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**Towards the Development of Rural Financial  
Institutions in Africa: The Lessons from Niger**

by

**Douglas H. Graham**

**The Ohio State University**

# Towards the Development of Rural Financial Institutions in Africa: The Lessons from Niger

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Much has been written in recent years on the economic constraints of African development. Lesser attention, however, has been paid to the issues surrounding the development of financial institutions in the continent, especially institutions serving rural areas. This paper will focus on that and, moreover, do so by making passing reference to rural finance in a Francophone country in the Sahelian region of West Africa. The first section reviews the poor record of top-down formal agricultural credit systems in Niger. The second part reports on a field study in Niger documenting the revealed demand for financial services at the village level and how the top-down development bank syndrome fails to meet that demand. The implications of these findings for the development of rural financial institutions in Africa are drawn out in the conclusions.

## I. The Myths of Financial Development: Conduit or Intermediary?

The public sector agricultural development banks in West Africa have experienced a deteriorating performance in recent years. This is particularly evident for the Caisse Nationale de Credit Agricole (CNCA) in Niger. It is important to review some of the major factors behind this poor performance. The lessons learned can be valuable.

The first major cause for the decline in the financial viability of these institutions grows out of their lack of

autonomy. This manifests itself in various ways. They frequently don't mobilize domestic deposits for on-lending, or if they do, they represent only a minor part of their total source of funds. In the case of Niger, the CNCA does not engage in any deposit mobilization activity. This means that all funding comes from external donor sources, the government or rediscount lines from the BCEAO (the West African Central for Francophone countries.) Donors and the government central bank offer these funds at low rates of interest thereby discouraging domestic deposit mobilization.

The net effect of this structure of liabilities is that the suppliers of funds call the shots. Donors and/or government target the lines of credit to selected agricultural clientele. The emphasis is on modernizing agriculture, i.e. promoting the adoption of new inputs as a part of technology packages. This is all done without any serious consideration given to costs and risks. The screening, documentation and reporting requirements add to the lending costs of the institution while the concentration of the portfolio into the riskiest activities in agriculture (imperfectly tested new inputs) places the institution at risk.

All the procedures are designed to facilitate the borrower's interests. Put differently, the funds are expected to be disbursed quickly. Little attention is devoted to careful loan evaluation or creditworthiness. The screening expenses incurred by the lending institutions have nothing to do with loan evaluation, but merely determining that previously defined target

groups in fact have received the inputs in question. Finally, loan recovery procedures are weak to non-existent and loan recovery practices more so. Thus, financial viability is minimized, especially if it comes into conflict with targeting and the quick disbursement of inputs to promote productivity and output goals. In short, one has a "borrower dominated" institution, the classic institutional form of supply-lending finance, popularized in the 1960s and 1970s as the path to modernizing agriculture. The lending institution becomes nothing more than an administrative conduit, not a true intermediary.

A second major cause for the weakness of these institutions lies in their lack of acceptance at the village level. Despite the organizational and structural deficiencies noted above, their performance could have improved if there had been more voluntary repayment behavior on the part of their loan beneficiaries in the villages. An interesting question emerges -- why do loan recipients ignore their debt obligations? They essentially do this because they feel the institution is alien to their setting, does not meet the demand for financial services they really want and is too unstable and undependable as a source of future loans.

Farm level borrowers are indifferent towards repaying loans when the quality of that loan is poor (i.e., it arrives late, or forces the borrower to incur out of pocket costs and sacrifice foregone income, to spend time and travel to negotiate the loans, etc.).

Another instance of poor repayment is when the lending source is so casual and unprepared in its loan recovery procedures that it is in effect sending a message to borrowers that they can place a low priority on repayment. This is certainly relevant in the Niger setting where loan recovery procedures in the CNCA have been notoriously minimized, thereby implying that the village level borrowers can safely ignore this obligation. Another factor behind poor repayment is the institutional instability of funding that leads borrowers to conclude the institution will be unable to make new loans in the future. This discourages loan repayments since the reward of repayment cannot be met by a new loan.

Thus the circle is drawn. An institution with little or no autonomy, no local deposit base from the general public, and completely dependent on external funding sources is forced into accepting a targeted clientele with a high risk profile and no assurance of continued infusion of funds to elicit good repayment from its borrowers. This is not a promising set of operating characteristics for an institution that hopes to attain self-sustaining financial viability.

The last point to be made in this argument is the lack of presence typical of a formal borrower in an African village setting. Loans are typically one or more years in length. There are no short-term rollovers so typical of informal financial channels and, finally, no assurance of funding during an emergency. In short, the lending institutions, in limiting themselves

to longer production loans necessarily restricts its capacity to meet the legitimate demand for continued short-term funding desired at the village level. This lack of frequent transactions for a formal lender is the very strength of informal lending vehicles in rural Africa.

## II. The Revealed Demand for Financial Services at the Village-Household Level

A random sample of villagers was carried out during April-May 1986 in rural Niger to determine the nature of informal savings and credit activity at the village level. These studies were conducted by an Ohio State University team of researchers working in conjunction with Nigerien colleagues from the Institut de Recherches en Sciences Humaines.

The results generated useful insights into the demand for financial services at the village level through evidence on informal credit activity through wholesale and retail merchants, and savings and loan activity through informal tontines and moneykeepers.

Fifty-six tontine groups were interviewed ranging from 4 to 40 members in size. Fifty-six moneykeepers were interviewed from 22 villages to determine the range of services offered, the number of village depositors serviced, the amount of deposit activity and informal loan activity engaged in by the moneykeepers. The results in both cases were revealing. The total amount of savings and loan activity generated by the 56 tontines over their complete life cycle of liquidity circulation (roughly

5 to 6 months) amounted to roughly 27 million CFAF (or US\$ 72,000 at the current exchange rate). The total amount of deposits mobilized by the 56 village moneykeepers fluctuated from a low of 13 million CFAF (or US\$ 34,000) during the dry season (for 363 depositors) to 30 million CFAF (or US\$ 79,000) at harvest time for 617 depositors. The average deposit size at the height of the season for the sample of moneykeepers (48,774 CFAF) was much larger than the average deposit balance in the Post Office Savings Bank and the average loan granted by moneykeepers (42,300 CFAF) while smaller than the equipment loans of the CNCA was still sizeable.

In short, these field results underscored the fact that there is a sizeable flow of liquidity circulation in these village settings. Given the generally good repayment record through these informal vehicles of financial intermediation, the question arises as to why this is so. The answer lies in the total range of financial services offered by these indigenous intermediaries and the incentives for repayment evident in borrower behavior. In summary, there is a large demand for deposit services at the village household level. Second, there is an equally large demand for short-term loans for consumption purposes in these settings. Third, these loan transactions are repeated continually. There is a constant series of transactions for the same borrower through time, constituting an open line of credit for emergency or other uses. Finally, there is an implicit link between savings activity and loan activity. For

tontines, this is direct, for moneykeepers indirect (i.e., depositors are likely favored with access to moneykeeper loans since their savings are proof of a reliable resource base for future repayment). In the end, the availability of funds for future loans encourages repayment. Also, the frequent and repeated deposit and loan transactions inculcate a sense of trust and responsibility between lender and borrower.

These characteristics stand out in stark contrast to those of formal loans through the CNCA. Whereas deposit services are highlighted in informal finance, they are ignored in the CNCA. Whereas short-term loans are the preferred term structure in informal finance, medium and long-term loans are emphasized in formal finance through the CNCA. Whereas loans are untargeted in informal finance, targeting for investment or productive purposes is highlighted in the CNCA. Whereas a link exists between savings or deposit activity and loan activity in informal finance, this is absent in institutions like the CNCA. Whereas there is the possibility for an open line of credit (i.e., repeated short-term loans) or an emergency credit reserve available in informal finance, this form of finance is foreign to an institution like the CNCA.

In brief, the range of financial services offered by a formal lending institution like the CNCA are markedly incomplete and restricted in scope in comparison to the services available through informal finance. Thus it is not surprising that village borrowers would be more concerned about honoring their informal

debt. The lack of frequent contact through repeated transactions of deposit or loan activity makes the CNCA seem alien or distant from the daily concerns of village clientele. It is difficult to develop a strong identity with or loyalty towards the interests of a credit program with these characteristics.

### III. Implications for Financial Deepening in Rural Niger

It is ironical that public sector officials have such a patronizing and condescending view towards traditional forms of rural finance. Their concern is to ignore it or try to replace it quickly with formal institutions. Rarely do public officials learn from it. Yet, this is precisely the lesson to draw from the preceding discussion. If any institution hopes to remain viable and self-sustaining, it will have to offer the range of services for which villagers have demonstrated a strong demand, and, in servicing that demand, earn sufficient respect that loan recovery will become a natural habit of finance for borrowers.

Formal institutions do not earn this respect in most African settings. In large part, this is due to the difficulties they encounter to service this demand. They are unable to evaluate a large volume of small loans, rarely offer deposit services, short-term loans or an emergency credit reserve.

It is much more promising to build upon the strengths of the existing informal channels of finance. Instead of imposing a top-down lending arrangement from an institution located and controlled outside the village, it is more appropriate to upgrade

the existing informal networks from leadership within village settings.

The most promising institutional form to emulate and build on the strengths of informal village finance is the savings and credit cooperative or rural credit union. This institution emphasizes savings mobilization, thereby offering deposit services to its village clientele, provides short-term consumption loans, and ties savings activity into an access to loans. Cooperative officials and credit committees are drawn from local village leadership thus ensuring its identity and interests with those of the village. The promotion and creation of local credit unions are carried out in a voluntary fashion among private individuals within the villages, thus avoiding any semblance of imposition from above. These operational and organizational features promote far more effective loan recovery behavior than what one could ever expect through a CNCA path of rural finance.

Finally, it is germane to emphasize that these village-level credit unions are in a position to intermediate more efficiently village-level liquidity than the indigenous channels of informal finance. Tontine and moneykeeper lenders can only deal with a limited clientele. What they do, they do well, but their segmented and separate markets are local and small in size. Credit unions can broaden the base of membership to include several groups and occupations with the village. Moreover, in time, the multi-village (and town-level) credit union movement can form a network that would allow for inter-spatial financial

intermediation among deficit and surplus units in the network. This is something that informal channels are much less able to do.

In conclusion, the top-down CNCA model emphasizing a truncated, incomplete form of supply-leading finance has little prospect of ever achieving viability through its sporadic and unsatisfactory contact with village clientele. Credit unions are far more promising vehicles to build viable, self-sustaining financial intermediaries at the village level in Africa.