Paper No. 15

# SEMINAR ON INFORMAL FINANCIAL MARKETS IN DEVELOPMENT

# RURAL CREDIT IN AN ISLAMIC AFRICAN COUNTRY: SOMALIA

Virginia De Lancey
American University
Cairo

Sponsored by

The Ohio State University

The Agency for International Development

The World Bank

October, 18-20, 1989, Washington, D.C.

## ABSTRACT

Paper presents credit-use information in Somalia from a recent farm-level study and also describes the major sources of loans in the country. In an Appendix the author compares her results in Somolia with earlier studies done in Cameroon.

# RURAL CREDIT IN AN ISLAMIC AFRICAN COUNTRY: SOMALIA

by

Virginia DeLancey

The agricultural sector in Somalia represents the single largest sector in the economy. In 1987, it contributed over 64 percent of Gross Domestic Product and provided a livelihood for eighty percent of the population. Crop production contributed only 14 percent of Gross Domestic Product, and yields are generally low. One of the reasons for the low productivity is that production is mostly for subsistence, with low usage of agricultural inputs, and mainly traditional technology.

In Somalia, where per capita income is extremely low, it can be expected that farmers will not have savings sufficient to finance all of their capital investment needs or even seasonal input requirements. Thus, access to credit by small-scale farmers as well as large-scale farmers and plantation owners is essential for increasing both production as well as productivity.

At the time that the research was conducted for this paper in late 1986, the Somali Development Bank, the Commercial and Savings Bank, and several agricultural marketing and service institutions were the formal sources of credit. However, many small-scale farmers do not have access to formal loans and largely depend on informal sources when needs arises. If that continues to be true, that poor farmers do not have access to the formal sources of credit in Somalia, then there is danger of a growing gap between the wealthy and the poor in the rural areas unless the informal sources of credit are able to compensate and provide the necessary resources.

## Methodology

In order to determine whether small-scale farmers have access to credit in Somalia, and what types of informal credit they utilize, survey research was conducted by members of the Faculty of Economics, Somali National University in the Lower Shabelle Region. We carried out interviews with farmers in Afgoi Division of the Lower Shabelle Region, which is located between Somalia's two rivers, the Shabelle and the Juba, in the most important agricultural area of the country. We used stratified, random sampling procedures which enabled us to include farmers who had irrigable land as well as farmers who worked rain-fed land, and also small-scale farmers, large-scale farmers, and plantation owners.

In accordance with Ministry of Agriculture practice, we defined small-scale farmers to have less than 30 hectares of land, large-scale farmers to have 30-99 hectares of land, and plantation owners to have 100 hectares or more. After selecting the villages, we interviewed a random sample of small-scale farmers who had title to land and, because there were so few of them, all large-scale farmers and plantation owners. This provided

a total of 191 usable interviews, 164 with small-scale farmers and 27 with large-scale farmers or plantation owners.

In our sample, 84 percent of the small-scale farmers had less than 5 hectares of land. The average small-scale farm was 3.67 hectares. The group of 27 large-scale farmers and plantation owners had much larger farms, ranging from 30 to 300 hectares; however, 63 percent of them had less than 100 hectares of land.

The interview was a formal one, written in both the English and Somali languages. It was almost always conducted in Somali, but the responses were recorded in English. The farmers were asked questions about their investments in their land, their use of agricultural inputs, capital, and labor, about their savings, and most important, their access to credit from formal as well as informal sources.

## The Need for Rural Credit in Somalia

### Long-Term Capital Investment

Irrigation. In some parts of Somalia, and particularly in Afgoi Division of the Lower Shabelle, irrigation is one of the most important farm investments. Yet, there was a great difference between investments in irrigation by small-scale compared to large-scale farmers. Only 52 percent of small-scale farmers had irrigated farms, while 100 percent of the large-scale farmers did.

In some countries, the costs of irrigation are borne by the State. However, in Somalia, the cost of irrigating farm land is a heavy burden for farmers. Thus, many of the small-scale farmers find it difficult to pay for digging or maintaining irrigation canals, where necessary, or for the purchase of an irrigation pump without access to credit. Small-scale farmers sometimes bear an additional financial burden. They have more difficulty obtaining access to the best land near the river, land which is easier and less costly to irrigate than more distant land.

Irrigation is important not only for purposes of crop production, but also for access to credit. The formal credit institutions and programs often require farmers to have title not only to land, but also to irrigated land, in order to obtain credit. This creates a vicious circle for many farmers, especially small-scale ones. Thus, crop production remains low. This is true even within the recently-initiated UNDP/FAO supported Seasonal Credit for Small Farmers Program which is lodged in the Commercial and Savings Bank of Somalia.

Tractors and other heavy equipment. There is widespread use of tractors in Afgoi Division, even on small farms. In our sample, 77 percent of small-scale farmers, and 96 percent of large-scale farmers used tractors, especially for annual preparation of the land for planting. However, all of the small-scale farmers who used tractors rented the tractor services, often by the hour, either from ONAT, the parastatal organization which owns agricultural machinery and which provides such services, or from a private farmer who

owned a tractor. Most of the small-scale farmers who did not use a tractor could not afford to buy one, and believed that they were too expensive to even rent.

Other heavy equipment is also used. Many farmers rent the services of bulldozers to clear new fields, and some large-scale farmers own them. More than one of the latter claimed that they had been assisted in their purchase by the U.S. Commodity Import Program. Finally, some farmers either owned or desired a backhoe, which is used for digging and maintaining irrigation canals.

Seasonal Inputs

Seeds, fertilizer, pesticides, herbicides, and animal feed.

Use of modern agricultural inputs is low in Somalia, but there are also differences in usage by large-scale and small-scale farmers. Among those interviewed, less than 10 percent of small-scale farmers used any improved seeds, fertilizer, and pesticides. A larger percentage of large-scale farmers used at least one of them, but this was still only 44 percent, less than one half. Very few of either group used herbicides or animal feed, however. The most important expressed reason for not using improved seeds, fertilizer, and pesticides was that the farmers felt they just could not obtain them. The second most important reason was that they did not believe they needed them. Educational differences among farmers may be a determining factor in input use; the less-educated small-scale farmers may not be aware of the potential of such inputs, may not put any effort into searching for them, and may thus conclude that they cannot find them. But, there may be other reasons for the difference in input usage, as well; there may be some real differences in ability to access inputs, based upon government agricultural policy. For example, agricultural inputs are often an integral part of any formal agricultural extension/credit program; seasonal loans are often extended in kind, for agricultural inputs. When such programs concentrate upon large-scale, "progressive" farmers, then small-scale farmers may have little access to such inputs.

Labor. A significant number of farmers used hired labor to work on their farms, although small-scale farmers used it less often than large-scale farmers. In our sample, fifty-eight percent of small-scale farmers, and 85 percent of large-scale farmers used hired labor. Small-scale farmers relied more upon the use of family members and traditional work groups, especially the goob (28 percent) and also the barbaar (82 percent), both of which are described in greater detail below. Moreover, many of the small-scale farmers themselves became hired labor for the large-scale farmers in order to supplement their own cash incomes.

## Savings

### Reasons for Saving

We questioned the farmers to determine their two priorities for saving money if they were able to do so. Their replies were consistent with the findings above. Top priority for the small-scale farmers was to irrigate their farms (51 percent). This was followed by buying farm machinery (37 percent), and buying livestock (38 percent). There are many reasons why Somali farmers may want to buy livestock; one of them may be to hedge against the risks of farming.

Top priority for large-scale farmers differed. As they had already irrigated most of their land, top priority was for purchasing farm machinery (70 percent), including tractors, bulldozers, and also some backhoes. This was followed by irrigation of the remainder of the land not yet irrigated (33 percent).

### Quantity of Savings and Institutions

We also tried to discover the level of actual savings, and the institutions used by farmers. There is a long-established myth that African farmers cannot or do not save. But, this has been disproved many times in many countries. In our research, over half of the small-scale farmers (57 percent) and nearly all of the large-scale farmers (96 percent) admitted to savings. Of the small-scale farmers who maintained that they had savings, the amount averaged 21,000 So.Sh. ($140). For the large-scale farmers who saved, the amount averaged 480,000 So.Sh. ($3,200), 23 times greater than that saved by the small-scale farmers.

The institutions differed as much as the amount of savings. Fifty-three percent of small-scale farmers kept savings in their home, averaging 10,900 So.Sh. ($73). Only 7.4 percent of the small-scale farmers saved in the bank. But, those who did had an average of 73,000 So.Sh. ($487) there. In contrast, while large-scale farmers kept some savings in their homes, 85 percent of them also kept savings in the bank, averaging 656,000 So.Sh. ($4,373), 9 times as much as the small-scale farmers.

Farmers also kept savings in the form of loans to others who needed cash. And, to some extent, they also used rotating savings and credit associations (ROSCAs), the shaloongo or Italian aiuto.

Although the amounts saved by the farmers are considerably more than is commonly believed, they are not sufficient to meet the seasonal needs for credit for agricultural inputs or for the longer term needs to purchase farm equipment, especially for the small-scale farmers. The farmers need additional funds to finance their needs for improving the productivity of their farms. But, do farmers have access to credit? And, if so, do the large-scale and small-scale farmers have access to the same sources of credit?

## Sources of Credit

### Formal Credit Institutions

The Somolia Development Bank (SDB). At the time of the research, the SDB provided medium- and long-term credit to farmers for the purchase of land and capital. Fourteen of the 27 large-scale farmers (52%) had had at least one loan from the SDB in the past. Of the 14 who had received such loans, four of them had received two loans, and one of them had received three loans. The most common reason was to buy a tractor. But, purchase of additional farm land and irrigation equipment were also given as reasons. Loans ranged from 14,000 So.Sh. ($93) to a 2.5 million So.Sh. ($16,667) kline of credit. The median amount was 100,000 So.Sh. ($667). Only one of the 15 women in the sample had obtained a loan from the SDB, a 250,000 So.Sh. ($1,667) loan to buy a tractor.

Only one of the small-scale farmers said that he had obtained a loan from the SDB. That was for 300 So.Sh., his individual share of a loan given to the entire tuulo (village) for clearing and cultivating farm land; this was probably not really a loan from the SDB.

Of the 13 large-scale farmers who did not receive loans, only 4 had attempted to get one. Most of the others who had not received a loan maintained, at one extreme, that they had not attempted to get one because the bank does not give loans to poor people or, at the other extreme, that they did not need to borrow from the bank because their family resources were sufficient.

Of the small-scale farmers who did not receive loans, only 7.5 percent tried to get one. Most others (24 percent) did not attempt to get one because many believed that they would not get one if the tried, because the bank, in their mind, does not give loans to poor people or to nomads. Some (20 percent) simply did not know how to deal with the bank. This is where education may be an important variable, especially for small-scale farmers. Various other reasons were also given for not obtaining a loan, such as:

1. They had no assets, collateral, or bank account;
2. Their farm was not irrigated;
3. They had no guarantor for their loan;
4. The bank gives loans only to large-scale farmers;
5. It is necessary to know someone at the bank;
6. The bureaucracy is too complicated or time consuming;
7. The bank is too far away--time or money-wise;
8. He/she did not want to incur debt because he/she could not repay it:
9. He/she was afraid to go to the bank for fear of looking like a thief or of looking too poor;
10. Other reasons included that they could not tell the difference between the SDB and the CSBS, and (by several) that they had never been to Mogadishu.

Commercial and Savings Bank of Somalia (CSBS). At the time of the research, the Commercial and Savings Bank of Somalia provided medium-term and seasonal loans for equipment and farm expenses. It had within it, a special UNDP/FAO-supported Seasonal Credit for Small Farmers Program. Similar to the findings for the SDB, 8 of the 27 large-scale farmers (30 percent) had received loans from the CSBS in the past. Two of them had had 2 loans, and four had had continuous lines of credit and/or overdraft facilities. The most common reason was to pay expenses for plowing the farm, renting a tractor, or paying general farm expenses. But, purchase of a tractor, and purchase of an irrigation pump were also given as reasons.

Loans ranged from 5,000 So.Sh. ($33) to a 4 million So.Sh. ($27,000) line of credit, averaging 1,082,000 So.Sh. ($7,000) with a median of 300,000 So.Sh. ($2,000).

Also similar to the findings for the SDB, only five of the small-scale farmers said that they had obtained a loan, and the loans were small compared to those of the large-scale farmers. They ranged from 1,000 So.Sh. ($7) to 4,000 So.Sh. ($27). Three of the loans were to plow the farm or rent a tractor, and one was to maintain irrigation canals.

Of the 19 large-scale farmers who had not received a loan, only 6 (32 percent) had even attempted to get one. The most common perceived reason given by the large-scale farmers for not getting a loan was that they did not know how to deal with the bank.

Of the 157 small-scale farmers who did not receive loans, only 13 (8 percent) had attempted to get one. The reasons given by the small-scale farmers for not getting a loan from the CSBS were similar to those they gave for not getting one from the SDB.

The reply that they do not know how to deal with the bank could be a generalization to cover up for a wide variety of frustrations and fears about going to the bank. But, the data suggest that a large number of farmers, especially small-scale farmers, do not believe that they personally have access to bank credit facilities, and they simply do not even try to get credit.

## Informal Credit

Shopkeepers. Shopkeepers have played a role in providing credit, as long as they have existed, in many locations throughout Africa. In some countries, they have been accused of exploiting their customers by tying them to their services forever, with debt. Less attention has been paid to the positive aspects of credit extension from such sources. For example, African shopkeepers have provided credit services, in small amounts, as a source of last resort for many villagers, particularly small-scale farmers.

While large-scale farmers may find it easier to go to the bank for their credit needs in Somalia, small-scale farmers usually approach the local shopkeeper for small loans. For example, while only 30 percent of the large-scale farmers had taken loans from shopkeepers, 52 percent of small-scale farmers had. The most common reasons given by large-scale farmers were to pay farm expenses, labor, or equipment rental; those of the small-scale farmers were more likely to be simply for survival purposes, food and

clothing. About half of the loans of small-scale farmers were taken in kind, and most of them were in the form of food.

Although large-scale farmers borrowed less often from shopkeepers, the size of their cash loans was larger than those of the small-scale farmers. Cash loans to large-scale farmers ranged from 6,000 So.Sh. ($40) to 100,000 So.Sh. ($667), with a median of 30,000 So.Sh. ($200). Cash loans to small-scale farmers ranged from 50-25,000 So.Sh. ($.33-$167) with a median of only 2,000 So.Sh. ($13), fifteen times less than that of large-scale loans.

Moneylenders. Another source of credit which exists in many countries in Africa is the moneylender. This is a difficult concept to research in Somalia, as lending with interest is contrary to the principles of Islam. A moneylender is not like a shopkeeper who may make loans secondary to their main occupation of selling goods. It is someone who makes their living by lending money for profit. Because of religious prohibitions, such activities tend to get covered up in Islamic countries. Nevertheless, four (15 percent) of the large-scale farmers, and about 12.5 percent of the small-scale farmers admitted to borrowing from a moneylender. Again, these loans to large-scale farmers were relatively large, averaging 35,000 So.Sh. ($233), while loans to small-scale farmers averaged 9,400 So.Sh. ($63).

Last resort sources: family, friends, other farmers, and "waiting up" or seeking employment on the plantations. When one has exhausted all of the above sources of loans where does one turn next, or last? Nearly half of the small-scale farmers said that they had no other place to turn, or that they did not know of any other source. Some said that they would "wait up" until they had money, and some said that they would go to work on the local plantations for a wage. Their next most common reply was to go to their families. About 14 percent of the small-scale farmers said that they would do so, and about 22 percent of the large-scale farmers said that they would. This was followed by asking for help from their friends (10 percent of the small-scale and 15 percent of the large-scale farmers said that they would do this). Seeking help from other farmers was also a possibility (10 percent of small-scale farmers and 7 percent of large-scale farmers said that they would do this). Finally, other sources used by small-scale farmers were to borrow from a neighboring large-scale farmer or an employer, who is often the same large-scale farmer. Everyone knows who are the more wealthy farmers in their location, and many of the small-scale farmers have worked for them for wages at times throughout the year. They believed that they could approach such prominent farmers for a short-term loan or for employment.

Nonmonetary sources--the goob and the barbaar. A goob is one of the simplest types of traditional work groups. It is described in the Socioeconomic Baseline Study of the Bay Region (U. of Wyoming, vol. 2, 14-15) which refers to research by Mahoney (1961). It is usually formed by a neighbor who needs temporary help in his/her fields. Help is sought from adults or children, for a specific activity such as land preparation, planting, weeding, or harvesting. The goob usually works for no more than a day, although at times it may require several days to complete a specific task. Members of the goob are usually fed a meal of the local staple, for example soor (porridge) and milk,

on the days they work. There is no monetary pay for the work. Yet, there is also no necessary expectation of reciprocity for the organizer to participate in a goob formed by someone who has formerly worked for him or her.

The University of Wyoming research team found in their study that the goob was the most common type of work group in the Bay Region of Somalia. Over 10 percent of the heads of households which they interviewed had used a goob in the last year and 6 percent had participated in another's goob. It is interesting to note, however, that the Wyoming team found that fewer goobs were being formed than in the past. The shortage of rains in the preceding years had depleted the surplus grain which was used to feed the goob, and the Agricultural Development Corporation (ADC), the parastatal organization which fixes the price of certain staple crops, was maintaining a very low official price for sorghum. The farmers apparently had calculated that the marginal revenue product of the goob was less than the marginal cost (the cost of feeding the goob), and were thus using this traditional source of assistance less often, even though they needed it to increase their production.

A barbaar is a different type of work group. The term barbaar literally means "youth", but it implies that it is composed of "capable" or "tough" ones. The Wyoming team also described this type of work group in the Bay Region (U. of Wyoming, vol. 2, 16-18). They found that a barbaar is often composed of unmarried males of a single age cohort, usually between the ages of 15 and the late 20s, although it also may include a few females, some married men, and an occasional older man or woman. Apparently, at some time in the past, it might have been an age-grade unit cutting across kinship groups, but this is no longer true in general. Moreover, because of certain of its social activities, it is not found in all villages, particularly in villages which are tied to a specific religious figure.

The members of the barbaar are loosely organized to take responsibilities for those in need. According to the Wyoming team, the members select a leader, an aaw, who organizes the barbaar's assistance to those needing help. The aaw also provides the barbaar members a meal of a slaughtered goat for each of three consecutive years, or a single feast of a three-year-old bull. Barbaar members may be asked to work the fields of someone too old or sick to do their own work. They may take a sick person for medical care or return a sick or injured animal to the village, or do any other job that requires a group of physically-capable individuals. In some cases, the barbaar members may also work each other's fields, and thus may operate much as a rotating work group.

In general, a barbaar is held together by an unwritten pack of mutual responsibility to care for those in need, but also a social bond of friendship. Thus, if a member does not participate in the work of the group, he/she will be fined or excluded from membership unless he/she has an acceptable excuse. Such ostracism would then prevent subsequent participation in associated social activities, e.g. dancing and singing in the evening.

In our study in Afgoi Division, the data indicate that the farmers might use goobs even more than in the Bay Region. But, in general, the large-scale farmers used traditional forms of labor assistance less often than the small-scale farmers. For example, in Afgoi Division, 28 percent of the small-scale farmers used the goob, but only 15 percent of the large-scale farmers used it. The large-scale farmers more commonly paid their farm labor in cash wages.

## Conclusions

Farmers in Somalia require credit for long-term capital investment and for seasonal inputs to increase agricultural production and productivity. But, the data have shown that it is difficult, in general, for farmers to obtain credit, and that it is even more difficult for small-scale farmers to access the formal sources of credit. They must rely on informal sources of credit.

Why do the small-scale farmers have more difficulty in obtaining credit from the formal institutions? First, there may be an education factor. Education is important not only for understanding new technology and for implementing improved agricultural practices; it is also important for knowing how to obtain title to land and how to deal with application procedures in formal credit programs. Indeed, the large-scale farmers were more highly educated and also more literate. Fifty-two percent of the large-scale farmers had completed primary school, while only 5 percent of the small-scale farmers had. Furthermore, 85 percent of the large-scale farmers said that they could read and write in the Somali language, while only 41 percent of small-scale farmers said that they could.

But, there are also other factors which make it difficult for small-scale farmers to access credit in the formal programs. For example, they are less likely to have collateral to guarantee their loans, and there are few formal loan schemes which lend without collateral. In particular, in most agricultural credit programs, it is necessary to have title to land, and often also irrigated land, cleared for farming, to use as collateral. This is also one reason why there were very few women who were interviewed during the research; heads of households who held title to land were interviewed. Although a large percentage of farmers are women, many of them do not hold title to land. In subsequent research among the women in the Lower Shabelle, it was confirmed that very few women were able to participate in the CSBS-sponsored Seasonal Credit for Small Farmers Project, because they did not have title to irrigated land, and were not members of a cooperative or a group which qualified for credit. Yet, they are some of the most important potential beneficiaries of agricultural credit. Similarly, small-scale farmers are less likely than large-scale farmers to hold title to land, or to irrigated land.

Just as important as the reasons above, small-scale farmers are often geographically distant from the formal sources of credit and they are not known by the credit administrators. In addition, the small-scale farmers are unlikely to know who to approach or how to do so. And, many of them do not have the financial resources to travel to banks or to sustain themselves through the bureaucratic red tape. Thus, they do not even attempt to utilize the formal sources of credit.

In general, if credit is necessary for improving agricultural production and productivity, and if the large-scale farmers have greater access to credit than small-scale farmers, the large-scale farmers will become wealthier, and the small-scale farmers will remain poor. If we see that income is becoming more unequally distributed, then we must become concerned that true development is not occurring. Thus, we must begin to consider how to remedy that situation. How can we improve the distribution of income? One way is to improve the distribution of credit to those who have been denied access to it. This in turn could affect investment which could lead to changes in production and hence income. The relevant question for Somalia, then, is how can small-scale farmers be helped to obtain greater access to credit and thus be able to participate in the development process?

# APPENDIX A

## Informal Credit in Islamic and Non-Islamic Countries
## Somalia vs. Cameroon

A brief comparison of the findings for Somalia, an Islamic country, with those of the non-Islamic part of Cameroon, may provide some useful insights. In 1983, a survey was conducted among a group of 192 credit union members in the Northwest and Southwest provinces of Cameroon, as well as a control group of 48 who did not belong to a credit union (DeLancey, 1983). Many of those interviewed were small-scale farmers. Also, some were wage employees, especially at the Cameroon Development Corporation, a parastatal plantation company, and some were civil servants.

Average savings for the credit union members at the time were 208,035 CFA francs ($624) and for the non-credit union members were 201,029 CFA france ($603). Although the average savings were nearly the same, a closer analysis would reveal that a higher proportion of credit union members had higher savings than non-credit union members. In any case, average savings in the sample from Cameroon were higher than those of the small-scale farmers in Somalia, although they were less than those of the large-scale farmers.

What is perhaps just as interesting, is the combination of savings and credit institutions utilized in Cameroon compared to Somalia. Similar to Somalia, very few individuals (only 10 percent) saved in a bank. And, in contrast to Somalia, because they do not exist in Somalia, all of the credit union members who were interviewed in Cameroon had savings (averaging 75,523 CFAF = $225), by definition, in a credit union. But, other institutions were also important in Cameroon. Forty-two percent of those interviewed in Cameroon had savings in a "country meeting", a social organization, usually of ethnic origin, which often includes a "meeting bank" which operates as a combination Christmas savings club, but with lending facilities, as well. Savings tend to be small in "meeting banks", and ranged only up to $45 in our study. But, the institution can be an important source of credit in time of need.

Several other methods of saving were also practiced by Cameroonians. These included lending sums to others (12 percent) to eliminate the temptation to spend it, trusting money to another person to hold as savings (5 percent), or saving small amounts in the home (80 percent). Such methods are also practiced in Somalia.

Perhaps the most important informal savings institutions in Cameroon are the niangis, variations of ROSCAs. Only 40 percent of those interviewed said that they belonged to an niangi, but this figure is probably low for Cameroon as a whole, because the credit union members had an alternative outlet for their savings. Nevertheless, 23 percent of the sample stated that they received up to 100,000 CFA francs ($300) when it was their turn to take the contributions.

Because of the variety of savings outlets utilized in Cameroon, compared to in Somalia, there are also a greater variety of credit sources for Cameroonians. As in Somalia, very few Cameroonians (only 6 individuals in the sample) were able to access

credit in the formal banking system. The National Fund for Rural Development (FONADER) has also been inaccessible to most farmers, particularly small-scale farmers, regardless of the implication of its name. Only 4 of those interviewed had received a loan from FONADER in the previous year, although many more had applied. The 4 loans that were extended by FONADER ranged from 20,000 CFA francs ($60) to 250,000 CFA francs ($750). But, 19 percent of the interviewees had received small loans from "country meetings", even though two-thirds of those loans were for 20,000 CFA francs ($60) or less.

Other sources of credit were small amounts from friends (9 percent of which over 2/3rds were for 10,000 CFA francs = $30 or less) and merchants (15 percent, half of which were for 5,000 CFA francs =$15 or less). No one admitted to borrowing from a money lender, but in earlier research (DeLancey, 1980), it was reported that many lenders were in operation, at least in the coastal areas of Cameroon. Such sources are also utilized in Somalia.

Among the most accessible sources of credit for Cameroonians are their credit unions, if they are members, and njangis. For example, in our research, 47 percent of credit union members had received loans. Half of those loans were for 50,000 CFA francs ($150) or less, but half of them were for more than that. Accessibility is guaranteed for members, as one can always borrow against one's own share savings.

Although njangis were mentioned as a savings institution, their importance in Cameroon must be re-emphasized as a source of credit for those unable to access the formal sources. The quantities received through njangis may be quite small. But, they may also be very large. For example, there are cases where individuals have joined the sums they received and invested them in the operations of a bank or other jointly-owned business (DeLancey, 1981). In fact, recently, some Cameroonians have been accused of popularizing interest-bearing tontines to such an extent that they have contributed to the current crisis in banking liquidity in Cameroon. In such a tontine, members bid the amount of interest they will pay for the tontine pot, with that interest being set aside in a separate loan fund. Bankers in Cameroon have complained that such tontines have drawn money out of the banking system (NYT, 30 Nov., 1987; West Africa, 28 Dec., 1987-4 Jan., 1988, p. 25 and 34). This might be true if, in fact, some monthly tontine pots are now in excess of $1 million, as has been reported, and that some enterprising members are now "buying" money from rural tontines at low interest rates and then "reselling" it in Douala at higher interest rates (NYT, 30 Nov. 1987).

In sum, Somalia and Cameroon are similar, in that the poorest segments of the rural population have difficulty in accessing credit from the formal banking structure. They must rely on informal credit systems for their needs. Furthermore, there are similar informal institutions in both Somalia and Cameroon. But, in contrast to Somalia, the informal credit system in Cameroon is much more dynamic, providing larger amounts of credit from a greater variety of institutions.

In addition, in Cameroon, there seems to be continual innovation to adapt the traditional, informal credit institutions to the needs of a modern, developing economy.

Thus, a recent study of the rural finance sector in Cameroon (Heidhues, 1986) recommended, in concurrence with the World Bank, that njangis and other informal financial institutions not be integrated into the formal structure, but that they continue to complement it. But, in fact, there are now fears that njangis may replace rather than simply complement the formal banking structure. This is a strong indication that the banking system is not adequately serving all potential clientele.

In Somalia, the informal credit institutions continue to complement the formal institutions, but pose no threat to destroying them. As has been seen, they are the sole source of credit for most small-scale farmers. As such, it might be worthwhile to study how they may be supported or strengthened, or perhaps even supplemented to serve the small-scale farmers more adequately.

An important question to examine is why there is a difference in the diversity and dynamic qualities of the informal credit systems of Somalia compared to Cameroon. Is it the relative poverty of Somalia compared to Cameroon, as some have suggested, that leaves less surplus to be saved by individuals? Or, does the Islamic prohibition of interest hinder the ability of such a system to operate? This has not been the case in Mali where it was found that over $1,000 might be received at one time in a ROSCA, and that such an amount might be taken to a bank where it would be used as a downpayment to obtain a loan of some multiple of that amount (DeLancey and Matt, 1982, p. 25). And, it has not prevented the creation of Islamic banking systems based on profits rather than interest in the Middle East. Or, is there something within the kinship system or the strongly independent nature of the Somali culture which fails to nurture the trust necessary for such informal systems to flourish as much as in some other countries?

## Recommendations

There are several recommendations to be investigated to enable greater numbers of small-scale farmers to obtain access to credit. One of the most important solutions to the problem of accessing the formal credit system is to educate the small-scale farmers and help and encourage them to obtain access to credit. Educate them about the process of applying for loans, and give them encouragement that they might obtain one if they try. This sounds like a simple solution, but it is not being done. But, even prior to that, assistance must be provided to help them register their land and receive title to it.

Credit programs might also experiment with lending without the requirement of collateral. There are many examples of group lending practices where the loan is made to a group of farmers, often a village group in which everyone is known. The loan is guaranteed by the group and is then extended to individual farmers in smaller amounts. This is often a successful way of extending credit, particularly when there may be pressure within the community to repay the loan so as not to lose face.

Another way to lend without use of collateral is to extend credit through the extension services, as long as the farmer continues to follow certain prescribed, acceptable

standards of cultivation. This has been particularly successful in bringing women into a credit program in Egypt (Howard-Merriam, 1986) and could be equally successful in Somalia.

Finally, the cooperative credit union movement has been particularly successful in many other parts of Africa. As it is based on cooperative principles and operations do not necessarily earn for members a fixed rate of interest, it would seem feasible that the system could be adapted to Islamic principles. At the village level, credit unions provide a link between informal sources of credit such as rotating savings and credit associations and formal sources of credit such as the urban-based banking system. Credit union members may borrow against their share savings, or against those of other members who are willing to guarantee repayment. Loans are readily available, at relatively low interest rates, for productive purposes. And, because credit unions reach into rural areas, as well as the large cities, they perform a function which the formal banking structure cannot afford to do. Furthermore, in a recent study in Cameroon, where credit unions have flourished since their beginning in the 1960s, it was found that in at least one area, some of the largest loans were being taken to support the marketing of cattle (DeLancey, 1983). A system of credit unions, which is conspicuously absent in Somalia, should certainly be investigated.

Finally, the traditional savings and credit associations should be supported and encouraged, perhaps within participatory-approach local development projects. In some countries they are considered illegal or are discouraged because they confound the workings of the formal financial institutions. This does not eliminate the informal institutions but only makes them go under ground and operate with greater secrecy, thus impinging on their efficient mobilization of resources. Efforts should be made to encourage them as complements of the formal system in the overall struggle to mobilize resources for investment in economic development.

## References

ACOSCA. Organization and Administration of Credit Unions. Nairobi: ACOSCA, no date.

Adegboye, R. O. "Procuring Loans Through Pledging of Cocoa Trees." Journal of the Geographical Association of Nigeria 12 (December 1969): 63-76.

Azonga, Tikum Mbah. "Making Ends Meet." West Africa (28 Dec. 1987-4 Jan. 1988): 2534.

Bathrick, David D. Agricultural Credit for Small Farm Development: Policies and Practices. Westview Special Studies in Social, Political, and Economic Development. Boulder: Westview, 1981.

Brooke, James. "Informal Capitalism Grows in Cameroon." New York Times (November 30, 1987).

Commercial and Savings Bank of Somalia. "Seasonal Credit for Small Farmers - UNCDF Project - SOM/82/001 - Some Basic Facts." Presented at the Branch Managers Seminar on Credit for Developing Agricultural Production, 25-27 January 1987. Typescript.

Conze, Peter; and Labahn, Thomas, eds. Somalia: Agriculture in the Winds of Change. EPI Dokumentation. Germany: Saarbrucken-Schafbrucke, 1986.

DeLancey, Virginia. "Report on the Base-line Data Survey for the CamCCUL/WOCCU/USAID Credit Union Development Project (631-0044, PVO/OPG) in Cameroon." Madison, Wisconsin: The World Council Credit Unions and the Cameroon Cooperative Credit Union League (July 1983).

DeLancey, Virginia; Lindsay, Deborah E.; and Spring, Anita. Somalia: An Assessment of SWDO and of the Social and Economic Status of Women in the Lower Shebelle. Washington, D.C.: Robert R. Nathan Associates, Inc. for the U.S. Agency for International Development, June 25, 1987.

Dublin, Jack. Credit Unions: Theory and Practice. Detroit: Wayne State University, 1966.

FAO/WED. Rural Household Survey in the Three Regions of Somalia Among the Agricultural Settled Villages. Women's Education Department, Ministry of Education, Mogadishu, 1983.

Haakensen, J. M. The Socio-economic Studies of Two Southern Somali Villages: Lama Doonka and Beled Amin. Report presented to the Community Health Department, Medical Faculty, Somali National University and the Swedish Agency for Research Cooperation (SAREC), 1982.

Heidhues, Franz; and Weinschench, Gunther, et al. "Cameroon: Rural Finance Sector Study." July 10, 1986. Typescript.

Howard-Merriam, Kathleen. "The Village Bank Reaches the Farm Woman; A Case from Egypt." Paper presented at the Gender Issues in Farming Systems Research and Extension Conference sponsored by The Women in Agriculture Program, University of Florida, Gainesville, February 26-March 1, 1986.

Iqbal, Zubair; and Mirakhor, Abbas. Islamic Banking. Washington, D.C.: IMF, March 1987. Occasional Paper No. 49.

Jamal, Vali. "Nomads and Farmers: Incomes and Poverty in Rural Somalia." In Agrarian Policies and Rural Poverty in Africa, pp. 281-311. Edited by Dharam Ghai and Samir Radwan. Geneva: International Labour Office, 1983.

Kibirige, E. Human Development Through Credit Unions: A Guide for Credit Union Promoters. Nairobi: ACOSCA, 1980.

Lewis, I. M. Somali Culture, History and Social Institutions: An Introductory Guide to Somali Democratic Republic. London: The London School of Economics and Political Science, 1981.

Mahoney, Frank. Problems of Community Development in Somalia: The Pastoral Nomads. Washington, D.C.: USAID, 1961.

Masood, Mah Jabeen. "Women in Somalia." Compiled for the Women's Education, Mogadishu, December 1983. Typescript.

Massey, Garth. Subsistence and Change: Lessons of Agropastoralism in Somalia. Westview Special Studies in Social, Political, and Economic Development. Boulder: Westview Press, 1987.

Mellor, John W., et al., eds. Accelerating Food Production in Sub-Saharan Africa. Baltimore: The International Food Policy Research Institute, The Johns Hopkins University Press, 1987.

Miller, Leonard. Agricultural Credit and Finance in Africa. The Rockefeller Foundation, 1977.

O'Kelly, Elizabeth. "Corn Mill Societies in the Southern Cameroon." African Women 1 (1955): 33-35.

_____. Aid and Self-Help: A General Guide to Overseas Aid. London: Charles Knight, 1973.

Somali Democratic Republic. Ministry of Local Government & Rural Development. Somalia's Rural Development Strategy 1981-1990. Mogadishu, 1981.

Somali Democratic Republic. Ministry of National Planning. Five Year Development Plan 1982-1986. Mogadishu, 1982.

_____. Central Statistical Department. Pilot Agricultural Survey in Merca District: Main Report. Mogadishu, 1983.

_____. Report on the Demographic Survey of Banadir, Bay and Lower Shebelle Regions of Somalia 1980-81. Mogadishu, 1981.

Somali Democratic Republic. Somali Women's Democratic Organization. "Village Cooperative Farms of Rural Women for Nutritional Improvement, and Community Development Project." No date. Typescript.

Tammi, G. "Agricultural Finance Profile of Somalia" (Draft). December 1985. FAO/UNDP Project Som 81/006.

Turtiainen, T. "Expansion and Reorganization of Rural Credit in Somalia." Rome, FAO, 1977. AGS: Mis/77/10. W/LO 928.

United Nations Capital Development Fund Project SOM/82/001. Seasonal Credit for Small Farmers. National Input and Credit Committee. "Report on Agricultural Credit Seminar held on 27th September 1986 in the Cooperative Training Centre - Mogadishu." Mogadishu, 1986. Typescript.

University of Wyoming. Socioeconomic Baseline Study of the Bay Region. 2 vols. Laramie, Wyoming: University of Wyoming for the Bay Region Agricultural Development Project, December 1984.

Von Pischke, J. D.; Adams, Dale W.; and Donald, Gordon. Rural Financial Markets in Developing Countries. EDI Series in Economic Development. Baltimore: Johns Hopkins for the Economic Development Institute of the World Bank, 1983.

World Bank. Agricultural Credit: Sector Policy Paper. Washington, D.C.,1975.