenditures. Others may keep larger sums at home for short periods, but for that very reason they are reluctant to divulge this information. Certainly the growth and spread of semi-formal savings organizations would suggest that there were, and probably still are, fairly large aggregate sums of personal money savings available, although they would not remain idle for long because of the desire to avoid erosion from inflation. However, since urban incomes are generally less subject to seasonal variations than rural incomes, it is probable that propensities to save are lower at any given income level among the urban population than among their rural counterparts.

Keeping personal savings at home is risky for two reasons. First, relatives or friends can readily ask for a gift or loan if one is known to have money at home. Second, burglary and theft are unfortunately common enough in the *cites* that business owners often open bank accounts, sometimes after a theft at home.

Despite these risks, people continue to keep some money at home, simply because of convenience or because they know of no other place or person they trust enough to leave it with. But they would rather not have to do so. In one small provincial center, for example, the Catholic sisters were asked by several school teachers if they would keep their small monthly savings for them. The sisters were happy to perform this service because they knew that the teachers would otherwise be unable to keep their savings from being "frittered away" on a myriad of small daily needs.

b. *Mutual Aid Societies*

Mutual aid societies (*kikilimba* in Swahili, *likilimba* in Kiluba) are common in the Shaba's larger urban centers. They are organized either along kin and ethnic lines or by residence. (Marketer societies are discussed later.)

- Ethnic Mutual Aid Societies

  The ethnic mutual aid societies are similar in organization and operation, varying only in the number of members: clan groups may have as few as 10 and regional groups as many as 200 or more. In each, the head is a respected local elder.

  In operation, each member deposits a specified sum each week, month, or every three months. Amounts vary with the needs and abilities of the members. The aim is strictly mutual aid: when a member needs money for marriage, baptism, death, or severe illness, a request is made of the head. In principle, these organizations are permanent, disbanding only if there are management abuses by the head.

  Mutual aid societies like this are essentially an adjustment to the conditions of urban life by newly-arrived rural people who have ties of kinship or ethnicity. Both men and women belong to these ethnic mutual aid associations, although the leader or coordinator is usually a man. The leader keeps the cash, usually in a secret place, and the funds are neither invested nor circulated until a request for aid is made of the leader and he or she agrees to make the disbursement (which is usually a very short time). These cash hoards naturally reduce the amount of circulating money in the area, and yet are natural precautionary balances for people who face considerable economic insecurity.

  It should also be noted that precautionary balances held idle by *groups* are doubtless smaller (since emergencies are random events by definition) in the aggregate than would be if each member of the group provided for his own individual precautionary amounts. These mutual aid groups in effect perform a true financial intermediation function in the local economy. Also, even these hoards are held only for very short periods because of inflation; if the holders suspect that it will be some time before claims are made on the funds, they will normally buy some highly liquid good which can be sold when the funds are needed. Inflation, then, causes money to lose much of its "store of value" function but it continues to serve its "medium of exchange" function with a vengeance wherever aggregate numbers of transactions increase, i.e. especially in urban areas.

- Residential Mutual Aid Societies

Neighborhood societies are essentially groups of five or ten friends who band together to share risks. In Shaba they are found exclusively among women, who elect the most trusted one as head. Each contributes a stipulated amount periodically, the amounts and time depending upon ability to pay. In virtually all cases, however, the money comes from the woman's domestic budget, so amounts are relatively small.

Women resort to these neighborhood associations because they cannot always count on their husbands to help them with a family problem. Usually, a relative of the woman asks for a loan, which her husband refuses in part because the requester is not his relative. The wife can then tap into her mutual aid society. Not surprisingly, husbands in many cases are ignorant of their wives' participation in these groups.

Again, the leader keeps the funds. They typically remain idle, but not for long, because they will be needed whenever an emergency arises. Thus, they reduce the amount of circulating cash but, since the amounts are very small and the times short, the drain is not very significant in an overall sense. Moreover, saving money collectively rather than individually again *economizes* on the amount of idle funds required to provide a given amount of security.

c. *Rotating Savings Groups (Tontines)*

Rotating savings groups (*ristourne* in Zairian French; *muziqui* in Lingala) in Shaba follow the patterns found throughout much of Africa. A group of people, often from the same workplace, periodically contribute a fixed sum into a collective pot which is distributed each time to one of the members in a predetermined order. One member is charged with collecting the contributions and distributing the pot, often getting the first distribution as compensation for his/her duties.

The economic impact of these ristournes is to speed up the velocity of the circulating money supply. The alternative would be for each saver to build slowly up funds in a private hoard, removing them from circulation in the meantime. (As it is, they have to save up only their *periodic payment*.) Thus, on ristournes balance both contribute to the incentive to save (many participants get caught up in the "game," especially when the order of the draw is determined by lot) *and* keep money circulating.

Ristournes are most common among good friends both men and women, who are lower salaried workers. Not all participants are poor, however. In one instance, for example, the wife of a university professor contributed Z 10,000 a month into a ristourne of eight women without her husband's knowledge, until he asked her about ristournes in connection with this study. Most people participate in order to save up for some consumer durable (television, radio, furniture) or to start up some new economic activity.

Reportedly, inflation is causing people to speed up the periodicity of contributions in order to shorten the ristourne cycle and reduce the loss of purchasing power suffered by later recipients of the pot. Since the ristournes the team encountered do not pay interest and, therefore, cannot protect individual savings from inflation, they might be expected to disappear completely if inflation keeps accelerating. Even if they do, however, they would probably reappear once conditions began to return to normal.

d. *Safekeeping Agents*

In addition to the various mutual aid and rotating savings groups, there are individuals, usually merchants, who will sometimes accept deposits from people they know. The merchants essentially provide a safekeeping service for the depositor, since they pay no interest and usually impose no charges. Although a merchant has free use of the money in the meantime, (and thus returns it to circulation to that extent) he or she must be careful to keep enough cash on hand to pay the amount on demand.

For the depositor, the merchant represents someone he or she can trust to safeguard funds. This system of private safekeeping agents is similar to the service performed by some religious organization in the lower-level provincial towns, and also illustrates the demand for facilities to safeguard individual savings. A notable point: commercial banks originally evolved from precisely such arrangements.

There are major economic advantages to safekeeping agents, as well as to the banks that evolved from them. They do keep funds safer than they would normally be at home or on one's person, and they do create a sense of security among depositors. At the same time, they allow the safekeeper-bank to return a high fraction of the funds to circulation, simply because the likelihood that all depositors will need their money at once is quite remote, especially when the volume of deposits and the areas of coverage become large.

Thus, safekeeping agents could be said to "economize on the use of money" (if currency is the only defined type of money) or to "create money" if the safekeeper's receipts to depositors are themselves regarded as money, as is true in formal financial markets throughout the world. In this manner they reconcile their customers' demands for security with their demands for efficiency. Since the former requires *stocks* or structure, while the latter requires *flows* or process, financial intermediaries operate rather like "economic magicians."

#### e. *New Forms of Rotating Savings Associations*

During the course of this study a new form of rotating savings association was discovered which appears to have grown out of a ristourne in response to inflation. In this case, a group of teachers who formerly participated in a ristourne has changed its manner of operation: instead of distributing the proceeds to one member each month, members continue to contribute monthly as before, but the proceeds are lent out by the head to trustworthy borrowers, whether members or not. The loans are usually for personal or family emergencies (as with mutual aid societies), so the sums involved are relatively small and the terms of the loans are short, usually one month or at most two.

The factor which sets this association apart from others already discussed is that these loans are repaid with 20 percent interest per month. At a minimum, this allows members to recoup the real value of their contributions as long as inflation is less than 20 percent per month, which is the aim of a ristourne in a non-inflationary environment. The group's treasurer keeps track of each member's contributions, of the loans made, and of the interest repaid. Then, at the end of the school year, the total savings (including interest) is divided up among the participants according to their contributions. The association then dissolves and forms again at the beginning of the next school year.

This new form of savings association, which is nonetheless called a ristourne locally, contains two other important innovations. First, the number of members is not limited by the length of the cycle; any and all teachers can participate over the ten-month period. Second, this ristourne pools members' contributions in order to make loans, in which regard it closely resembles a *caisse populaire* (discussed below).

If inflation continues unabated, it is likely that more and more ristournes will be reconfigured in this manner--both as a means of preserving participants' savings and in response to the more widespread personal and family emergencies which are likely to occur if inflation worsens.

### *Business Savings*

Business savings may be broken down into those of marketers, small enterprises, and medium-sized enterprises. These distinctions are based on gender and scale of operation. Most marketers are women, whose business and family expenses are almost always intermingled. Small enterprises are most often run by men, who, although they do not separate their accounts any more than the women, face different domestic obligations. Medium-sized enterprises, which are found only in the highest-level centers, are run much more along the lines of a business and have different savings and credit patterns.

a. *Marketers*

Generally, only one-third of all marketers are men, who usually sell higher-order goods such as groceries, plastic and enamelware, cloth, and the like. The vast majority, however, are women, and perhaps half of these (a third of all sellers) are rural housewives offering small amounts of produce from their family larders. The rest are full-time market women, who sell any number of items, usually fruits, vegetables, fish, regional staples, cosmetics, used clothing, and the like. This latter group accounts for most marketer savings, so the following section focuses on these full-time women marketers. Most marketplaces in higher-level centers like Lubumbashi have mutual aid groups among women vendors of the same commodity.

- Marketer Mutual Aid Groups

  Members contribute when necessary to assist a needy colleague, and loans are repaid without interest within a predetermined time period. Most of these mutual aid loans are intended to help a bankrupt vendor remain in business. Bankruptcy is a real problem for most women market vendors because they cannot and do not distinguish between personal or family expenses and business expenses. Consequently when a vendor faces a family emergency, she is apt to sell off her stocks in order to survive the crisis. Without the help of her colleagues and friends, she might not be able to reconstitute her business affairs.

  Since these emergencies can strike anyone, the mutual aid groups in effect form insurance societies. They cooperate, rather than compete, for the sake of mutual security. Moreover, because funds are only contributed when necessary, money hoards are not built up and removed from circulation. Thus, the cooperative agreement itself may be said to substitute for personal precautionary balances which *would* reduce money in circulation, and to help increase the income velocity of the money supply.

- Marketer Rotating Savings Groups

  Marketers also save through ristournes, especially in the middle and higher-level market centers, which operate much as they do elsewhere. For example, no ristournes were reported in the market of Kabondo Dianda, a low-level but important market center, but they were common in the nearby market of Bukama, which serves the entire agricultural area of central Shaba. Ristournes were also common in the markets of the larger cities, such as Kolwezi and Lubumbashi. This pattern is no doubt determined by the number of sellers (Kabondo Dianda had only ten sellers of mixed merchandise, versus dozens in larger markets) and the supply of currency circulating in the marketplace.

As elsewhere, a number of vendors agree to each contribute a stipulated sum of money on a regular schedule. These deposits are collected by an elected member of the group, who is also responsible for distributing the total collection to the designated member each time. Recipients use their proceeds either for consumption or for working capital. For example, one market ristourne in Lubumbashi groups eight women who sell used clothing. Each contributes Z 1,000 each period to the pool, and recipients typically use the Z 8000 proceeds for personal purposes or to restock inventories.

As would be expected, the amount of the periodic contribution tends to be higher in the larger centers, where there are more vendors and greater sales. It appears that the periodicity of these market ristournes is also being shortened in response to inflation. Monthly associations have now gone to a weekly schedule, and weekly associations have gone to a daily or every-other-day schedule. These more frequent periodicities are possible, of course, only in markets that meet daily, such as the larger urban markets, which have been referred to as levels I, II, and III in Table 1, Appendix C.

b. *Small and Medium-Sized Business Savings*

Small enterprise savings are most usefully discussed in terms of scale of operation because small firms tend to intermingle personal and business accounts while larger firms separate them.

- Small Business Savings

Small business savings are simply "retained earnings," if the owner chooses to retain any. Typically, these firms keep no books and business and family resources are kept in a single strong box. Their (normally male) owners do not generally participate in mutual aid groups or rotating savings groups, although their wives may. Usually, small businesses have few bank accounts and little or no inventory. Equipment is usually sparse and basic--a sewing machine, a saw and hammer, or a welding torch. In short, they have little capitalization and operate on almost a day-to-day basis as family firms. Since their cash balances are very small (especially now, with inflation accelerating), their impact upon the circulating money supply is negligible. When cash is available, it usually is spent for more or better tools; if cash is then needed later for more urgent uses, the tool can be sold or used as collateral for an informal financial market loan.

- Medium-Sized Business Savings

Medium-sized firms are often defined by the number of employees working at the establishment. Conventionally, ten employees is taken as the dividing line between small and medium-sized firms, even though mercantile operations like pharmacies tend to have fewer employees than do small fabricating and repair firms like woodworking shops. In truth, there is no numeric criterion that can be universally applied, and the minimum and maximum thresholds for each size of firm are subject to debate. The important point, however, is that regardless of the quantitative measure used, there are real and important qualitative differences between micro, small, and medium-sized firms.

These larger firms are actually operated as businesses separate from their owners: they often keep books (indeed, often *two* sets), employees and partners are salaried, the firms pay license fees and taxes, often have bank accounts, maintain inventories, and have various control systems.

Shaban medium-sized firms are nonetheless distinctive for the following reasons: (1) Their startup capital typically comes from savings accrued while the owner was working for a parastatal agency such as Gecamines, the Zairian mining giant (indeed, some of the original equipment probably also came from them, legally or not); (2) Most of these firms survive on contracts from the major parastatals. Presently the lag time on payment (1-2 months for Gecamines, 2-4 months for Office des Routes, and 4-6 months for the national railway, SNCZ) is causing serious cash flow problems for many firms, but they also could not have grown so large without those contracts; (3) As is typical of similar firms throughout Zaire, few maintain savings accounts in national currency, preferring instead to convert their cash into inventories, buildings, or equipment as an inflation hedge. As a result, they thus do little to reduce the supply of local liquidity; (4) Finally, retained earnings are the primary source of investment funds for all except commercial firms, but even they receive short-term credits only.

## 7. Informal Credit in Urban Areas of Shaba

Credit in the informal sector can be divided into two major types: personal consumption credit and business credit. Within the business community, the use of credit can be subdivided further according to subsector.

## *Personal Credit*

As might be expected in any poor country, under conditions of inflation, the greatest credit demand in Zaire is for personal consumption, either to meet some family emergency, such as a funeral, or to buy some high-ticket consumer item, such as a radio or television.

Personal loans for emergencies are short-term, for one to two months only. Family loans are interest-free. Loans from moneylenders (the "banque Lambert") cost between 50 and 70 percent per month, with relatively high default rates; most moneylenders are salaried employees or merchants who lend small sums as a sideline. Small private informal banks charge 30 percent interest per month (20 percent for depositor members) and take physical possession of collateral, which can be sold if the loan falls more than a week overdue. Private savings groups like the teachers' ristourne in Kabondo Dianda charge still less 20 percent per month, but loans are limited by the members to especially creditworthy borrowers. Finally, credit unions and church-sponsored savings associations charge lower rates, between 12 and 15 percent monthly, because they consider such assistance to be one of their social responsibilities.

Installment-type consumer credit is simply not available. This is an important reason why people participate in ristournes. By contributing a fixed sum each period over the life of the group, participants are able to save enough money to purchase some desired item. Of course, as was noted above, the current high inflation in Zaire is beginning to take its toll on ristournes, as people find that the amount they collect is no longer enough to buy the item they want.

## *Business Credit*

### a. *Marketer Credit*

Marketers have almost no access to formal credit sources. Thus they behave very much like individuals who seek credit, not separating their business and personal funds. Marketer credit patterns therefore very much resemble personal credit. The major difference is that marketers are more likely than most individuals to participate in ristournes (tontines) and to organize mutual assistance organizations in order to finance their operations. In that respect, they are also more likely to contribute to monetary circulation, compared to the alternative of individual accumulation. It must be noted, however, that individual accumulation would normally involve the purchase of highly marketable goods like malachite necklaces as an inflation hedge, and have little impact upon the flow of circulating money.

### b. *Small Business Credit*

Like marketers, small business people (mostly men) have no access to formal credit. Small business owners, however, are less likely to participate in rotating savings groups or mutual aid groups, and thus are more likely to be net hoarders. However, they are also more likely to be able to attract the interest of a potential partner who may later be bought out (a common African credit arrangement), in which case they may act as injectors of liquidity into the economy. The success of the firm, however, depends mostly upon the productivity of the enterprise and the absence of family emergencies.

### c. *Medium-Sized Business Credit*

Medium-sized firms can sometimes get short-term commercial loans from banks, but not longer-term loans to finance goods production. Even those who might receive them, however, consider current interest rates too high and collateral requirements too stringent to risk taking out a loan. Government sources of credit are not even considered by most owners, because these are either limited to certain types of loans for which they do not qualify or because the minimum loan thresholds are too high. Even those which have applied find that they must reapply several times and still rarely receive a loan.

Consequently, most medium-sized firms either self-finance or enter into the partnership arrangement noted above. If it is the latter, they may act as net liquidity injectors if they activate what might otherwise remain idle balances. If it is the former, they must first remove cash from the system for a time, but will normally quickly convert it into some highly liquid good to avoid capital losses from inflation.

## 8. Informal Savings-Credit Linkages in Urban Shaba

The overall picture of informal savings-credit linkages in urban Shaba is one of largely personal savings which are being channeled into personal consumption, family and business emergencies, and some working-capital loans. In general, personal and kin ties govern the availability, amount, and terms of most loans. Interest on these personal loans is usually zero, and repayment may be nonfinancial. Examples of nonfinancial repayments include an apprenticeship for one's son, a good word to someone in a position of power, and so forth.

If borrowing is impossible but a particular venture looks promising, partnerships of two or three people may be formed, often with a view to eventual dissolution as the primary owner becomes able to buy the others out. In these cases, the "lending" partners have at least some prospect of a return on their investment--in a share of the profits, if not in interest. If money cannot be found among friends, neighbors, fellow vendors, fellow employees, and so forth, it may be available from informal private bankers, semicoops like the teachers' ristourne, and last but certainly not least, from the "banque Lambert," the local moneylender.

In summary, there is a hierarchy of informal savings-credit linkages in Shaba, ranging from the most personal to fairly impersonal and from no interest to interest rates well in excess of the inflation rate. Inflation itself has discouraged ordinary informal business credit, and partnerships and mutual-aid-type sharing seem to have taken its place.

## E. Semi-formal Savings and Credit Organizations in Urban Areas

Zaire has a number of savings and credit organizations which are neither informal, nor formal. These semi-formal entities usually meet some minimum administrative regulations and may fall under some government code, but they essentially operate without close supervision or regulation. Three such entities are: cooperative credit unions (COOPECs), *caisses populaires*, and small private banks. Because the cooperative credit union movement was discussed in section C of this chapter, the following discussion focuses only on the latter two organizations.

### 1. Caisses Populaires

In contrast to cooperative credit unions, which come under the 1956 administrative regulations for the Ministry of Agriculture, *caisses populaires* are more commonly small savings associations affiliated with a church. The basic aim of these *caisses* is mutual aid. People can save small sums of money, and, if needed, they can take small consumption loans in order to tide them over some difficulty. The interest rates on these loans are purposely set very low, about 10 percent per month at most. *Caisse* authorities argue that such low rates are justified by the social responsibilities of their organizations.

The *caisses* face many of the same financial difficulties as credit unions, namely the problem of investing funds in order to protect savers' money. In some cases, the *caisses* have resorted to buying merchandise (tin roofing, diesel fuel, lumber, beer) in order to retain the value of the savings. In other cases, fund managers are considering other strategies, such as holding foreign currency either in the country or abroad.

People have faith in the *caisses* precisely because they are, or were affiliated with a church. In some instances, notably involving the Catholic Church, this relationship has been severed by ecclesiastical authorities. Whether such unaffiliated savings organizations will succumb to the administrative problems rife in the credit union movement remains to be seen. These arrangements are innovative and clearly deserve further study.

### 2. Private Banks

Small privately capitalized banks are another semi-formal savings and lending organization in major urban centers. The regulations for these banks are minimal. Essentially, an individual who wishes to open a bank is required only to meet certain business requirements, such as registering with the Ministry of the Interior and buying a business license from city hall. The capital requirements for a bank are very low. about US$1000, and essentially amounts to the cost of renting or acquiring an office. Although the Banque du Zaire is legally responsible for supervising these banks, actual controls are minimal, consisting of an audit from time to time.

In operation, these banks accept savings for which they pay interest. Lending operations are generally for personal consumption. In the case of one banker visited by the team, the bank very much behaved like a pawn shop. That is, a prospective borrower was required to provide a physical asset that would be sold if the loan was more than one week in default. Interest on these loans runs about 30 percent per month (20 percent per month if the borrower has a savings account there).

While the ease of establishing a bank is laudable, the lack of stringent regulation and supervision is cause for real concern given the probability of theft and embezzlement. At present, there is no insurance scheme to guarantee the savings of the many small depositors. Thus, these people could find themselves unable to retrieve their funds, as has happened with the Shaba credit union movement. This is a problem of considerable significance. Small private banks are therefore another area worth further investigation.

### 3. Summary

There are several types of semiformal financial organizations in Shaba today--credit unions, *caisses populaires*, and small private banks. Since the administrative regulation of these entities is minimal, the risk of failure from theft is unacceptably high. In view of the great need among small savers for a place to keep funds, there is clear need for more effective administrative and legal control of these various organizations.

## E. Chapter Summary and Observations

### 1. The Macroeconomic Picture

Zaire is a large, resource-rich country of 35 million people with a per-capita income of less than $200 per year. A high percentage of the nation's income and wealth is centered in the capital city of Kinshasa and its immediate surroundings. Inflation has been a persistent problem since independence in 1960, and was close to 200 percent at the time of the team's visit in July 1988. The primary cause has been national government deficits financed by credit expansion.

Zaire is an interesting case study for policymakers and scholars who are curious about the differential impact of macroeconomic policies upon different sectors in a poor country. Some have held that these policies have little impact outside the modern or formal sectors while others contend that there are substantial impacts on the informal sector.

In Zaire's case, government deficit spending and credit expansion clearly has a major impact on the country as a whole, including both its formal and informal sectors. Its monetized sector extends well beyond the relatively narrow confines of its formal sector. The team estimates that the formal sector includes perhaps 15 percent of the population, though many people deal with both informal and formal sectors on almost a daily basis. Most people, even those who are essentially subsistence farmers, use money for certain purposes, such as paying school fees.

Inflation has driven many people into increased bartering or holding goods as stores of value until they need money to buy food or other necessities. In effect, it drives them into becoming petty merchants, overcrowding an already overcrowded activity and diverting their attention towards simply trading existing goods in preference to creating new ones. Real liquidity, in the form of money which holds its value *and* is readily acceptable in exchange, is thus very low in Zaire. Specialization and productivity throughout the market system fall in consequence, and the economy stagnates.

The impact of macroeconomic policy on financial markets has been enormous. Interest rates have lagged behind inflation in formal and semi-formal financial markets to the extent that they are presently negative for most borrowers, the major borrower being the national government. Voluntary savings mobilization by formal financial organizations and markets has almost disappeared, and private credit has been crowded out by government borrowing.

The government, as the primary spender of newly-created money, has also benefited from forced savings by those holding existing money, a disproportionate number of whom are people in remote areas. Collateral requirements have risen and repayment terms shortened, stifling long-term investment. Informal financial markets have shrunk--ristournes (tontines) have decreased in number and real value and rotation cycles have been shortened, loans from friends and relatives are more difficult to secure, and even self-financed businesses have become harder to start. During periods of inflation-induced uncertainty, "worthy borrowers" become very scarce indeed.

Yet, an outstanding characteristic of Zairian financial markets is the stubborn determination of people to save even in the face of accelerating inflation. This appears to be due partly to the effects of the 1979 remonetization. It also stems from a desire to conceal wealth from family and friends and from a desire to simply hold some amount of liquid assets. Regardless of cause, their savings constitute a potential resource for economic development, one which would surely grow with more stable conditions, increasing *real* liquidity and positive real rates of return.

### 2. Formal Financial Markets

Formal financial markets in Zaire basically finance the national government (which owns part of each domestic commercial bank), international commerce, and domestic commerce, in that order. Most domestic-currency loans are short-term. Severe inflation and general economic uncertainty have reinforced the banker's traditional preference for commercial lending, and medium- and long-term loans to goods-producing enterprises have all but disappeared. Inflation is also seriously eroding the capital position of the financial system. Management is poor, organizations are overstaffed, many loans are in default, and real bank earnings prospects are bleak. Banks have little incentive for or interest in either accepting deposits or lending to smaller businesses or consumers in Zaire.

This grim picture is partially the result of poor policy. The national savings bank (CADEZA) once mobilized domestic savings for useful infrastructure projects. In 1988, however, CADENZA was simply another channel for parastatal loans, most of which are nonperforming. The national insurance monopoly (SONAS) performed so poorly that banks no longer accept its insurance policies as loan collateral. High reserve requirements for banks have discouraged them from trying to attract deposits. Credit controls have put money where it was not needed at the expense of sectors where it was needed. Regulations allow banks to lend for international transactions without affecting their reserve positions, biasing loans in that direction. Parastatals delay paying their bills for months, contributing to local illiquidity and supplier impoverishment in provinces like Shaba. The list continues.

### 3. Semi-formal Financial Markets

Zaire's semi-formal financial markets are dominated by cooperatives which lend primarily to the national government by purchasing its treasury bills. The small portion lent for commercial and personal purposes is shrinking further in relative importance. Coops receive substantial deposits from members, mainly for safekeeping. Where they exist, the coops are well-located and accessible to small urban savers, but pay heavily negative real interest rates, are poorly-supervised and subject to frequent fraud and theft. Inflation also erodes their capital bases. This movement badly needs stronger external controls, guarantee funds, and the structural capacity to aggregate savings as well as to disaggregate lending; donors could make notable contributions here.

Other semi-formal organizations, such as *caisses populaires* and private banks, also show promise for further development on a regional basis. They, too, need better external controls and guarantee funds, perhaps developed at the regional or provincial level with donor support.

A promising area for policy related research in Zaire is property rights definition, registration, and collateralization. Communal property as well as private property should be studied, given the extent of clan ownership of land in rural areas. Activating these undeniable assets as collateral could do much to both increase the level of trust and the flow of financial services in all financial markets, formal, semi-formal, and informal.

### 4. Informal Financial Markets

The country's informal financial markets appear to be growing in *relative* importance as formal financial markets shrink and become increasingly concentrated on international transactions and on financing national government deficits. However, there is little doubt that they, too, have shrunk in absolute terms from the onslaught of inflation. The simple truth is that inflation contributes to illiquidity in regions which pay out more money to Kinshasa than they receive back as expenditures or loans.

In Shaba, the region selected to sample informal financial markets, the economic and geographic division of the region into a mining zone in the south and an agricultural zone in the north is very much reflected in the supply of savings in its informal financial markets. With few exceptions (such as the major market towns of Bukama and Kongolo), accessible savings are available only in the highest-level regional centers of Lubumbashi, Likasi, and Kolwezi, all in the southern mining area. There are few mobilizable savings at present in either the rural or urban areas of central Shaba, which have yet to benefit from a new agricultural development project. In contrast, there are more rural and urban savings in north Shaba (Kongolo, for example, now has a bank), which has benefited over the last ten years from a similar development project.

In the higher-level urban centers of Shaba, there are a wide variety of informal and semi-formal safekeeping and savings organizations. These include mutual aid societies, ristournes (tontines), private banking agents, cooperative credit unions, mutual savings associations, and private banks.

This abundance of depository organizations demonstrates the tremendous demand for such services, a fact also emphasized by Gadway [1988]. This demand, however, is mainly for safekeeping facilities at this time, as is demonstrated by the heavily negative real interest rates paid by most of them.

Even though these rates effectively decapitalize savers, people continue to put money into deposits to shield it from relatives and friends or to use it for future consumption (school fees are a primary use) or emergencies. Unfortunately, the very informality which makes depository organizations viable also creates an opening for unscrupulous agents to abscond with large sums, to the detriment of savers, the spread of financial markets, and economic growth.

The depository organizations in Shaba make few loans for anything other than personal consumption, which basically amount to short-term emergency loans to family members. Even large merchants find that short-term commercial credit from banks is severely restricted because of inflation. Smaller merchants and marketers, as well as other small fabricating and repair enterprises, have never had access to such funds; these were all self-financed or family-financed through the start-up, operation, and expansion financing cycles. Thus, funds for expanding small firms which create substantial value and generate substantial employment have been severely restricted. The lack of intermediaries to articulate financial markets is critical in this area.

In stagnant agricultural areas like central Shaba, the main sectors for intervention in the future will probably be commerce and transport, since there will be a much greater demand for trucks as the amount of marketed farm output and the rural demand for outside merchandise increases. As happened earlier in north Shaba, these new transporters will likely spring from among the major growers and buyers of farm produce and from the larger retailers of merchandise and dry goods in the area.

In contrast with the north, the southern mining area does exhibit more immediate potential for investment in goods-producing outlets. There are possibilities for metalworkers, sawmills and lumberyards, plus the usual commercial credits. However, the number and types of enterprises which could benefit from loans is currently limited by depressed economic conditions even in this area. Low per-capita rural incomes will probably dampen the demand for employment- and income-generating enterprise credit for at least the next three to five years.

A major consideration in promoting markets to capture and channel savings into productive investments is the physical separation of the savings areas from some of the areas with effective demands. Savings entities in the major cities probably should invest there at the present time, given transport and communications difficulties, while statutory regulations on operations are strengthened and enforced. Only later would it appear to be possible to channel some of these savings to lower-level provincial centers, where there is also a growing demand for commercial and construction credit. But clearly, improved regional transport and communications, coupled with legal reforms, improved definition and marketability of property rights, and organizational innovations in the formal and semi-formal financial markets in Shaba, can help bring fundamental economic development to the area.

It must be remembered, finally, that the existing economic environment is gravely distorted by inflation and the hyperorientation of benefits toward Kinshasa, and one can only guess at what kinds of productive investment might be possible if these distortions could be eased.

# Chapter IV

# OBSERVATIONS AND SUGGESTIONS

## A. Observations

The following is a summary of the major observations stemming from the report:

### 1. Size of the Informal Sector

The informal sector, defined as that portion of economic activity which is for the most part beyond the domain of formal regulation, is very large in both Senegal and Zaire. The study team believes that perhaps 60 percent of the population in Senegal and 85 percent of the population in Zaire earn a living primarily in this sector of the economy. While no information is available regarding the amount of income or full-time employment generated by the informal sector, it is clear that *most people* participate in the informal sector at least part of the time. Informal sector activities touch virtually everyone.

### 2. Impact of Macroeconomic Policies

Macroeconomic policies have major a impact on both informal sector activities and formal sector activities. Indeed, their impact may be stronger on the informal sector than on the formal sector. In Senegal, tight monetary and fiscal policies appear to reduce liquidity in remote rural areas even more than in major cities, perhaps because cutbacks in parastatal activities have been especially severe in those geographic regions. In Zaire, *inflationary* macroeconomic policies appear to have much the same impact: compared to major cities, prices and incomes lag in outlying regions where informal sectors are more predominant. This phenomenon deserves further research, but the team is convinced that structural adjustment policies are not synonymous with help for the poor, and indeed that the reverse may more often be true. Much depends on where and how the adjustments are made.

### 3. Importance of Informal Financial Markets

The importance of informal sector financial markets appears to parallel that of the informal sector as a whole. Informal sector firms are financed largely by individuals and intermediaries within the informal sector, and informal sector savings are also largely placed within the same sector. Moreover, the relative importance of women, both as savers and as investors, is much greater in informal financial markets than in formal financial markets in both Senegal and Zaire.

**4. Formal Financial Markets**

In Senegal, the formal financial sector, very much government-dominated, is currently retrenching with IMF and international debtor support. It has been plagued by poor management, high operating costs, poor earnings, and a long series of government-ordered debt forgiveness on farm loans, all of which all indicators of poor financial condition. [Adams 1988: 360] The financial austerity program has brought inflation under 4 percent, but it has also led to the disappearance of credit supplies for anything except short-term commercial purposes.

Agriculture formerly received substantial amounts of credit, but the abolition of debt-ridden parastatals formerly supplying these credits has left this sector with little except informal credit, supplied primarily by family and friends. Moneylending merchants, who supplied much farm credit before independence, have not yet appeared in sufficient numbers to make up for the disappearance of the parastatals, and a new agricultural bank has only been able to reach a claimed 30 percent of the country's farmers. Too, its collection efforts have been and are hampered by memories of debt forgivenesses by predecessors.

Rural Senegal appears to have suffered disproportionately from tight national macroeconomic policies; currency is particularly scarce in these areas, and the popularity of individual and collective savings hoards for special purposes, like religious celebrations, has only exacerbated the situation. Furthermore, these balances tend to remain untouched even when money is needed for crop seeds as the celebrated fungibility of money is meaningless when savings are targeted for highly desired purposes.

The formal financial sector in Zaire basically finances the national government (which owns part of each domestic financial intermediary), international commerce, and domestic commerce, in that order. Most loans are short-term, but are routinely renewed for the national government, effectively converting them into long-term loans. Many loans have a concessional component, another indicator of lender nonviability and systemic weakness. [Adams 1988: 360-2]

Severe inflation and general economic uncertainty in Zaire are reinforcing a traditional preference for commercial lending. Inflation is also seriously eroding the capital position of the financial system. As in Senegal, the management of the intermediaries is poor, they are overstaffed and highly political, many loans are in default, and real earnings prospects are bleak. Banks and other formal sector organizations have little interest in either accepting deposits or lending to smaller businesses or consumers in Zaire.

Outlying regions in Zaire appear to suffer from deteriorating terms of trade and cash-flow deficits vis-a-vis the capital city. This contributes to regional market deterioration, resource immobility, currency shortages, and retreat by many into self-sufficiency production and barter activities.

**5. Semi-formal financial intermediaries**

Senegal lacks semi-formal financial intermediaries because laws restrict their formation and operation. The demand for their services, especially as safekeeping agencies, is great, as evidenced by numerous requests made of agents of the Small Enterprise Development Projects in Koalack that they accept deposits.

Zaire's semi-formal financial markets are dominated by cooperatives which lend primarily to the national government by purchasing treasury bills, contributing to a shortage of currency circulation in rural areas and dampening transactions efficiency. The already-small share of commercial and personal loans in the country's total financial system is shrinking further in relative importance. Coops do receive substantial deposits from members, mainly for safekeeping. Where they exist, they are well located and accessible to small urban savers, but they pay heavily negative real interest rates, are poorly supervised and are subject to frequent fraud and theft. Inflation is also eroding their capital bases. Their depositors, too, suffer from declining real liquidity.

**6. The nature of savings**

In Senegal, informal financial markets are most important (in absolute terms) in urban areas, where the population density and the volume of savings are greatest. Money savings by participants in these markets are surprisingly large, but are typically held as cash rather than as deposits. Savers typically accumulate funds domestically through tontines or by means of periodic deposits with trusted individuals in their villages or neighborhoods.

Collective savings, such as *caisses villageoises*, are perhaps most available for development purposes; a small proportion of these are regularly deposited in banks. Savers, especially young males from the Fleuve region of northern and eastern Senegal, also accumulate funds by working in formal sectors in other African countries or Europe. These savings often fund the building of mosques or the acquisition of wives.

Overall, participants in informal financial markets appear among those most negatively affected by tight macroeconomic policies, since they are the group forced into barter and subsistence activities by currency scarcity. The common supposition that subsistence sectors are unaffected by these policies is clearly incorrect in the areas visited by the team. Financial austerity simply forces more people into purely subsistence activities.

Most of the individual and group savings in Senegal are used for "consumption." That is, they are used to purchase durable goods, are held to carry the family through the "hungry season" (the period of greatest scarcity just before harvest), or are spent on religious celebrations. [Note: much of what Westerners call "consumption" in many low-income countries is actually regarded by their inhabitants as "investment"--i.e., bicycles can transport sacks of corn, and religious celebrations can cement economic security arrangements which act as informal insurance.]

Some savings are lent to other family members to tide them over hungry seasons or other emergency periods. Some savings, however, do finance inventories or setup costs for small enterprises owned by friends or family members. For example, the Senegalese often form temporary partnerships to start businesses, with the primary partner buying out the others later; the cost of these loans depends on business profitability.

Loans to family and friends are always interest-free, but interest rates on supplier credit typically range from zero to 30 percent annually. Loans from moneylenders (merchants and marabouts, typically) usually cost between 50 and 100 percent annually and sometimes higher. These loans are normally used to finance emergencies.

The Senegalese also save heavily in the form of livestock and jewelry; both are easily salable and thus are quite liquid. They can be said to contribute to economic security, and indirectly promote economic efficiency by absorbing some risk and allowing their owners to innovate.

Zaire's savings are surprisingly large, especially in light of the 180 percent annual inflation rate. They are frequently accumulated by means of tontines (called ristournes in Zaire), and generally in urban areas. As in Senegal, most loans are to family members or friends for "consumption", that is, to buy durable goods in urban areas and to meet the hungry season expenses of poorer relatives and friends in rural areas. Occasionally, savers make very short-term loans to acquaintances for business purposes, usually to restock inventories. Also as in Senegal, longer-term "loans" often take the form of partnerships between friends or family members to start a business, with the primary partner buying out the others after a year or two.

Loans to family and friends are always interest-free in a formal sense, but they do include expectations of reciprocity later if the lender faces a need (this "insurance function" may be thought of as a type of implicit interest since it has economic value, but its money equivalent is obviously indeterminate at this point in our understanding of informal financial markets). Moneylender loans, usually from merchants or salaried people, cost up to 70 percent per month, but default rates are high and on casual observation it appears that the net return to lenders after inflation and risk are adjusted for is far below the nominal rate.

As noted earlier, inflation has severely hampered the operation of both formal and informal financial markets in Zaire. This is true especially in regions other than Kinshasa where price increases lag behind the capital's and where financial drains exceed financial injections. Poor transportation and communication facilities also impede them, since person-to-person dealings are required in financial markets as much as (or more than) in other markets.

Zairians also save in the form of goods. Preferred forms are diamonds, malachite, grain, animals, and building materials. These are quite liquid and thus constitute assets which provide economic security for their owners.

**7. Linkages between Formal and Informal Financial Markets**

Linkages between formal and informal financial markets in Senegal do exist. Tontine proceeds, proceeds from market collectors, and village savings occasionally are put into banks. These amounts are small, and banks have little interest in attracting them because they are dependent upon the government and donors for loanable funds. But the banks do give informal sector savers safekeeping facilities, and security is very important to these savers.

Formal sector financial intermediaries also indirectly fund informal activities, primarily by channeling remittances from abroad and by supplying wholesaler credits to retailers and artisans. In Senegal, however, the amounts are more significant than in Zaire, especially in the Fleuve (for remittances) and in larger market centers (for wholesaler credits). In addition, there are cases of partnerships between (largely) formal sector "rich uncles" and (largely) informal sector "poor nephews" in which formal sector savings effectively finance informal sector investments.

In Zaire there are similar linkages, although they appear to be both stronger overall and *less* beneficial to both financial markets than in Senegal. Some savings of people who operate primarily in the informal sector are deposited in semi-formal coop deposits, most of which are onlent to the national government through coop purchases of treasury bills. In this case the informal sector helps finance formal sector activity, much of it conspicuous public and private consumption. As noted earlier, this effectively reduces currency supplies in the outlying regions of the country and, to the extent that interest earnings lag behind the rate of inflation, cuts real incomes as well.

Depositors do receive safekeeping services from the coops, however. This is the major link, and it clearly benefits the government, the formal sector, and Kinshasa at the expense of small private informal sector savers in rural areas. In the opposite direction, there are some extensions of short-term credits by formal sector wholesalers and suppliers to their informal sector clients, mostly small merchants and artisans. These are not large, and are quickly disappearing. "Rich uncle-poor nephew" arrangements also exist, as they do in Senegal.

Formal and informal financial markets display different comparative advantages wherever they occur. The formal market provides a relatively high degree of security and structure to savers and borrowers, while the informal market provides more flexibility and, for business loans, higher rates of return.

**8. Inflation rates**

In Senegal, inflation rates have recently been lowered to under 4 percent annually, but the impact of the IMF-encouraged austerity measures has been uneven. The most severe effects appear to have been in the countryside, where informal financial markets are *relatively* more important, but are less articulated and intermediation less developed than in the cities.

In relatively remote parts of the country, the scarcity of currency relative to prices is reportedly worse, than it was two or three years ago, and considerably worse than it was before independence. In fact, bank branches which existed two decades ago have disappeared completely in some regional centers, and only now is there discussion of reopening some of them.

This currency scarcity hampers market development in general by reducing the number of transactions, the degree of specialization in production, and thus the growth of income. It also obviously reduces the degree of articulation and hence the risk-absorptive capacity of informal financial markets even more than it does in formal markets, mainly because informal markets make relatively heavier use of currency.

In Zaire, the accelerating rate of inflation also appears to disrupt the development of informal financial markets more than the formal. Rural dwellers on the fringes of the money economy are forced increasingly into barter and subsistence activity. High inflation discourages money savings among those sensitive to real rates of return and encourages investment in largely unproductive outlets such as urban real estate and inventory speculation.

Even though the money supply is increasing rapidly and the country might reasonably be expected to be "awash in liquidity," inflation actually contributes to illiquidity because of its uneven rates of transmission. Illiquidity is especially acute in regions whose "export" receipts and receipts from other parts of the country rise more slowly than their "import" outlays and this condition applies virtually to all regions of Zaire except Kinshasa. Inflation has also contributed to a general breakdown of trust; few Zairians trust anyone outside their own families and friends. Without trust, risks cannot be packaged and shifted to encourage innovation, and economic growth is dampened accordingly.

**9. Mobilizing Savings**

At present, the desire for economic security is the primary reason why people save in both Zaire and Senegal. Savers wish to safeguard their funds from theft and from predatory relatives seeking loans or gifts, as well as to accumulate funds to meet family emergencies. The relative unimportance of yield is demonstrated especially in Zaire, where those who deposit their funds in cooperatives now receive a negative 70 percent yield on their savings--i.e., they may be left with only 30 percent of the value of their savings at the end of a year.

Savings are most common and available for productive lending where population is densest and/or where the transportation and communications systems are best. The ability to concentrate and invest savings productively depends upon the ability of savers and investors to make contact with each other.

A good example of this came during the team's trip up the Senegal River (the "Flueve"): as the rainfall averages rose, farms became richer and closer together, and as this occurred, the savings hoards became larger and visible capital formation became more common. Naturally, this means that investible savings are relatively greater in more urban areas, but it also means that *inert* (but mobilizable) savings are probably relatively greater in smaller urban market centers where banks have not yet opened branches.

**10. Savings-Credit Relationships**

From a *financial organization's* point of view, savings must increase before credit is extended to borrowers. The reason is simple: before a financial institution can be viewed as safe and sound, it must have a capital reserve (or "capitalization") built up to inspire trust, and to build that capital reserve, a group of savers must save for some time before the organizations can begin lending. This is amply demonstrated in Zaire, where cooperatives have been especially effective in attracting savings, but have yet to develop into effective regional lending entities. It is also demonstrated in Senegal, where the USAID-funded Kaolack small business lending project has built up an enviable loan portfolio and repayment record, but is prohibited by law from accepting deposits which local savers wish to make and which would enable it to expand the flow of financial services even further.

**11. Financial Markets and Development**

The evolution of financial markets is closely tied to the evolution of the economy as a whole in a mutually reinforcing system. Smooth-functioning financial markets generally have limited pro-development potential where cooperant resources are minimal and likely to remain so, although it is true that they have made major contributions to overall development in emerging Third World financial centers. Similarly, plentiful resources cannot foster development without effective financial markets.

With respect to the latter, for example, mosques, homes, and businesses throughout Senegal and Zaire are under construction, but the construction basically occurs one painful brick at a time. Construction proceeds as funds become available. It takes *years*. (And these bricks are locally produced, requiring no foreign exchange.) Better-articulated financial markets could markedly speed up this construction and the rate of growth of its supplier industries (brickmaking, plumbing, transport, insurance, and so forth), *and* provide already-existing willing savers with a safe place for their funds. And that would be only the beginning.

**12. Regional Focus**

A decentralized or regional (rather than macro or micro) approach to development, with the focus on market centers, appears to hold the most promise for financial development in the countries the team visited. Part of this is by default. Macro policies are important for correcting macro problems, such as government budget deficits or balance-of-payments problems, but their impact is indirect and usually especially harsh on the poor. Similarly, finely-focused micro policies may directly benefit target groups, but have little impact upon the functional economy around them.

A focus on market centers, however, can have major impacts on both the national economy (for example, by stemming the rate of migration to the capital city) and on relatively small villages surrounding market centers, because these centers both aggregate the products these villages sell for cash, and distribute to them the products which they do not produce for themselves. The market center is "relevant" to both the country as a whole *and* the small locality.

## B. Linkages Between Formal and Informal Financial Markets

As noted, the relatively impersonalized formal markets appear to have a comparative advantage in providing security; they are also well-suited to financing production in large quantities, but often have difficulty adapting to change. The more personalized informal markets appear to have a comparative advantage in adapting to change and providing dynamic efficiency, but are so fluid and unstructured in their interpersonal relations that they finance the production and marketing of relatively few goods. Each thus has advantages and disadvantages. The issue is the linkages, indeed, the *hierarchy* of linkages, needed for intermediation and articulation.

In certain cases, an economy may benefit most if an informal financial sector grows up, becomes more structured, and *replaces* a formal financial sector. This is true if the formal financial sector is doing such a poor job expanding the quantities of transactions, goods, and participants that reform may be impossible. Under these conditions, linkages between the formal and informal sectors may only weaken the vitality of the latter. This appears to be the case in Zaire.

On the other hand, an economy and its formal financial markets may need greater flexibility and less impersonality in order to adapt to a changing environment. This appears to be more the case in Senegal.

The ideal situation may be to have good linkages between healthy formal and informal markets, allowing funds and participants to move between them. Financial markets could thus become more structured *or* more flexible, depending on market conditions. Of course, as development proceeds, it is only reasonable to expect formal financial markets, following a universal pattern, to grow more rapidly than the informal. The informal market should not be expected to disappear, however, since these markets continue to exist and thrive in even the highest income countries.

Senegal lacks the semi-formal coops and *caisses populaires* of Zaire, but does have many *caisses villageoises*, tontines, savings clubs, and other financial arrangements which could become more formal, enabling their members to participate more completely in the modern or formal sector. There is a good possibility that some of these, or perhaps an imported entity like the intermediate-level Saveways banks in Liberia, could evolve in the direction of formal financial markets.

Senegal also seems to have some parts of the formal financial system (namely, the CNCAS) which are at least *willing to be willing* to expand their flexibility in order to emulate informal financial markets. Perhaps, too, the postal savings system in Senegal can become more responsive, able to pay remittances on a timely basis and serve as a trusted depository for people who are mainly interested in a *safe* place for their money. Overall, the team sees more hope for formal sector organizations in Senegal than in Zaire because they appear more flexible at this time.

In Zaire, the formal financial sector neither reaches out to large numbers of people nor treats its clients in reasonably impersonalized or standardized fashion. On the contrary, it lends to a small group of favored borrowers for favored purposes. The national government and international traders are its primary beneficiaries and effective reforms will be extremely difficult. Nonetheless, if a competitive financial system were to evolve alongside it, it might induce it to be more responsive to national needs than it presently appears to be.

In Zaire, then, it may be better to *forego* trying to forge stronger linkages between informal and formal financial markets and to focus instead on helping the informal private banks and semi-formal coops and *caisses populaires* become somewhat more "formal," i.e. help them train their personnel better in the standardizing mechanics of accepting deposits, keeping records, making loans, and so forth. This would not eliminate informal financial markets since they will survive as long as they have a function to perform. It would merely expand the *semi*-formal sector.

## C. The Evolution of Financial Markets: How Linkages Form

It may be easier to understand the role of financial markets if they are described with various degrees of complexity, beginning with the most basic. Financial markets begin when savings and investment become separate, that is, when a saver allows another person to decide how the saved resources will be used. Markets then grow and articulate over time and space.

Articulation means that a saver must be willing to trust someone else, either an investor or some intermediary, to repay the loan with interest. The investor must be trustworthy, i.e., willing to repay the loan. Trust is essential to the articulation process. But at the earliest stage, it is trust in *the borrower* which matters. This is the core characteristic of informal financial markets--trust that another person will return whatever (usually goods) is borrowed.

The next stage involves taking the first step beyond lending in the form of goods: lending in the form of money. At this stage there must be trust in both the borrower and the buying power of the money being lent. The range of trust is broadened beyond the borrower as a person to the economic artifact *money*. To the extent that this occurs, the transaction between saver-lender and borrower-investor is depersonalized because trust is shifted somewhat from the person to the artifact. It is this that the process of depersonalization, which is so important to articulation and specialization in an economy, can at least begin.

The third stage involves a further step which is often missed in discussions of the evolution of financial organizations: accepting money as a substitute for goods makes it easier to accumulate small amounts of savings, through regular repetitions over time, into larger units of value. Barter, exchanging combinations of divisible goods like grain for relatively indivisible goods like a cow, makes saving for the future difficult: with barter, one saves essentially by building up a sense of obligation in others which makes them willing to later share with the saver when he or she is sick or elderly.

With money, a person can save small amounts regularly, build a substantial sum, and nothing is required other than group acceptance of that money in exchange for goods later on. This stage differs from the second because savers become involved in repetitive behavior, namely regular saving. This represents an advance in trust over the earlier stage because regular saving usually involves an arrangement to instill discipline (like a tontine or savings club). It involves still greater trust in the *collectivity* of others, further establishing trust and depersonalizing the savings-investment process. [Geertz 1962] Thus, the existence of tontines or other simple means of accumulating savings is significant in the evolution of financial markets. This is the stage of emergence of the *savings organization*.

The fourth stage involves going beyond merely collecting money savings in concert with others to actually lending money to others. This requires an ability to extend trust beyond the known familiar group, to engage in transactions and to be able to enforce them. The range of trust must broaden still further (as must society's definition of property), and agreed-upon rules of exchange and contract become necessary. An IOU belonging to the saver-lender comes into existence (either as an oral or written promise) at this point and is considered property. This is the level of the *savings and credit* organization, which actually performs the intermediation function.

In a functional sense, the evolution of the financial entity is complete at the fourth stage, but one last thing is required before it is *officially* an organization: government approval. This may come gradually, or it may come all at once, or it may not come at all (in which case the organization remains informal). This approval sanctions the organization as something apart from its creators and clients, allows the articulation to be officially monitored and regulated, and completion of the depersonalization. The formal sanction of the state in a sense makes the organization as close to totally trustworthy as any economic entity can be in any given country (assuming the state itself is trustworthy).

This set of stages is, of course, only one of several which could be constructed, but the general direction of movement is clear *from* personalized and fluid dealings between individuals *toward* impersonalized and more structured dealings through organizations. Understanding these distinctions is important in deciding whether linkages between formal and informal financial markets should be encouraged or discouraged.

Professor Han Dieter Seibel of the University of Cologne has set up a typology of informal financial institutions which generally matches the one above. [Seibel 1988] Professor Seibel dislikes to following types:

- Type I is the *rotating saving association* (or pure tontine), where each member pays a fixed amount at regular intervals, and takes his or her turn (usually determined by a draw) in receiving the total. This is a pure savings type of organization. Seibel notes that in Africa the primary concern of these groups is to impose voluntary "forced saving" or savings discipline on their members, while in Asia there may be a rate of interest component or competitive bidding system used which could move them from his Type I to his Type II.

- Type II is a *rotating savings and credit association*. While each member pays fixed amounts at regular intervals, too, in this case now only part of the contribution is allocated to each member and another part is put into a general fund for loans, insurance, and so forth. This is obviously a major step forward, since the trust level has advanced to where loans can be made and funds are set aside specifically for that purpose.

- Seibel's Type III is the *nonrotating savings association*, where each member pays either a fixed or variable amount at regular intervals to a collector who deposits the D funds and pays them back to the saver at the end of each stipulated time period. In one sense, this is not necessarily an advance over Type II, since it does not involve an expansion in the range of trust, but clearly it is in the direction of greater structure on the savings side.

- Type IV to Seibel is the *nonrotating savings and credit association*. In this case, each member pays fixed or variable amounts at regular intervals, but the funds from these as well as from fees, penalties, joint business ventures and the like may be lent out or used for insurance or social services. The fund may be permanent or temporary. This type is only a relatively short step away from becoming a sanctioned credit union or savings and loan association.

In summary, financial organizations tend to start out small and personal with savings being lent only to family and friends. They then acquire some degree of organization and complexity and focus only on accumulating savings. They become somewhat larger and less personal in the process, and then begin lending as an organization to members, and later to nonmembers. Savings seem to precede lending and may in fact be a prerequisite for lending from a systemic or continuous viability point of view. As Seibel puts it, "As savings without credit leads to demotivation, resource deflection and inadequate financing of small enterprises; and credit without preceding savings leads to haphazard loan spending, to risky business ventures and to poor repayment morale, we propose a model of linking savings and credit: No credit without savings, no savings without credit!" (p. 10.) The team would agree with this, but would add that in order to capitalize institutions enough for them to be trustworthy before they begin to lend, they *must* go through a period of saving without credit.

It should be added that an essential ingredient in the successful development and expansion of financial markets is the *reliability* of the flow of financial services, such as safekeeping, savings and credit, to market participants. A good level of capitalization is not enough to calm all fears and build trust. Arbitrary behavior by financial intermediaries or frequent changes in policy can doom financial market articulation and stifle growth.

## D. The Intricacies of Financial Linkages: Savings and Credit

Professor Seibel suggests that savings and credit can be linked in two ways. The first and more traditional way, is when savings and credit activities proceed separately, that is, each activity has its own set of customers and there is no necessary direct connection between the two, as at a bank where depositors may come from one group and borrowers from another. The second way is when borrowing is linked to savings, i.e. "a loan is contingent upon every individual client meeting specified savings requirements."

This latter method, which Seibel sees as something of an innovation, is actually the way in which pure credit unions developed--loans could only be made after savings occurred, even at the individual level, and new loans could not be made until the old ones were totally paid off. The advantages of tying loans to savings is that loans cannot be so easily thought of as "windfalls" or gifts by borrowers, and, thus are not likely to be so readily "frittered away" as one respondent so colorfully explained on frivolous expenditures. Unfortunately, this is a rather common situation throughout Senegal and Zaire.

Under the linked savings-credit arrangement, Seibel sees savings as entering two possible cycles, one to accumulate an internal loan fund within an organization for immediate relending to members for either consumption or productive purposes, and one where savings are deposited with a bank to serve as collateral for loans to the organization from the bank under a contractual loan arrangement. For the internal fund, he recommends a fixed ratio between savings and credit, the actual ratio depending upon the funds available. For the "loan savings" cycle, he recommends a "dynamic ratio": the savings are deposited first as collateral, with the amount of the loan depending on 1) the amount of the savings deposited, and 2) the number of satisfactory repayment cycles (repeat loans). This creates incentives to both *save* and *repay on time*.

Seibel explains it in the following way:

> *For example, after an initial period of regular savings, say of one year, the SHO [self-help organization] obtains a loan equal to twice the amount of accumulated savings. After the principal and interest have been duly paid back and the group has continued to adhere to its self-imposed savings schedule, it may obtain a second loan, this time three times its savings. Subsequently, the multiplier may continue to increase by a value of one or by a different point*

*value, provided repayments and savings collection have been satisfactory.* [Seibel, p. 12.]

Working to set up linkage organizations between formal and informal financial markets might follow a procedure something like the following, which is a modified list based on Seibel's.

- First, the organizations themselves could discuss different types of arrangements and perhaps do trial runs on them.
- Secondly, a Survey and Mobilization Campaign could be initiated to gather data and motivate possible participants at the same time.
- Thirdly, seminars and workshops could be held to help with communication and training.
- Fourth, banks could experiment with various outreach services to people formerly making exclusive use of informal financial markets. (The team's "market banker" proposal could perhaps be undertaken by a bank, or by a group of vendors in the marketplace, or started by one and taken over later by the other.)
- Fifth, the results would be monitored and evaluated.
- Sixth, various technical support services might be tried.
- Seventh, and finally, the linkages system could be provided with sources of refinancing from banks, markets for debt instruments, government, and/or donors.

## E. Suggestions for Further Study

1. As noted earlier, macroeconomic policies, whether contractionary or expansionary, appear to have negative and magnified effects on informal sectors and their financial markets in Senegal and Zaire. More needs to be known about this phenomenon in both of these countries and in others, as well.

2. A thorough study of market center investment patterns at different levels of market centers could be valuable in highlighting which types of financial service requirements are most likely to emerge, and when. The team was told that investment opportunities at the regional level are limited; yet, when a new section of improved road to Bakel, Senegal opened, the number of transporters quadrupled in four years, the level of its marketplace increased markedly, and formal sector banks expressed interest in opening offices there. The team suspects that investment opportunities are far better in these centers than has been suspected heretofore. If so, such a study might highlight regions

where donor activity could uncover great private investment demand and thus greater need for financial market expansion.

3. The team recommends further research in the area of *property rights* definition, registration, protection, marketing, and the like. Insecurity of title and tenure are major impediments to access to credit, formal or informal. The team suspects that more clearly defined rights to use property in particular ways could give Africans some of the security they so badly desire *and* help them mobilize regional savings for regional investment.

The area of *nonmonetary compensations* bears investigation, since it is clear that networks of mutual obligations provide essential risk absorption or insurance services to their participants. The better the roots and extent of trust in low-income countries are understood, the better are the chances of articulating markets, expanding participation in national economies, and raising real incomes. Perhaps, too, ownership in common is *not* as deeply rooted as conventional wisdom has it, and perhaps better-defined property rights can be helpful in mobilizing resources even where it *is* deeply rooted.

4. Linkages between Zaire's coops and *caisses populaires* and its informal-market tontines (or ristournes) and mutual aid groups might be helpful to both markets. Field survey to determine responses to proposals like this might be donor-funded.

5. The privately-owned savings organization in Kikwit, Zaire, which was mentioned in the Gadway study would be an interesting model to inspect further to see if a donor role encouraging similar types might be found.[4] This organization invests savers' funds in construction materials, diesel fuel, beer, and other widely-demanded commodities and, in effect, runs a supply depot in conjunction with the savings depository. Gadway suggests that future activities might include intercity transport service and/or communications services. This is a classic example of a *savings* institution which is clearly not intended to onlend funds, but merely to safeguard the depositors' funds from inflation. Later these might evolve into savings-and-credit organizations empowered to make loans to members and businesses if the model works out well.

6. The evolution of tontines into more permanent organizations like the teachers' ristourne in Zaire or the venture capital operation in Senegal bears further study. It would be interesting to know what prompted the emergence of the organization in each

4 John F. Gadway, *The Potential for Rural Savings Mobilization in Zaire: Evidence from Credit Unions and Informal Financial Institutions in Bandandu*. A draft report for USAID/Kinshasa, intended for background use only, dated May 21, 1988.

case, and what impact they have had on the savings and investment practices of their members and others indirectly affected by their operations.

7. Further investigation of the various types of savings associations in different-sized market centers might be worthwhile. On one hand, this could help donors avoid providing support for types which appear to be too complex or too articulated for a given market level. On the other hand, it might provide insights into which types of intermediaries appear to fit best at which market levels and, therefore, which might be ripe for further development.

8. As Dale Adams has shown, the availability of a reliable stream of financial services plays an important role in development.

> *These services include making loans to a few individuals and providing deposit facilities to a much larger number of people. A financial system must be able to sustain the quantity and quality of these services over prolonged periods. Having reliable access to a financial system that provides sustained loan and deposit services of high quality and working with intermediaries who impose only modest transaction costs on the users of financial services result in increased efficiency, more output, and more savings. Intermediaries are usually not reliable unless they cover their costs of operations, recover most of their loans, protect or increase the purchasing power of their loan portfolios, and innovate to reduce transaction costs.* [Adams 1988: 363-4]

In this connection, it would be helpful for donors in any given project area to know how many in that district presently have access to formal financial services, what their transaction costs are, the quality of existing financial services, and what impacts these services have on savings mobilization. In other words, how would any given project affect the *reliable flow* of financial services in that area? A systemic view would appear essential if projects are to do more good than harm.

9. A thorough understanding of current agricultural market financing arrangements in both countries could lead in time to greater amounts marketed, a greater need for semi-formal or formal market financial services in those production areas, and a more generalized pattern of economic growth which could ease urbanization pressures.

10. The study pointed up how little is known about moneylenders and the services they provide. People are usually reluctant to discuss their moneylender relationships with outsiders. Yet it is obvious that moneylenders absorb a great deal of risk in these countries, including inflation risk and default risk. They are literally the "lenders of last resort."

Local consultants might be especially valuable in learning whether or not their rates of return are really as monopolistic as they appear to be at first sight. The team suspects that this research would find that moneylenders provide an essential set of financial services to marginal income groups not duplicable by formal financial intermediaries at the present time (and possibly never).

11. Further investigation is needed to determine which type (or types) of organizational structure would be best suited to coordinate a network of "market bankers" in both Senegal and Zaire. Should existing banks or coops do it? Could projects like the one at Kaolack be expanded to do it? Would the same organizational form be appropriate in both urban and rural areas? What array of services could (and should) such a coordinating entity supply? How large a territory should it serve?

In sum, the team strongly endorses further research into financial markets, formal and informal, urban and rural, with a view to strengthening trust in what does exist and extending that trust over broader areas. Broader markets, more articulated financial intermediaries, expanded output, and more widespread participation in the economic growth process should result.

## F. Possible Action Points for A.I.D.

The following is based on the team's observations in Senegal and Zaire.

1. The team does *not* recommend that the savings-credit cycle itself be directly augmented or depleted by donor funds. This linkage is one born of long experience, and it is rooted in the indigenous process of building and extending trust. Increasing the amount of funds available for lending, without domestic saving effort involved, inevitably causes those funds to be regarded as windfalls. There is a strong likelihood that the funds will be "frittered away" instead of being lent for self-sustaining productive purposes. This type of intervention also discourages savings. [Adams 1978: 557.]

The team believes the most appropriate role for donor assistance to these markets is *indirect* support for financial markets, as discussed below. This of course requires appropriate macroeconomic policies (coupled with appropriate microeconomic policies) as a fundamental condition.

2. The team suggests that any activity undertaken by USAID with respect to informal financial market development be focused on maintaining and building these markets' intermediating and articulating mechanisms within *economically definable regions*. Regional market centers both aggregate the products which surrounding villages sell for cash and distribute to them the products which they do not produce for themselves.

They are, therefore market centers where people come from some distance to meet, buy, and sell.

A regional financial market focus then is simply a reflection of economic reality. It may be viewed as a way to improve existing market efficiency and to expand popular participation in those markets.

There is nothing magical about this focus: there are no panaceas associated with it. But a regional or market center approach will focus attention on:

- the importance of space and time;
- of transportation and communication;
- of transactions costs and ethnic differences; and
- of how important the ability to move people, goods, and money through time and space are to the financial market aspects of the economic development process.

3. This last point is so important that the team wishes to repeat it as a third suggestion. Financial markets reflect economic reality they do not exist in a vacuum. People must be able to move themselves and their goods unless they are to remain subsistence farmers or fisherpeople. And, in countries such as Senegal and Zaire which lack electronic means of transfer, money also must move physically. Improving *transportation and communications facilities* is therefore an absolutely essential counterpart of any attempts to improve the operation of financial markets, formal or informal. Organizational change in financial markets must be linked to the development of infrastructure.

4. The team believes that donors could be helpful in supporting the start-up costs for "market bankers" (women if possible) in certain markets in Senegal and Zaire. These should be people already known in the market and trusted by local savers. Reducing transactions costs for these agents by using motorbikes or traveling with trucker-suppliers on a regular basis might also be valuable. It would appear that experiments like these would have the best chances for success in areas like north or central Shaba in Zaire, where agricultural output has been or is expanding quite rapidly, or in the Peanut Basin area of Senegal.

5. Cooperatives and *caisses populaires* in Zaire could also be helped by donors (they already *are* by Canadians in Kinshasa and in Kivu province) with internal and external controls, training in record-keeping, scholarships for foreign study, and possibly (in conjunction with good controls) some sort of guarantee insurance program. This may be an area where women could also be given substantially larger roles.

6. The team also believes that donor-underwritten guarantee funds may be helpful in mobilizing regional resources. Where lack of trust is endemic, these guarantee funds may make a major contribution. Foreign bank underwriting of the PfP Saveways banks in Liberia is a case in point.[5] They could be helpful in both Zaire and Senegal. This might be one way to use PL480 resources, both commodities (where storage is adequate) and local currencies. It might also be a means of establishing an insuring industry.

Guarantee funds must be established with tight control mechanisms in order to prevent them from being drawn down by "rescue operations" of organizations which are mismanaged or coupled by managers who *intend* to draw on the guarantee funds.

7. Regional organizations could be established to sell inflation-hedged or commodity-denominated and backed IOUs to coops or *caisses populaires* in Zaire, and to onlend these to new semi-formal or informal lending entities until they are strong enough to undertake greater lending activities on their own. The lending organizations might be empowered to lend to provincial governments on the basis of inflation-indexed bonds for infrastructure improvements *and* to businesses whose prospects are better because of these same improvements.

They might also be empowered to issue "regional bills" to be discounted and rediscounted to Kinshasa commercial banks and the Central Bank. This could help reverse the net flow of regional purchasing power to the capital and, perhaps, help stem capital outflow from the country by providing wealthy investors with a domestic alternative. Informal financial market articulation, and its intermediation potential and capacity to absorb risk, could thus be advanced.

This could also be applied in Senegal. The demand for financial services, beginning with safekeeping facilities, is great. Regional savings are so untapped in some areas, that regularized networks of market bankers and/or motorcycle bankers (perhaps underwritten by donor support) might be developed which could onlend to entities like the one in Kaolack.

Senegal's banking laws should be liberalized enough to allow smaller informal intermediaries to accept deposits in city neighborhoods as well as in other smaller regional market centers. Regional financing entities could also sell "regional bills" to commercial banks in Dakar or Kaolack, easing the shortage of local liquidity in remote areas, promoting transport and communications in these areas, and tying the country closer together financially. Not incidentally, to the extent that financial services are expanded

5 Morgan Guaranty Bank of Switzerland reportedly underwrote this project.

in regions not now served, the attractiveness of moving to major cities could be reduced, easing some of the pressures of rapid urbanization.

8. The team was impressed with the Senegal and Zaire Missions' existing experiments in informal financial markets and encourages further extensions in this area. While the team is not familiar with their complete project portfolios at the moment, it is recommended that existing projects be examined with a view toward adding support for informal financial markets. As noted earlier in this chapter, these markets affect virtually everyone, but the poor proportionately more than the rich.

# BACKGROUND NOTES TO THE REPORT

## The PEDS Project

This study was conducted under the Private Enterprise Development Support Project. The PEDS Project is a five year (FY88-FY92), $20 million project managed by the Bureau for Private Enterprise. In the first year of the project, PRE provided technical assistance in response to nearly fifty different requests from Missions and Bureaus. The PEDS Project is designed to provide a wide range of expertise in private sector development. Areas of technical assistance include the following:

- Policy analysis related to private sector development
- Sector assessment and analyses
- USAID private sector strategy development
- Legal and regulatory analysis and reform
- Small-scale business development
- Trade promotion
- Investment promotion
- Free trade zone development
- Management and financial training
- The role of women in private enterprise
- Applications of MAPS: Manual for Action in the Private Sector

USAID Missions have the resources of thirteen contractors available to them through the PEDS project.

- Arthur Young (prime)
- SRI International
- Management Systems International
- The Services Group
- Trade and Development International
- Multinational Strategies
- J.E. Austin Associates

- Ferris & Company
- MetaMetrics
- Elliot Berg Associates
- Robert Carlson Associates
- RONCO
- Dimpex Associates

## The Consultancy

This report is based on a six week field visit to Senegal and Zaire in June and July 1988. Field work was conducted by Robert Flammang, Gordon Appleby and Jan-Hendrick Van Leeuwan. The final report was produced by Robert Flammang, team leader for the assignment.

## The Authors

Robert Flammang, team leader for this assignment, is a professor of Economics at Louisiana State University. Dr. Flammang has worked in development economics for the last twenty-five years, and has published extensively in the field. He has worked with universities, government agencies and the private sector in Latin America and the Pacific Rim. His previous consulting assignments have covered a broad range of international issues.

Gordon Appleby is a sociologist and rural finance specialist with RONCO Consulting Corporation. He holds a doctoral degree in anthropology from Stanford University and has had considerable field experience as a rural sociologist in Africa, Latin America and Asia.

Jan-Hendrick Van Leeuwan is a financial markets specialist with extensive experience in Africa. He has over ten years of private sector experience as founder and manager of his own food venture, member of the executive staff of an international trading company and management consultant to corporations in the U.S. and Japan. He has worked as a consultant to international and bilateral donor agencies and development banks in Africa and Asia.

# APPENDICES

# APPENDIX A

# THE REGIONAL APPROACH METHODOLOGY

## 1. Regional Differentiation

Macroeconomic analyses describe overall trends in the national economy. In agrarian societies, these economies can easily be decomposed into a set of regional economies, each characterized by a distinct production pattern determined by ecology and infrastructure, among other matters. It is these regional economies that constitute the important units of analysis for development planning because the manner in which macroeconomic trends play out within each region conditions the ways in which local people respond to larger events.

In countries where the large majority of people still depend upon agricultural production for their livelihood, regional areas are typically defined by rainfall, soil types, and cropping patterns. These agro-climatic zones may either cut across or be coterminous with administrative areas. Similarly, a natural economic region may include various ethnic groups with quite distinct production systems. Even so, an economic region possesses a certain integrity or coherence such that the economy there can be described in terms of a few production patterns.

Within regions, producers confront essentially the same agro-climatological difficulties, and they are typically provided about the same level of services. In addition, larger macroeconomic trends affect their decisions in much the same way. This is not to say that regions are naturally homogeneous--there is tremendous variation within any region, just as there is within any village. Still, the variation that exists within a region is smaller than the differences between regions.

## 2. Urban and Rural Centers in Regional Economies

For analytical purposes, a fundamental distinction must be drawn within a regional economy between towns and agricultural villages. Whether nucleated or dispersed, *villages* are the basic residential unit for agricultural producers. The demand in any village, however, is insufficient to support the range of goods and services that agricultural producers require. *Towns* are centers that provide these goods and services to the surrounding countryside.

Whereas the complexity of villages is often a function of size or population, which is itself related to the productive base of the settlement, the complexity of towns in agrarian regions is determined by a very different set of factors. The provision of a particular good or service from a place depends upon the extent to which that good or service is required by the people in the surrounding area. Goods or services that are required frequently by nearly every household--salt and condiments, matches and candles, some manufactured goods--can be provided by many centers. Goods that are more expensive or that are bought less frequently (cloth, enamel basins, plastic pails) can only be provided from a smaller group of centers dispersed across the countryside. And very expensive "high order" goods--radios, metal cots, jewelry--can only be provided from a very few high level centers in the region.

The differentiation of centers into levels according to the types and number of goods sold in each is usually paralleled by a similar stratification of services and productive enterprises. Small centers may support no auxiliary services or enterprises outside of a weekly market. More important centers may support several general stores and perhaps an outdoor eatery or two. As centers add additional functions, one may find in addition to restaurants some hotels of different classes, bars, specialty stores (e.g., pharmacies, dry goods shops), various service artisans (e.g., tire repairers, mechanics, watch repairmen), and diverse enterprises (e.g., metal workers, blacksmiths, jewelers). The congruence among the types of goods, services, and enterprises in centers throughout the region provides a useful diagnostic for analyzing the regional economy.

This differentiation of centers into levels is typically based upon the number and type of "urban" commercial establishments and other enterprises that operate full-time in each place. The level of a center is determined by the number and types of enterprises in the place: higher level centers provide all lower order goods and services *as well as* an additional set of higher order goods. Thus, towns can be stratified into levels according to the goods and services provided in each place. In other words, in an agrarian region, towns--unlike villages--constitute a hierarchy of centers. This urban hierarchy in each region is critically important both because it structures the regional economy and because it links the regional economy into the national system.

The distinction between towns and villages holds that towns are service centers that supply themselves and an outlying population while villages are centers without hinterlands--that is, if there are shops or enterprises in a village, the clientele comes exclusively from that place. This distinction holds as long as one considers only full-time or permanent commercial establishments and other enterprises. The distinction can easily be overdrawn, however, because there exists in many rural areas an "intermediate" institution that periodically provides certain goods and services from village centers.

This institution is the periodic marketplace system. Typically, rural areas have insufficient demand to support a thick commercial hierarchy of urban centers. But there is often sufficient demand to support periodic markets that supply a wide range of commonly required goods and services. Moreover, marketplaces can be differentiated into levels according to the types of goods and services they provide in precisely the same way that towns can be stratified. Some markets provide only basic foodstuffs; others provide, in addition, a limited array of merchandise (cloth, plastic and enamel utensils, some repair services); and a few, highest-level markets provide all these goods and services *as well as* an additional assortment of high-level goods (e.g., metal cots and mattresses, cosmetics).

The periodic marketplace system and the urban commercial hierarchy are distinct but intertwined. Usually, but not invariably, the highest level markets are located in the major towns of the region. Smaller daily markets may be held in various other urban centers, though in such cases it is common for these markets to have a major market day when country people come to town to make their purchases. At the lower levels are the periodic village markets that meet once a week.

Thus, an agrarian region may be considered to have three types of centers: villages which either lack any enterprises or support enterprises that supply only the local resident population; villages that lack permanent commercial establishments or other enterprises that attract patronage from the outlying areas but that support periodic marketplaces that do draw country patronage; and urban centers that have both commercial and other establishments and a marketplace. These three types of center represent levels of commercial evolution within a region at any point in time. And, over time, with rural agricultural development (that is, an increase in effective demand stemming from a higher output level) periodic market centers can evolve into urban commercial centers that offer a basic array of goods and services full-time to a surrounding population. These three types of centers are simply different parts of an integral system.

### 3. Hypotheses of the Research Study

Several general hypotheses guided the definition of the research program. First, it was taken as a given that savings is a very different question from credit, although the two can, of course, be closely linked. Second, it was assumed that personal savings and credit are very different from business financing, even though here too the boundaries between the two are often blurred. Third, it was assumed that within the business sector, savings and credit patterns would differ for various reasons between mercantile and directly productive activities, and, indeed, within each subsector also. Fourth, because the extent and types of both mercantile and directly productive enterprises varies directly with level of urban center, the patterns of savings and credit would become more diverse and complex in each higher level of center. In fact, a basic working hypothesis holds that any higher level center possesses the savings and credit patterns of all lower level centers, as well as a set of distinct patterns that might arise because of greater population density, greater incomes, or greater circulation of money.

In other words, the highest-level center would exhibit the most diverse and complex savings and credit patterns, while lower level centers are characterized by correspondingly less diverse and complex arrangements. The simplest patterns, therefore, would logically be expected in the rural villages, although the quantum differences between town and country might give rise to quite different patterns in each area.

**4. An Example: The Research Methodology in Zaire**

The following considerations underlie the present *simple* but fairly elaborated research methodology undertaken by the team in its study of Shaba province in Zaire.

First, it was considered important to include as many centers as possible within the region. Thus, the team allocated time for field work in Lubumbashi, Kolwezi, Bukama, Kabongo, and the rural areas of central Shaba.

Second, in each place, the team drew a clear distinction between personal savings--which are in this area usually destined for consumption--and business savings--which are the main source of productive investment. Of the four domains of investigation (personal savings, personal credit, business savings, and business credit), certain types of personal savings are the most difficult to ascertain in a short period of time precisely because they are diffuse and individual.

Third, systematic sampling procedures are impossible where the universe is unknown. Inasmuch as the informal sector is, by definition, unregulated and hence difficult to canvass, there is no easy way to define the universe in order to select a random sample. The only reliable way to estimate the number of small businesses is to do a street-by-street census of such establishments, a very time-consuming and not altogether reliable approach. There is no efficient way of assessing personal savings short of a house-to-house census, which even so would produce unreliable results.

The only reasonable alternative in this situation is to attempt to stratify the potential sample according to specific criterion. This is much easier to do for commercial establishments and loans than it is to do for personal finances and savings. In fact, stratified sampling techniques are only possible for commercial concerns, because the types and numbers of personal savings institutions and forms can only be determined through discovery. For this reason--and because the higher-level centers were presumed to be more complex--the research was organized with two teams in Lubumbashi (one for savings, one for credit) for one week; one team in Kolwezi for three days (to cover both savings and credit), and a mobile team that visited several lower-level urban and rural centers in the agricultural zone. (The same individuals participated in several of the teams.)

Shaba Province exhibits clear geographic and hierarchial differentiation among its urban centers. Geographically, the southern third of the region depends on mining, while the northern two-thirds depends on agriculture. The vitality of the mining sector supports much greater urban commercial development in that region, compared to centers at essentially the same level of economic centrality in the agricultural region. Nonetheless, the system of centers in each region exhibits important regularities, and both converge on the regional capital of Lubumbashi.

As was discussed earlier, a hierarchy of urban centers can be discerned when all centers at the same level of development in the same area offer the same arrays of goods and services to the surrounding countryside *and* any higher-level center offers not only those goods and services but in addition an incremental array of more specialized (less frequently demanded) goods and services.

The implication of the incremental addition of goods and services to centers' arrays is as follows: the lowest levels of center, by definition, support only the most frequently demanded goods and services. Thus, in these centers, a blacksmith makes axes and hoes, while a pharmacist retails common medicines. As the demand area surrounding a center increases (which is to say, as the level of center increases), greater effective demand can support two sorts of changes. First, some types of establishments-- particularly in retailing but also in production and services-- can begin to wholesale merchandise to shops in smaller, outlying centers. Thus, for example, a middle-level center such as Bukama supports a number of pharmacies, some of which sell at semi-wholesale to village pharmacists. Furthermore, a high-level center such as Lubumbashi supports not only retail pharmacies and small wholesalers, but also the supply outlets of major pharmaceutical firms that sell only at wholesale.

Secondly, higher level centers can also support larger firms with greater capitalization and specialization than can smaller centers, again because of the amount of effective demand resident in their hinterlands. (The same point can be made about levels of marketplace center: vendor arrays become more distinctive or specialized the higher the level of the market.) For example, a low- or middle-level center might support a carpenter who makes doors and windows, as well as furniture, on command. His level of capitalization is likely to be very low--a plane, several saws and hammers, a work bench. In higher level centers, by contrast, carpentry may be done by numerous individual enterprises at the same time that the town supports a real woodworking shop. Such a shop would have band and circular saws, power sanders and spray guns, and, perhaps, a sideline upholstery operation. The difference in the amount of capital required to set up these two types of enterprises is so great that one must draw a clear distinction between small and "large" firms. This distinction is important because the source of start-up capital, the manner in which the firm operates, and its sources of expansion capital all differ significantly.

This choice of examples is intended to point out several fundamental points about urban informal sector enterprises. First, the line between what is urban and what is rural is not dichotomous. Everybody can instinctively recognize a large urban center. However, a lower level urban center might look to the untrained eye to be a burg. And, that observer might not even spot the difference between the lowest level urban center and a village. The skill needed here is to be able to discern the emergent enterprises in each level of center, the functions they perform, and the limits on the size or scale of operation.

Also, the growth possibilities of firms differ according to the type of business they are involved in. Service businesses (leather workers, photographers, bicycle repairmen, and to a lesser extent, hotels, restaurants, and bars) can only expand their operation by increasing the number of employees. By contrast, retail establishments can increase their inventory in the first instance *and* later add the entirely new function of wholesaling. Finally, directly productive enterprises can expand their operation by buying new equipment. The carpenter can buy an electric saw, the metal worker can purchase a lathe. These investments allow the enterprise to undertake new lines of work. It is important to take into account these growth possibilities of firms by subsector when one is analyzing the course of urban development.

In summary, the urban hierarchy in Shaba province is characterized by different types and numbers of firms in each level. Higher level centers have more types of firms and more firms of each type than do lower-level centers. Thus, higher-level centers have a more complex organization of business than do lower-level centers. But--and this is an important point--enterprises of the same type operate under essentially the same conditions regardless of the center in which they are located. A carpenter has more or less the same concerns and problems whether he is based in a village, a small town, or a capital city. The major difference within an occupational type has to do with the functions performed (retailing vs. wholesaling) and the capitalization necessary to support the firm in its line of activity, which two points are somewhat interrelated.



43'

# APPENDIX B

# CASE STUDIES

## A. SENEGAL

### Case Study 1: An Office Tontine in Dakar

Sally Bah is the accountant in a Dakar office; she is also the treasurer for the three tontines that operate among workers and professionals there. On payday each month, Sally deducts from the salary of each participant the amount of money he/she is due to contribute to his or her tontine(s). And, at the end of that day Sally makes the payouts to the scheduled recipients of the tontines.

When the cycle of payouts has been completed, Sally inscribes the names of those who want to continue in a new tontine in her accounting book and, with the accord of the members, adds the names of any new participants. For her trouble, Sally is automatically granted the first payout. The order of all other payouts is determined by lottery. Sally writes the names of each participant on a slip of paper, and either she or one of the participants draws the names out of a bowl. Each person then knows exactly when he or she is scheduled to receive the tontine payout.

If one of the tontine participants has a family emergency, he or she can approach the next scheduled recipient and ask to swap turns. If the recipient does not want to give up his or her turn, the other person might mention the reason for his or her need to Sally in passing. Depending upon the situation, Sally might mention the situation to the scheduled recipient at some opportune moment. If that person's need is real, but not as great as the other participant's, Sally might attempt to arrange a three-way rescheduling, with the requester taking the next payout, the next scheduled recipient taking the turn of the following month's recipient, and that person taking the turn of the original requester, which would probably be several months later.

Sally also has the authority to make very short-term loans to individuals in emergency situations. She does not like doing this because she is personally responsible for assuring that the tontine is complete for each payout and she would prefer that the funds not be used in such a way. Nonetheless, she will accede to a request if the person promises to reimburse the money the next day and she has the confidence that the person will in fact do so.

The participants in this tontine like the painless savings of the automatic deduction that is a feature of this tontine and the ability to save up a sum of money that can be used for expensive consumer goods instead of being frittered away on daily expenses. Several people who once participated in these tontines and who no longer do so cite almost the same reasons for *not* wanting to participate. They note that the financial difficulties of the organization have meant that salaries are sometimes paid irregularly, but that the contribution to the tontine must nonetheless be made on time. And, they argue, one must continue paying after one receives one's payout, which they consider a loss of income. In other words, not everyone appreciates tontines or wants to participate in one. But for those who do, tontines represent a handy way to accumulate some savings.

**Case Study 2: A Tontine Participant in a Small Urban Market**

Aisatou Kinteh is an older woman who sells fingerfoods in the market of Podor. Her clientele is mostly children who buy a small pile of peanuts or a banana for 5 or 10 f.cfa each. Aisatou participates in a daily tontine with 20 members, each of whom contributes 20 f.cfa a day. The pay-out of 5,600 f.cfa is made every other week to one member. Aisatou has usually used her payout for personal or domestic expenses that arise from time to time. Aisatou knows she could use the proceeds for her business, but has not found this necessary. And, too, personal needs have loomed large for her in the past.

According to Aisatou, other vendors participate in one or another of the several tontines in the Podor marketplace. Besides her daily tontine, there is a bi-weekly tontine with a 200 f.cfa contribution, and a monthly tontine with a 1,000 f.cfa. contribution. These tontines have between 20 and 40 members each. The members use the proceeds for personal consumption, to resupply their businesses, or even, if one has accumulated enough money, to enter the transport business.

**Case Study 3: A Market Tontine Treasurer in a Large Center**

Mawa Sylla is a seller of used clothing; she is also the treasurer of a market tontine in Kaolack. She collects 500 f.cfa every other day from 30 participants in her association. Payouts are made once a month in an order determined by lottery.

Today Mawa spent four hours in the morning making the rounds among the participants to collect the day's contributions. She says it takes longer now to collect the contributions because this is the hungry season and people do not have as much cash as they will have after the harvest, so sales are slower, and vendors are more reluctant to contribute, although they of course do so after some cajoling.

For her work as treasurer, Mawa is paid one day's contribution by each month's recipient. Mawa prefers to leave this money in the pot, until the tontine has completed its payout cycle. She does this because although she has earned the money, she is



115

responsible for ensuring that the payout each month is complete. If some people have not contributed, she must make up the difference, for which reason she will penalize those member by deducting two months' payment from their proceeds when their turn comes. Mawa notes that one has to be careful about who one allows into a tontine because people have to respect their obligations and because there are a lot of new, unknown people in the Kaolack marketplace now.

In fact, Mawa observes that there are fewer tontines now in the marketplace of Kaolack than there were five or ten years ago. She believes this is partly because of the influx of new vendors. But she also notes that times are harder now. When the peanut economy was stronger there were more tontines. And, when times get better, there are apt to be more tontines. (This observation accords

with the view that people who are too poor or sufficiently well off generally do not participate in such money clubs; that participation is most common among a middle segment of the population.)

**Case Study 4: An Informal Banking Agent in a Large Market Center**

Mamadou Diao started some years ago as an errand boy and runner for the elderly man who collected deposits from vendors to be held by him until the end of the month. Mamadou took over this service business four years ago, when his elderly employer died. Mamadou now has 300 clients in the Kaolack market, who depend upon his service. Each client deposits the same sum of money each day with Mamadou or his representative; different clients give different sums, according to their ability and wishes. Mamadou has to keeptrack of who deposits how much money and whether anyone has fallen behind in his deposits. He keeps careful watch over this through a system of chits because he is personally responsible for any discrepancies, and he wants to maintain his clientele. At the end of each day, Mamadou deposits the funds received in his bank account in town. (This is an interest bearing account, so the interest he receives increases over the course of the month, as the balance continues to increase day by day.) At the end of the month, Mamadou repays each vendor the total amount contributed that month, minus one day's contribution as payment for his service.

**Case Study 5: A Small Entrepreneur's Savings Strategy**

Boubacar Drame is a sheet metal worker in Kaolack. He apprenticed at the age of 10 with a friend of his father's who worked in that trade, and over time he came to learn the trade. After a few years, he graduated to journeyman worker, which entitled him to a percentage commission on each job he undertook for his employer. Boubabcar, who was unmarried, kept close track of his expenses, saving as much money as possible for the day when he could open his own shop. Within about five years, when he was in his early 20s, Boubacar had saved enough money that, with the small inheritance he had received upon his father's death, he could buy the basic equipment of his trade, such as an acetylene torch. With his employer's blessing, Boubacar opened his own operation down the street from his former place of employment. The shop itself--just a small room--was both his office and his home, so all the work had to be doneoutside, in the open air. But at least he had his own shop, building up his own clientele over time. Boubacar's hope now was to save enough money in order to buy a plot of land on which to build a real atelier and to expand his business. At the same time, however, Boubacar, who had just married, recognized that his new domestic obligations would have to be juggled off against his hopes for expanding his business out of savings.

**Case Study 6: Starting a Market Business**

Rene Diop is married to a salaried worker at the national peanut oil plant. Ten years ago, when their children had all entered school, Rene's husband lent her a small sum of money to initiate a market business. In the beginning, Rene began buying locally dyed cloth, which she sold at wholesale and at retail in the major centers of Thies and Dakar. From Rene's point of view, events in the past few years have converged to make this a much less profitable business--many more sellers have entered these urban markets just when consumers there have far less disposable money for relatively expensive cloth. To accommodate this reality, Rene stopped buying locally made cloth and began attending the auction sales held by the local customs office in order to buy cloth at much lower prices. She also began going down to the major Gambian markets, about an hour to the south, to buy other cloth at less than the going Senegalese wholesale price. Both the auctions and the Gambian suppliers, however, sell for cash only. Fortunately, Rene had enough retained earnings to be able to pay cash for her purchases. Most recently, Rene has again switched arrays, again in response to decreasing local demand. She now buys bales of used clothing at wholesale in Dakar for resale in Kaolack. Although in time Rene would have made this shift herself, she was assisted on this occasion by a loan from a local development project (see below).

**Case Study 7: Supplier Credits to Market Vendors**

Ibrahima Bah is a tailor who has a small stall in the Kaolack market. Ibrahima maintains a small inventory of pieces of cloth, from which clients can chose if they wish. Usually, however, clients bring cloth that they bought elsewhere for Ibrahima to sew into a garment. Every now and then, a client who has a personal or business need will commission Ibrahima to make a relatively large number of garments. Since Ibrahima does not have the resources to finance the purchase of the material necessary, he must ask his client for an advance, hopefully half of the total price for the commission, at least the cost of the material necessary for the commission. If the client cannot advance at least the cost of the materials, Ibrahima must approach the cloth merchant in town with whom he has dealt in the past. This merchant, Ibrahima knows, will be willing to supply the cloth on a three month credit at a cost of 1,300 f.cfa a meter. Ibrahima would



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prefer not to take the material on credit because he could purchase that same material for cash from the same merchant for 1,000 f.cfa a meter. But without the advance, Ibrahima must either take the material on credit from the supplier or forego the commission from his client.

## B. ZAIRE

### Case Study 1: A Metalworker in Lubumbashi

Ngoy is a 30-year old metalworker. His workshop is across the street from the Kenia market in Lubumbashi. Ngoy learned his trade at the *Cite des Jeunes*, a vocational school run by a Catholic order for wayward youth. Ngoy was unemployed for four years after his graduation, until in 1984 his older brother gave him the funds to open a metal working shop.

Ngoy's shop is in fact an open area in front of an old agricultural supply store, which now is home for him and his family. Ngoy does much of the work himself, but he does hire youngsters from the Cite when he has more orders for metal doors or windows than he can handle. His entire equipment consists of one acetylene torch, a small traditional forge, and some hammers. His electric metal sander broke recently, and he would like to replace it.

Ngoy handles only small individual orders. When a client comes to place an order, he usually requires a 50 percent advance, in order to buy materials. Ngoy will sometimes waive the advance if someone is known and serious. He realizes, however, that such credit sales penalize him because he will receive payment over several months, and prices are increasing constantly.

Ngoy's home is simply the sales area of the old agricultural supply store where he rents space. An old office now is a bedroom; the salesroom is his living and dining area; and the old sales counter now serves as an oversized stand for a television. Ngoy's wife sells used clothes hung on a line on the porch that fronts the main street. Both Ngoy and his wife keep their money in a small strong box in their house. And both hope that they will be able to survive the recent economic difficulties.

### Case Study 2: A Pharmacist in Shaba Province

Upon graduation as a pharmacist in 1973, Tumbo took a position as the representative of a Belgian pharmaceutical company. By 1978, he had accrued enough capital (z51,000) to open his own pharmacy in Kolwezi. At the time, he would go to Kinshasa



128

about every other week to restock his inventory. His pharmacy then sold at retail and semi-wholesale.

Tumbo's pharmacy was a success because there were not as many pharmacies in town as now. Also, Gecamines already had its own network,but still depended upon independent suppliers, such as Tumbo, for some items. Thus, Tumbo was able to open another pharmacy in Lubumbashi in 1979 and a third in Likasi in 1984.

The present economic environment is causing difficulties for Tumbo. Before, his suppliers would forward stock for payment within 10-15, and even 30, days. Now the suppliers insist on cash payment, with at most a 10-day grace period. At the same time, the large contract buyers (Office de Routes, SNCZ, Gecamines, Snell, Forest, Regideso, Swanipool, Safrigas), on whom Tumbo now depends for most of his business, are often late in making their payments. This squeeze, in an inflationary environment, is creating cash-flow problems for Tumbo.

Tumbo maintains a business account at a local bank in order to be able to make payment on his purchases. In the past, he has secured short-term commercial loans to finance his business. But now, the bank wants such significant collateral as guarantee and high interest rates (40%) that he prefers to use his own money.

Tumbo is trying to diversify his business interests. In association with several colleagues, he is building a 56-room hotel with a restaurant in Lubumbashi. He has not, however, been able to secure a bank loan for this undertaking, and so is investing only his own money in this undertaking. Construction proceeds as funds become available.

**Case Study 3: A Woodworking Shop in Lubumbashi**

Kafuku Sapwe opened a woodworking shop with saving he accrued from his 16 years with SNCZ, first as head of the carpentry section, then as head of the welding section. When he opened in April 1965, he operated out of his home with a capitalization in current value of z500,000 and seven employees. The following year, Kafuku built the exhibition room at his present workshop location, and two years later he added a workshop and then a storeroom. The complex now has several offices (including a sophisticated video system to oversee workers in the shop areas) and an upholstery section. In all, 84 salaried employees work in this shop.

Both the start-up capital and the subsequent expansion capital came from personal savings and retained earnings. Kafuku has applied for bank loans, but was refused because banks will only lend for short terms.

Kafuku began by making furniture for the retail market. Within a few years, he secured his first large contract--making cases for the Coca Cola distributor. Since 1970, his firm has had contracts with various large firms (e.g., SNCZ, Gecamines) for doors and other items. These firms are now taking 60 days or more to pay, which is causing cash-flow problems. As Kafuku said, he is able to meet his monthly payroll at this time only by using the money from the retail sale of caskets to pay his workers.

As would be expected in such a large firm, the business keeps books (indeed it has a two-man accounting department), and it maintains a business account in a local bank. The firm also provides its workers transport and a canteen or company store (one reason there reportedly are no ristournes here). There are also dormitories so the workers can work overtime during periods of peak production.

The remarkable contrast in Kafuku's business is the scale of his operation given the rudimentary capital base. Two workshops flank the showroom, one for carpentry and one for upholstery. The workshops are really just large, dirt-brick buildings stuffed chock-a-block with equipment, inventories, and orders. Although there are circular saws, band saws, and jigsaws, much of the work is done by hand and in the same work area. Even painting and staining is done is this workshop, despite the evident sawdust and dirt.

Kafuku has invested most of his money into expanding his operation, which includes several trucks, the surveillance system, and a significant amount of urban real estate. He claims that he could quintuple the size of his operation if he could obtain the loans and foreign currency necessary to purchase new equipment.

**Case Study 4: A *Caisse Populaire* Movement in Shaba**

The *Union des Caisses Populaires pour le Developpement* got its start in 1983 when a Catholic priest together with two local teachers founded the first caisse in Kenya, a district of Lubumbashi. The previous year the Catholic Church had organized a conference on the role of the church in development and a delegation from Cameroon had come to describe their experience with the cooperative saving movement in that country.

By 1986, twenty caisses had been opened and the *Union des Caisses Populaires Diocesaines* (UCPD) was formed. Shortly afterwards, a conflict erupted between the president of the union and the general manager and the latter spun off into a movement of his own called the *Caisse Populaire de Credits Tujenge* (CPCT). The Bishop of the diocese, dismayed over this conflict and alarmed by the potential risk exposure which the church had in the growing movement, decreed that there be no more formal relations between the church and the two unions. To emphasize this separation, UCPD was asked to change its name and it adopted the name of *Union des Caisses Populaires* *pour le Developpement* so that it could retain its initials. In spite of the formal separation, most caisses belonging to UCPD maintain close relations with the nearby parishes. Today, UCPD has thirty caisses and CPCT seven.

We interviewed the manager of one caisse which belongs to UCPD and is located in Ruwashi, a village on the outskirts of Lubumbashi and the local center of malachite artisanry. This caisse has approximately one thousand active members and deposits totalling z8 million (about $35,000). Eighty percent of the members are men, most of them artisans, civil servants or teachers. The caisse keeps at least 10% of its deposits in liquid reserves at all times. The manager related how one day a woman came to open an account and make a deposit. Later that same day she returned and asked for her money back, not just any money, but the very same notes that she had deposited. When the teller indeed was able to produce "her" money, she was satisfied, left her money there and has been an active member since.

In 1987 the caisse had loans outstanding equalling forty percent of its funds, but as inflation grew worse the decision was made to reduce this amount and opt for the security of treasury bonds. At present, more than three quarters of the deposits are invested in these bonds. The caisse's loan portfolio has been reduced to z1 million or far less than the Central Bank guidelines allow. Twenty five percent of these loans are to merchants and close to 60% are loans made to the adjoining parish which uses most of these funds for an agricultural project. The remaining loans are mostly for social or personal consumption purposes.

Deposits earn 4% yearly interest and loans are charged a monthly interest of 2 1/2%. All loans are short-term for from 30 days to 3 months. To qualify for a loan, the applicant must have been a member for at least 3 months, keep a savings balance of at least 50% of the value of the loan for the duration of the loan, and provide a guarantee for the balance. The preferred form of guarantee is a mortgage on a house, but the manager acknowledges that this is rarely obtained. More frequently, a salaried person will commit himself to deposit his salary at the caisse and have a monthly sum deducted. A personal guarantee from another person or group is also accepted, but only in rare instances can willing candidates be found. The most common form of guarantee is a lien on some consumer item which sometimes actually gets deposited at the caisse.

The caisse maintains close relations with the church, being actually located on the church grounds. To ensure employee honesty the manager only hires Christians who have to have been recommended to him by a priest. He has no doubts that having the church behind it has helped the caisse establish a good image with the local population and has protected it against undue influence from local authorities.

In his mind, the shortage of trained personnel and lack of investment opportunities are the biggest problems that the movement is facing. Only a few caisses employ an accountant and there are none at the union. Although the books are generally well kept, internal control procedures are lax and in fact the priests are still the ones who are doing most of the supervising. He realizes that at the interest rate which they charge it makes more financial sense to invest in treasury bonds, but contends that even the considerable spread which they are earning is barely enough to cover their expenses.

**Case Study 5: Another *Caisse Populaire* Movement in Shaba**

In another part of Lubumbashi we had an interview with citoyen N'Goy N., the man who split away from UCPD and is now president of his own movement which has the nickname Tujenge ("let's build"). The interview was held in the central office of the movement which is the original caisse that was opened in 1983 and which he retained after the settlement. This caisse is located next to the Catholic church in the Kenia district of Lubumbashi. His movement has seven caisses and 19,000 members, and total deposits of z175 million (about $760,000). The Kenia branch accounts for 8,000 members and z268 million in deposits, z15 million of which or twenty two percent is currently outstanding in loans to its members. Thirty percent of this amount consists of loans to merchants, 8% is for construction loans, 15% for agriculture, 10% for personal consumption and the remaining 37% is for unspecified purposes. Money is lent on the same terms as at UCPD.

Cit. N. has distanced himself from any supervision by church officials and has set up his own internal inspection force. According to him, the conflict with UCPD arose over a difference in visions: while most of the UCPD branches are located in small buildings in or around Lubumbashi, he has his designs set on opening larger scale offices all over the Shaba province. So far, his movement has invested z20 million in its offices. Fifty percent of Tujenge's funds are placed in treasury bonds, so his movement faces the same dilemma of how to increase revenues to keep pace with inflation. He is considering setting up a separate consumer cooperative selling construction materials and other items which would circumvent the regulations forbidding a financial intermediary from engaging in commerce directly. Holding money in foreign exchange is another avenue he would like to explore, but on which the regulations are unclear.

We left this interview with mixed feelings. The operation appears to be well-run and the president, a former teacher, seems to be well-intentioned. However, with the removal of the church there is no longer any stringent inspection from the outside to guarantee that funds are not misappropriated.

**Case Study 6: A Female Entrepreneur in Kinshasa**

Five years ago, Jeanette S. worked as a peanut vendor in the Kinshasa market place; today she owns a popular boutique of imported women's clothes, two fast-food restaurants and is building a third. Born poor, Jeanette has received no formal education, but is outgoing and obviously ambitious. In 1983 one of her customers at the market place offered her a job as a saleswoman in a fashion boutique. Within a year the business came up for sale and with her small savings, the proceeds of an old car and some jewelry and the support from a powerful gentleman friend, she managed to acquire the company in partnership with a wealthy lady.

Through her friend she came in contact with the owner of a large informal financial institution who started supporting her with a continuing series of one-month loans at 10% interest. She had to pledge her share in the business as collateral and as she proved herself to be a good credit risk the loans gradually grew in size. In 1985 she made her first buying trip to France--her first travel outside the Kinshasa region--and with this successful trip her business accelerated. She now travels four times per year to France and in the process has taught herself everything from how to speak French properly to maintaining a basic bookkeeping system and anticipating the vagaries of the nation's currency exchange rate.

She has used her earnings to buy out her partner and diversify into the fast food business, a concept that occurred to her as she heard customers and friends complain about the long waiting times in Kinshasa restaurants. She has started her two restaurants again with the support from her friend and loans from the finance company and a similar package will finance her third restaurant which will open within a few months.

At present her three businesses employ 18 men and 12 women. Jeanette is 32 years old, married and has three children. She has a marriage contract stipulating the separation of her goods from those of her husband and she is allowed to operate completely independent from him - reportedly an unusual situation for a married woman in Zaire. She already has her eyes set on two new ventures: a dress shop manufacturing copies of imported women's fashions and a building to be constructed near the airport and operated as a hotel or as a medical offices complex. The financing required for these ventures exceeds the limits of her current backers and she is looking for new credit opportunities. She keeps an account with Barclays Bank where she has repeatedly applied for, but never obtained, a loan in spite of the substantial real estate holdings that she could offer as collateral. The bank has never given her a reason for the credit denial, but it is her distinct impression that access to formal credit requires higher incidental payments than she is willing to offer.

# APPENDIX C: TABLES

## TABLE 1:
## LEVELS OF URBAN CENTER IN SHABA REGION

| Level | Center | Directly Productive Firms | Commercial Firms |
|---|---|---|---|
| I | Lubumbashi | Major Industry<br>a. Glass<br>b. Plastics<br>c. Metal rolling<br><br>Major Artisanries<br>a. Metal working<br>b. Constructions<br>c. Malachite working | 1. Large export-import firms<br>2. Banks<br>3. Specialized stores: hardware, TV, radio, video<br>4. Transport, car rental<br>5. Large daily market |
| II<br>Mines | Kolwezi<br>Likasi | Major Industry<br>a. Lumbering<br>b. Furniture<br><br>Major Artisanries<br>a. Metal working<br>b. Construction<br>c. Malachite working | 1. Branches of large import/export firms<br>2. Banks<br>3. Specialized stores: hardware, auto parts<br>4. Transport<br>5. Large daily market |
| II<br>Agri | Kamina<br>Kalemi | Major Artisanries<br>a. Metal working<br>b. Construction | 1. Large comm. shops<br>2. Transport<br>3. Large daily market |
| III<br>Agri | Kabongo<br>Kabalo<br>Malemba Nkulu<br>Nyunzu | Minor Artisanries | 1. Retail shops<br>2. Some transp.<br>3. Small daily market<br>4. Large weekly market |
| IV<br>Agri | Kayeye | Minor Crafts | 1. Small retail shops<br>2. Weekly market |
| V<br>Agri | Villages | Limited Minor Crafts | 1. Tiny retail shops<br>2. Weekly market |

FIGURE 1:
SPATIAL DISTRIBUTION OF HIGH LEVEL CENTERS
IN THE PEANUT BASIN

| | | | | | | |
|---|---|---|---|---|---|---|
| | O | o | O | o | o | O |
| Center, in Basin | | Fatick | Kaolack | Kongheul | | |
| Level | | 2 | 1 | 2 | | |
| Center, outside Basin | Mbour | | | | Kompountun | Tamba |
| Level | 1 | | | | 2 | 1 |

TABLE 2:
URBAN ENTERPRISES IN THE UPPER FLEUVE REGION

| | Podor | Matam | Ourossoge | Bakel |
|---|---|---|---|---|
| TRANSPORT | | | | |
| Pick-ups | 1 | 1 | 5 | 22 |
| Trucks | 0 | 0 | 1 | 2 |
| Taxis | 0 | 0 | 0 | 1 |
| Buses | 0 | 0 | 0 | 0 |
| SERVICE ESTABLISHMENTS | | | | |
| Restaurants | 2 | 4 | 6 | 3 |
| Flour Mill | 1 | 1 | 1 | 2 |
| Gas Station | 1 | 1 | 3 | 1 |
| Bars and Clubs | 1 | 0 | 2 | 0 |
| Hotels | 0 | 0 | 1 | 1 |
| Movie House | 0 | 1 | 0 | 0 |
| MERCANTILE FIRMS | | | | |
| Grocery shops | 3 | 25 | 20 | 50 |
| Cloth, Dry Goods | 2 | 1 | 5 | ? |
| Jewelry | 2 | 1 | 5 | ? |
| Pharmacies | 0 | 1 | 3 | 2 |
| Hardware store. | 0 | 1 | 2 | 1 |
| Auto parts store | 0 | 0 | 1 | 1 |
| REPAIR AGENCIES | | | | |
| Tailors | 50 | 50 | 30 | 50 |
| Auto repair | 1 | 3 | 3 | 3 |
| Tire repair | 1 | 1 | 5 | 3 |
| Metal workers | 0 | 3 | 4 | 2 |
| Watch repair | 1 | 1 | 2 | 2 |
| Bicycle and velo | 0 | 1 | ? | 2 |
| Radio repair | ? | ? | 6 | ? |

TABLE 3:
NUMBER OF ENTERPRISES BY SECTOR AND CENTER,
FLEUVE REGION

| | SECTOR | | |
|---|---|---|---|
| | Production | Services | Artisanry |
| St. Louis | 99 | 47 | 84 |
| Dagana | 17 | 2 | 12 |
| Podor | 18 | 4 | 18 |
| Matam | 8 | 3 | 7 |

(Bakel is administratively part of the region of Tambacounda and thus figures were not available for Bakel in St. Louis.)

138

TABLE 4:
NUMBERS OF MARKET VENDORS BY COMMODITY ARRAY
IN PODOR, MATAM, OUROSSOGE AND BAKEL

| | Podor | Matam | Ourossoge | Bakel |
|---|---|---|---|---|
| FOODSTUFFS | | | | |
| Condiments, Onions | 33 | 35 | 13 | 22 |
| Rice, Local grains | 22 | 12 | 5 | 5 |
| Greens | 15 | 13 | 24 | 5 |
| Tubers | 15 | 12 | 6 | 2 |
| Fruit | 14 | 16 | 5 | 2 |
| Fresh Fish | 12 | 21 | 3 | 2 |
| Vegetables | 10 | 0 | 2 | 2 |
| Dried Fish | 6 | 7 | 5 | 0 |
| Salt | 4 | 1 | 4 | 1 |
| Bread | 2 | 3 | 1 | . |
| Meat | 1 | 7 | 3 | 1 |
| Milk products | . | 4 | . | . |
| MERCHANDISE | | | | |
| Shop (Boutique) | 17 | 19 | 16 | 5 |
| Used Clothes | 8 | 11 | 5 | 5 |
| Enamel and Plastic | 4 | 8 | 8 | 6 |
| Pharmaceuticals | . | 10 | 3 | 1 |
| Cloth | 3 | 5 | 2 | 4 |
| Hardware | . | 10 | 1 | 1 |
| Metal Cots (and mattresses) | . | 1 | 4 | 2 |
| Cosmetics | . | 1 | 1 | 1 |
| Sacks, bottles | 1 | . | . | . |
| Lumber | 2 | . | . | . |
| Fishnets | . | 1 | . | . |
| ARTISANRY | | | | |
| Tailor | 6 | 12 | 12 | 7 |
| Straw goods | 3 | 4 | 1 | 1 |
| Jeweler | 4 | 2 | 5 | 3 |
| Blacksmith | 4 | 1 | 1 | . |
| Carpenter | . | . | 2 | 4 |
| Potter | . | 1 | 2 | . |

TABLE 4: CONTINUED

| | | | | |
|---|---|---|---|---|
| SERVICES | | | | |
| Finger foods | 5 | 6 | 5 | 4 |
| Restaurants | 5 | 4 | 12 | 10 |
| Radio, watch repair | 1 | 4 | 9 | 1 |
| Bike repair | 1 | 1 | 1 | 4 |
| Shoe repair | 1 | . | 1 | 1 |
| Photographer | 1 | . | 2 | 2 |
| Writer | 1 | . | . | . |
| OTHER PRODUCTS | | | | |
| Charcoal | 1 | 8 | 4 | 4 |
| Animal forage | 15 | . | 5 | . |
| Rice mill | 2 | 2 | ? | 3 |
| Total Number of Vendors by Array Type | 225 | 243 | 206 | 121 |

140

TABLE 5:
NUMBER OF JOURNEYMEN AND APPRENTICES PER FIRM, BY SECTOR, IN THE REGION OF ST. LOUIS

| | St. Louis | Dagana | Podor | Matam |
|---|---|---|---|---|
| <u>Productive Enterprises</u> | | | | |
| Proprietorships | 99 | 17 | 18 | 8 |
| Journeymen workers | 157 | 17 | 42 | 30 |
| Apprentices | 460 | 17 | 40 | 16 |
| <u>Service Firms</u> | | | | |
| Proprietorships | 47 | 2 | 4 | 3 |
| Journeymen workers | 34 | 5 | 4 | 13 |
| Apprentices | 136 | 4 | 8 | 9 |
| <u>Artisans</u> | | | | |
| Proprietorships | 7 | 18 | 12 | 84 |
| Journeymen workers | 38 | 42 | 59 | 81 |
| Apprentices | 175 | 52 | 58 | 6 |

TABLE 6:
SMALL ENTERPRISE CREDIT PROJECT,
FINANCING BY SECTOR

| | No. of loans | P.c. of total number | Ave. loan size | P.c. of total value |
|---|---|---|---|---|
| <u>Urban</u> | | | | |
| Construction | 7 | 13% | 221,500 | 23.5% |
| Carpentry | 1 | 2 | 1,517,000 | 2.3 |
| Hardware | 1 | 2 | 2,500,000 | 3.8 |
| Mechanic/metalworker | 4 | 8 | 790,000 | 4.8 |
| Retail(commerce) | 12 | 23 | 1,330,000 | 24.2 |
| Tailor/Jewelers | 1 | 2 | 1,451,000 | 2.2 |
| Subtotal | 31 | 59 | | 70.3 |
| <u>Rural</u> | | | | |
| Agricultural production | 4 | 8 | 1,319,000 | 4.2 |
| Agricultural commerce | 1 | 2 | 1,979,000 | 3.0 |
| Food processing | 4 | 8 | 1,567,000 | 9.5 |
| Fisheries | 3 | 6 | 550,000 | 2.5 |
| Livestock | 4 | 8 | 1,072,000 | 6.5 |
| Pharmacies | 5 | 9 | 884,000 | 6.7 |
| Subtotal | 21 | 41 | | 32.4 |
| Totals | 52 | 100 | | 102.7 |

# APPENDIX D

# SMALL URBAN ENTERPRISES AND SENEGAL'S FINANCIAL MARKETS: AN INFORMAL SURVEY

### 1. Summary of Results

In early 1988 an African consulting firm, ABC Consultants, was commissioned by USAID/Dakar to survey small enterprises and their financing sources in three Senegalese cities: Dakar, Thies (a relatively rich urban center not far inland from Dakar), and Ziguinchor (the largest urban area in the Casamance region, which is separated from the rest of Senegal by the Gambia). One hundred firms were sampled in each of the three areas. The survey, however, was *not* intended to be scientific, and therefore is not highly reliable. Because it was intended only to help the Mission gain some general impression of what small urban enterprises are like and how they are financed, the results should be interpreted with extreme caution. Nonetheless, the results were helpful in assisting the team confirm some of its observations and in opening some new avenues for inquiry. So we offer the following summary and commentary with the caution that *the survey may tell us something, but we must not put too much reliance on these results.*

When the 100 firms sampled (unscientifically) in each location were grouped together, making 300 interviews altogether, they were broken into three main categories: 33% of the sample were merchants, 56% were artisans, and 11% were service enterprises. Most of the merchants were in "general commerce." Most of the artisans were either carpenters (26%), tailors (26%), or metalworkers (16%). Most of the service establishments were mechanics, repair shops and restaurants.

The owners were virtually all also the managers, and 9 out of 10 of them were men; women were concentrated in tailoring, fabric dying, crafts, general commerce, and restaurant businesses. The entrepreneurs as a group were much better educated than average, with only 18% of them unable to read or write, and over half able to read and write in French. Most went to Koranic schools for an average of 7 years, and 75% of them had worked as apprentices for an average of 7 years.

The average number of employees of these firms was 4, with artisans employing an average of 5, service firms 2, and merchants 1. Most worked full time and were either family members or apprentices.

The average age of the firms was 10 years and most of them operated year-round. The average value of the firms (data for which are even less reliable that the other data) was just under $6,000, with merchants having an average $9,000 invested, artisans only $4,700, and service enterprises just under $3,500. Annual sales or turnover (again, *weak* data) were $18,000 for all firms, with merchants averaging $31,000, artisans only $11,000, and services even less at $7,000.

About one-third of the entrepreneurs had bank accounts, with almost half of the merchants but only about a quarter of the artisans and services using them. About 38% kept some kind of books, most of them simply registering sales and purchases. Only 40% were registered at the Registre de Commerce, leaving 60% of them in the informal sector by our definition. One third had not made any changes in their business in the past year, and most of those who had made changes either improved or rearranged their workshops or increased their stock. Most had definite ideas of what future changes they would like, with buying more machinery, raw materials, and stock by far the most common response. Not surprisingly, virtually all identified lack of finance as a major reason why they had not developed the businesses further (this is the universal response of businesses throughout the world). Interestingly, 18% of them mentioned lack of demand as a major business constraint, while another 22% mentioned factors which might be called "supply-side" constraints.

When the entrepreneurs were asked what they would do if they received an order they could not fill with existing funds, 70% of them answered that they would ask the customer for an advance, another 43% said they would lose the deal if an advance was not forthcoming, and only about one third mentioned borrowing money or seeking supplier credits.

Just over one fourth of all the firms had borrowed money from any source. A rough analysis of what might be called "person-loans", that is, instances of a loan to a person without specifying any amount, indicates that about 37% of the person-loans came from their families, 29% came from their friends, 15% from their suppliers, and only 14% from banks. In other words, the formal financial or banking sector supplied only about 1 out of every 7 person-loans, with the informal financial sector (counting supplier credits as informal) supplying 6 out of 7. The *amounts borrowed* from the formal sector were much greater than average (over twice as large as loans from family or friends). In 79% of the cases where money was borrowed, *no interest* was paid; interest was *never* paid on loans from family or friends.

About 1 in every 6 entrepreneurs participated in tontines, with the average annual amount drawn from them being just under $1000. About 1 in 8 entrepreneurs participated in some type of savings organization other than tontines.

Just over one third of the firms bought goods on credit from suppliers, on average for two months. Merchants accounted for most of these. In three fourths of the cases where this was done, the cost of the goods was no greater than if they had paid in case;

in one fourth of the cases where the goods *were* more expensive, they averaged 26% more expensive than when they were bought for cash.

The average age of people who borrowed was 40 years; the average ages of businesses that borrowed was 12 years. The average value and average sales of borrowing businesses was slightly below the average for the sample as a whole.

Regionally differentiated, the average businesses were largest in Thies, slightly smaller in Dakar, and very much smaller (about half the size of the others) in Ziguinchor. Sales were in line with business size, with Ziguinchor's about half those of Dakar and Thies, Dakar firms were twice as likely to have bank accounts as Ziguinchor, but less than half as likely to borrow money as firms in Ziguinchor or Thies, though the average amounts borrowed were considerably greater for Dakar firms than for either of the other locations. Dakar firms were also considerably more likely to receive supplier credits than the others.

**2. Commentary**

A number of anomalies stand out from the survey results, which may bear further study. The number of artisanal firms is considerably greater and service firms considerably smaller than one would expect from a random sample. The level of education is surprisingly high, but it must be remembered that this sample did not include market vendors, but only "small enterprises." Most *had* served as apprentices, showing the relative *un*importance of wage labor in these small enterprises. Informal sector firms accounted for over half of the total (60%), a surprisingly high percentage considering that these firms were located in relatively large regional urban centers, and most of them appear not to have had bank accounts or kept books. Well over half of the loans (about 2 out of 3 of the "person-loans") came from the informal financial market, and in the majority of those, no interest whatsoever was paid, suggesting that the informal financial market is *very* important in terms of numbers of participants. In addition the amounts involved were relatively small and short-term in nature. A small minority was involved in savings arrangements like tontines, but most had fairly good ideas of where they would use funds if they became available.

This list of characteristics pretty well confirms the team's findings from interviews and economic censuses. Informal financial markets are *very* important to most Senegalese small businesses, and grow in relative importance as the size of the urban center gets smaller. Although the loans are relatively small and short-term in nature, they are available on a flexible basis, often involve no collateral, and the direct money cost is essentially zero when it comes from family and friends where a continuing relationship is likely. When it comes from outside the inner circle of family and friends, it costs more--often *much* more, mainly because of a) the higher risk being born by the lender, and b) the relative monopoly the moneylender has over the relatively small and impoverished borrower.

Formal financial markets, by contrast, are relatively structured and rigid, touch relatively few people, but make larger aggregations of funds available and for longer (but not necessarily *long* in any absolute sense) periods. Their relative impersonality makes collateral extremely important, but this tends to restrict the domain of the formal financial sector to those who already have property--the relatively well-to-do.

# APPENDIX E

# A PROFILE OF SMALL AND MEDIUM SIZED BUSINESS FINANCING IN ZAIRE

## 1. The Survey

To better understand how small and medium-sized businesses finance themselves in Zaire, an impressionistic *urban* study of 60 such firms was conducted in Kinshasa, Lubumbashi and Kolwezi. It was limited to Zairian-owned informal businesses with 20 employees or less. An attempt was made to sample somewhat randomly, but the firms were *not* scientifically selected and the results should be taken as indicative only.

The sample included commercial businesses (wholesalers, retail shops, boutiques, market vendors), service operations (hotels, restaurants, bars, barbers, truckowners, garages, repairshops), and manufacturing firms (foundries, metalwork shops, machine shops, sawmills, furniture makers, carpenters, print shops, tailors, bakeries, brick-makers). Of the 60 firms, 9 were vendors on marketplaces in Kolwezi, Lubumbashi and Kinshasa; 26 were other businesses in Kolwezi and Lubumbashi; and 25 were other businesses located in Kinshasa. While there were distinct differences between the businesses in Shaba and Kinshasa, significant differences between businesses in the two Shaba cities were not apparent. Market vendors in the three different cities did display great similarities, but as a group are distinctly different from other businesses. The survey results are divided accordingly.

Table 1 of this Appendix shows the results of the survey; the following is a further elaboration of our findings.

### a. Ownership

Most businesses are owned by just one person; none of fthe women-owned businesses had more than one owner. It is still rare that a woman employs other people. While 70 percent of the women-owned businesses are one-person operations, only 10 percent of the male entrepreneurs were of this type. The marketplace seems to offer the best chances for women to start businesses: half of the business women interviewed earn their living from a market stand.



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b. Startup Finance

Banks clearly do not play a role in financing new ventures in Zaire. Practically all the businesses had been started with personal savings or money provided by family members. Only three firms in the survey were started by other means: one was obtained in the Zairianization of 1974; the owner of another freely admitted that he had stolen the money from his former employer, and the third one had been financed by Gecamines, for whom he formerly worked. It appears that many businesses in Shaba were started with the help of equipment and supplies obtained from Gecamines by other than strictly legal means.

Incidentally, it is not uncommon for a wealthy individual to set family members up in business in an attempt to make them self-sufficient rather than have them depend on his/her wealth. Of course, it does not always work out as planned: one owner of a food store had set one of his nephews up in a store of his own, only to see him squander the money and drive both of them into bankruptcy.

c. Accounting Standards

This question was intended not to find out how good the respondents' accounting systems were, but to determine the extent to which personal and business expenses were being separated. To a bank, this would indicate what chance there is that funds would actually be used for the purpose for which they were borrowed, rather than used to meet family expenses. It would not necessarily imply that people who do not keep books are worse credit risks, but the ability to distinguish between expenses would give an idea of the size of loan that an applicant could possibly absorb and keep track of.

The quality of bookkeeping clearly is a function of size with none of the market vendors keeping any books while half of the businesses in Kinshasa maintain some, albeit often rudimentary, form of accounting system.

d. Bank Accounts

Again, there are significant differences between the various categories: almost all of the business people in Kinshasa, two thirds of the businesses in the provincial towns and only one third of the market vendors have a bank account. A surprisingly high number of small business people have bank accounts; the appeal of the semiformal savings cooperatives is particularly striking. Low costs and the proximity of the local branch were the reasons most frequently given for maintaining an account with a cooperative. The small number of business people in Shaba who have an account with a semiformal institution is explained by the recent bankruptcy of a group of savings cooperatives in that province and shows how vulnerable the appeal of this movement is. An example was found of a businessman who deposits his money with another individual who in turn keeps the money in a bank account. The respondents were also asked whether any owners or employees participated in ristournes: the appeal of these systems is strongest among the market vendors and particularly the women, but it is significant that in almost half the businesses in the two provincial towns there is some form of rotating credit system as well. Lack of trust and social cohesiveness were the two reasons that were most frequently given for *not* belonging to such a group, which may explain why the phenomenon is not as widespread among Kinshasa businesses.

e. Supplier and Sales Credit

Many more business people have to extend credit to their customers than receive credit from their suppliers, and the difference is growing. While three quarters of the businesses sometimes sell their products on credit, less than one third ever receive credit from their suppliers. And most of those who do receive supplier credit indicated that their suppliers have become less forthcoming recently, and if supplier credit is obtained it is usually for a shorter period than before. With prices rising rapidly, most business people feel it is essential to give some credit to customers in order to maintain sales. Parastatals are notoriously bad customers, unilaterally setting the price, refusing to pay cash, and always late in paying their bills. The national railroad company (SNCZ) is a particular case in point, some of its bills being more than two years overdue.

f. Formal Credit History

Of all the businesses that ever obtained bank credit only two employed fewer than ten people, so clearly the smallest businesses received the least. None of the women-owned businesses and none of the market vendors ever received formal credit. No examples of credit obtained from savings cooperatives nor from informal money lenders were found, although these people would probably be reluctant to admit that they resort to the latter. Several of the entrepreneurs who have a loan with a bank admitted that they were having trouble meeting the payments lately. Incidentally, the owner of the food store whose case was mentioned above enjoys excellent relations with the Banque Commerciale Zairoise, the nation's largest bank, notwithstanding the fact that he only employs seven people and had gone through bankruptcy. As he put it, he used to get credit from the bank before his bankruptcy and as the people at the bank knew of the reasons for his default, they were willing to stick with him and renew their credit once he had started his business again. The message seems to be that once an entrepreneur has managed to establish trust with a bank its support will continue no matter what the size of the business.

g. Credit Needs

According to our survey, the need for credit is not a function of size, being felt as much by market vendors as by larger urban enterprises. A comparison between the percentage of business people who have expressed a need for credit and the percentage who actually have ever submitted a loan application reveals that at least one third of the respondents who feel a need for credit have nonetheless decided not to apply for a loan. Various reasons were given for not applying:

- There is great uncertainty about the economic situation and the future course of inflation. Manufacturers in particular have become cautious and express reluctance to take on additional liabilities.

- There is uncertainty, more so among the manufacturers than the merchants, about their ability to continue passing price increases on to their customers and maintain, let alone increase, sales.

- The collateral requirements of banks are not as much of a problem as might be expected. Most of the respondents own some real estate and would not object to using it as collateral, although some expressed concern about the registration costs involved. Only a few of these felt that the interest rates were too high.

- By far the most prevalent feeling was that small business people like themselves have no chance of gaining access to bank credit. None of the women that we interviewed thought they would be able to obtain formal credit, and some of these have well-established businesses with several employees. About one third of the respondents--a surprisingly high number--had heard of the new World Bank-financed small and medium enterprise development project and even more were familiar with SOFIDE. But a recurring theme was how loan approvals with SOFIDE and with banks in general do not depend solely on the quality of the application, but require special favors from the applicants as well.

**2. Commentary.**

From the survey results one could easily conclude that the lack of credit is the single largest problem that small business people are faced with. Short-term credit is needed to support working capital requirements, especially as supplier credit dries up and customers keep insisting on favorable terms as a condition of their purchase. Long-term credit is needed to finance replacement parts and new equipment.

One of the more memorable exchanges that we had was with the owner of a machine shop, most of whose equipment was not functioning because of a lack of spare parts. He is one of those who applied for a loan, but was rejected, in spite of the fact that he has several pieces of valuable property which he is willing to put up as collateral. One would logically expect that he would consider instead selling some of his real estate for funds to invest in spare parts, especially since he knows of several profitable orders that he could take if only his equipment would work. But this is not so. Apparently, the prospects of his business do not measure up to the security which his real estate is providing him at the moment.

This is one of the delibitating effects that the extreme inflation has on business behavior. If this example is representative--and several similar cases suggest that it is--then it is safe to predict a gradual decapitalization of small industry as owners transfer their earnings to other, more secure investments, rather than reinvest them in their own business. And it should be recognized that it is inflation, and not a lack of credit, which makes them behave this way.

Lack of bank credit is often cited as an important obstacle to starting new businesses. And it probably is, to some extent, although even in developed countries an owner's own savings form the majority of the capitalization. Nonetheless, it should be noted that most survey participants had started their own business and that bank credit had nothing to do with it. If anything, *prior training* seems to have been the main motivating force. More than two thirds of them had learned their trade as an apprentice, from a parent, or at a vocational school. The team was unable to interview would-be entrepreneurs and learn the reasons why they have not started, but training appears to be at least as strong an incentive to start a business as the availability of credit.

Accordingly, it would appear wise to avoid placing undue emphasis on credit as a means to activate small business. Technical and vocational training programs are likely to have as least as much success in stimulating entrepreneurship as small business credit projects. And in a highly inflationary environment, it is the economic uncertainty, and the sense of insecurity which it provokes, which hampers small business more than anything else. But the argument that expectations should be scaled down on small business credit project does not mean that projects like these should be abandoned altogether. Even if the present inflation continues--as it likely will for the foreseeable future--it is still true that over eighty percent of the survey participants expressed a need for credit while less than one quarter of them ever gained access to it.

The team has several suggestions to try and bridge this gap. The first is to attempt to change the banking regulations. One is to ease bank reserve requirements to give banks more reason to attract savings. (Of course, the government would have to borrow and spend less to make this possible; otherwise, it would probably only increase bank purchases of treasury bills.) They might even attract some coop funds which are presently being channeled into government bonds, thus giving them an avenue to smaller savings. As liquidity becomes less of a constraint for the banks, the next step would be to bridge the gap between the banking institutions and the small borrowers. Any one or a combination of the following models might be explored:



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a. "Bring the bank down."

It is not enough to earmark some funds for small business development and expect the banks to take care of the rest. The survey shows that banks have serious image problems among small entrepreneurs and are accused of being unresponsive and downright corrupt. Banks would need to institute some profound changes in their policies before they could become effective conduits for small business finance. Loan approval authority needs to be delegated, personnel that deal with small entrepreneurs need to receive special training, collateral requirements need to be adjusted and made more flexible, and loan application formalities need to be simplified.

b. "Pull the borrower up."

It is often argued that small loans cannot be profitable for a bank because of the administrative costs involved. One way of lessening this effect would be to group several small applications together into a larger one. The market place shows an obvious potential for this approach. Most vendors feel they need credit.Building on the many solidarity groups that exist among market vendors, a program could be tested that group a number of vendors together to apply for, distribute and reimburse a group credit.

c. "Bring donor assistance in."

A more useful role for donors would appear to be providing technical assistance, not credit funds or interest subsidies. The most often heard complaint from banks about small business credit is that they do not have the personnel to assist the applicant in preparing a proper application, analyze small business proposals on their credit worthiness, and supervise the loans once they have been made. A donor-supported staff of field agents could screen applicants and improve their applications to a level where they can be sent on to the bank, and after approval monitor the performance of the borrower.

The experience of a small business development project in Liberia illustrates what can be achieved with a combination of these elements. This project is located in a part of the country which is sparsely populated and poorly service by banks. It is run by an American PVO and began in 1972 as a credit and technical assistance program for small businesses. A savings promotion program was added in 1984. USAID involvement dates from 1979, prior to which the project was funded by the local subsidiary of a Swedish mining firm. Under the savings program, PVO agents assist community development groupings at the village and small town level to set up and manage saving clubs. At the outset the agents were heavily involved in the management of these clubs, but they gradually lessened their involvement while keeping strict financial control to ensure the safety of the savings. Eventually, the objective is to transfer the entire management responsibility to the village groups and reduce the PVO's role to a monitoring function.

Small savings are collected weekly, stored in safety boxes and transferred to the PVO agent who comes around regularly to collect them. Sixty percent of these funds are deposited in a savings account at the regional branch of the National Housing Bank (NHB), the largest bank of Liberia, and earn 8 percent interest. The saving clubs receive half of this amount and the other 4 percent is used towards covering the administrative costs of the PVO. The remaining 40 percent of the funds is rolled over into a revolving loan fund, on which more later.

Building on the traditional rotating savings societies, but with added advantages, the concept has been a notable success. As of last year, 42 clubs had been formed and total savings had reached $2.5 million. A conscious effort was made to include women with the result that women account for 35 percent of the membership and about 60 percent of total deposits.

The savings program is linked up with a small business development program run by the same PVO. Under this program the PVO manages a revolving loan fund which is located at the NHB. Loans are made to small businesses exclusively--the maximum loan size is $5,000--and carry a 22% interest rate, slightly below the maximum rate allowed by law. PVO agents screen the applicants and help them prepare the forms. They insist on the same sort of guarantees as the bank would, except that they use more flexible formalities and help the applicants fulfill them. The loans are backed up by a guarantee fund provided by the Morgan Bank of Geneva. Members of the saving clubs can apply for a business loan for up to twice the amount of their savings, which are blocked for the duration of the loan. During this period the member can access his or her savings only in case of emergency.

With the departure of the last expatriate in 1987, the project is entirely managed by an indigenous staff. Field agents have to post bond and are subject to stringent audit procedures. So far, fraud has been minimal and the intensive loan supervision is credited with the high repayment rates which have averaged 93 percent.

The argument for combining a credit with a savings mobilization program was that learning how to save and utilize one's resources effectively is as important as learning how to borrow and repay. In practice the combination proved to be synergistic: savers are attracted by the added advantage of credit access while the loan fund grows as a result from the savings. To the bank the attraction of the project lies in the substantial amount of savings that it would not have been able to attract otherwise; in return, the project is provided with a secure depository, interest income and a conduit for the off-shore loan guarantee fund.

With no more expatriates on its staff, the project manages to cover a large portion of its expenses with its revenues, but has not yet become completely self-sufficient. The shortfall in revenues is expected to be reduced as the loan fund increases in size.

Several lessons can be drawn from the experience with this project that are relevant for future attempts to bridge the gap between institutional finance and informal sector borrowers:

- Combining a credit program with a savings mobilization effort adds strength to both elements.
- A savings and credit project can operate outside the formal banking sector while at the same time benefiting from the institutional framework that a bank can provide.
- Outside intervention--be it by a donor-supported PVO or, as in Zaire until recently, by the church--is essential to accelerate the establishment of trust among individual savers and the forging of linkages between them and the formal banks.
- The type of assistance and supervision that is required to make a small business credit program succeed is more intensive than a bank is likely able to provide and represents an opportunity for successful donor intervention.
- Although a well-conceived and executed savings and credit program can eventually attain self-sufficiency, it is unlikely that this will happen within the three to four-year time horizon of a typical project.

# APPENDIX F

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