# INFORMAL FINANCIAL CIRCUITS IN WEST AFRICA

OCCASIONAL PAPER SERIES

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This study was undertaken at the request of the AID Regional Housing and Urban Development Office in Abidjan in order to broaden the existing knowledge of the characteristics of the informal financial sector in West Africa.

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The views and interpretations expressed in this report are those of the authors and should not be interpreted as the official position of the Agency for International Development.

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# FOREWORD

A very large percentage of credit and savings activity in West Africa flows through financial circuits which operate outside of the framework of financial institutions. Understanding of these informal financial circuits is knowledge that is especially useful in planning assistance programs. It is also useful in adjusting the formal financial institutions to better serve the needs of the population in that area. This study, then, presents an initial exploration of the variety of mechanisms used to mobilize resources to meet credit and investment in five West African nations.

The AID Regional Housing and Urban Development Office in Abidjan requested this study in order to broaden the existing knowledge of the characteristics of the informal financial sector. In carrying out this request, AID observed the patterns of saving and of obtaining credit in the informal sector and discovered that some of the commonly held assumptions about the informal sector are not valid. This study explores the similarities and differences among the credit and savings patterns in the West African nations of the Ivory Coast, Liberia, Senegal, Niger and Togo. The relationship of these financial patterns to the housing industry is a further focus of this report.

The Director of the Regional Housing and Urban Development Office in Abidjan at the time this study was initiated was Albert Votaw, whose direction and support for the project was invaluable. Albert Votaw died tragically in the March 1983 bombing of the American Embassy in Beirut. This study is dedicated to the significant contribution he made to shelter in West Africa.

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## METHODOLOGY OF THE STUDY

The countries chosen for this study all have existing or planned AID shelter programs. Information gathered in these areas is the result of available printed material, survey data, and field interviews. The information on Togo is an outgrowth of Eugene Lerner's 1981 study, and the report on Senegal used studies by the International Labor Organization as well as by AID as points of departure. The data in this study also are a result of surveys of the widely-found rotating savings and credit associations known as tontines, nath, and susu clubs, as well as several other primary systems for credit and savings. In addition, interviews with small and medium-scale entrepreneurs and business promoters, and other knowledgeable participants in the informal financial sector, provide much of the information in this report.

## PRELIMINARY FINDINGS AND CONCLUSIONS

Despite the sometimes fragmentary nature of the informatio gathered, several provisional findings resulting from this ex ploration are worth noting:

1. Although the informal sector is obviously dynamic, i does not necessarily distribute resources to the bes users. Much of the credit is channeled into trade an consumption expenditures. The large margin (sometime as high as 100% interest on short-term loans) on whic some informal credit circuits operate is clearly bur densome to low-income borrowers. However, it seem unlikely that demand for such loans would be reduce significantly through programs to increase loan avail ability. Shifting funds into more productive use than consumption and adversity-related borrowing woul require intervention in other areas.

2. Only a small proportion of the funds loaned by th more commercially-minded informal lenders goes to di rect investment in housing or other small enter prises. Some funds normally used to finance trade d enter this market, usually in the form of supplie credit, lease-purchase agreements, cash loans, o goods sold to raise capital. Generally, small enter prises and housing are not likely to earn as high an fast a return as investments in other fields such a trade.

   In some cases where the lender is seeking to gain commercial advantage by helping a small producer be come established, the borrower is exploited by eithe high costs or supervision by the lender. Therefore it is not clear how effective intermediaries are i channeling significant amounts of credit into invest ments with a lower and slower rate of return.

3. The absence of credit for small entrepreneurs raise several issues about lending to them. It is not clea

that lack of credit is their primary constraint. There is reason to question how advisable it is to inject low-cost credit as a substitute for personal savings. In designing credit programs, then, it is necessary to analyze the actual need for capital and the ability to absorb it.

It appears that the high cost of informal credit keeps small firms labor-intensive since they cannot easily afford capital-intensive equipment. There is some evidence that the capacity for self-financing is, in fact, often greater than the desire of the small entrepreneur to invest. While labor-intensity may be a mixed blessing, some businesses are unable to function even with high levels of capital investment because of poor management practices. Suppliers who lend to small producers often supervise them carefully to assure the eventual success of the enterprise. It seems feasible, then, that credit programs designed for small enterprises could adopt the kinds of loan securities, such as lease-purchase agreements, demanded by informal suppliers. Financing suppliers directly and arranging to keep the responsibility for repayment in the hands of these suppliers would reinforce the dependence of suppliers and producers on each othor, and would retain the supervisory role often played by the suppliers.

4. There is a strong argument for linking access to credit to a demonstrated capacity for savings. Also, there is an obvious need for more comprehensive programs which support borrowers. These observations are based on the evidence that the capacity for self-financing actually often exceeds the desire to invest. An additional factor observed in this study is the strong supervisory role played by the supplier. It is worth noting that raising capital usually requires interaction with others knowledgeable about the market for the entrepreneur's goods. Such a necessary network is notably lacking in many formal credit programs. This study concludes that it is

necessary to create links between formal credit programs and informal information networks.

5. The role of intermediaries in the informal credit market merits attention. It appears possible that they would work with those formal credit institutions lending to the poor. Many of these intermediaries act as agents for others who are not self-employed. Their local knowledge and relatively simple methods of assessing credit-worthiness are effective and involve no high transaction costs.

   Using local intermediaries would also increase the amount of informal sector savings deposited in formal institutions. Such a network would link access to formal credit with the demonstrated capacity to save. The aggressive deposit schemes of informal credit and savings organizations, built upon rather simple principles and motivations for savers, would then have relevance to formal financial institutions.

6. The higher transaction and administrative costs of the formal financial sector tend to prohibit small, short-term loans. However, most of the informal sector's loans are, in fact, small and short-term. Small, short-term loans help assess credit-worthiness and reduce risk to lender and borrower. The informal sector can process these loans with minimal transaction and administrative costs. Formal institutions could reduce their costs if they could use local agents or self-selected groups of entrepreneurs to guarantee loans to individuals. They could adopt principles used by rotating savings and credit associations, especially the more formalized ones in which members guarantee loans made to other members and to non-members. It also appears possible that a formal lending institution could form such savings and credit groups or establish links with established rotating associations. Such an arrangement would channel formal credit into the informal sector and would help to mobilize savings.

## PROFILE OF TARGET POPULATION

Experience gained from previous AID studies, as well as from this present report, demonstrates that the majority of the urban poor in West Africa lives and works in the informal sector of the economy. This population further depends on that informal sector for its supply of goods and services. The majority of this group makes little or no use of formal institutions for its savings and credit needs. In fact, formal sector institutions view the below-median income population generally as too low-income to be an attractive source of savings deposits. Often, they are viewed as too insecure and risky to be granted credit.

Yet, in many instances, this study shows the urban poor to have an almost startling capacity to self-finance a small business, build a house, or purchase goods. There is also a strong tradition of saving found among the urban poor. Still, it appears that a large percentage of this low-income population, including many individuals with steady incomes, views the procedures of formal commercial banks and lenders as too complicated, uncertain, and time-consuming. These beliefs generally overshadow the fact that formal sector credit is usually less expensive than credit from informal sources.

In short, it seems that both groups share the perception that the cost of transacting business with each other is too high. Although informal financial systems are not designed for the poor only, they are, in reality, the only systems that are available to the poor. This study notes that the informal sector is not geared only to the needs of the poor, although that system is an essential part of their economy. The poor make little use of formal sector financing because of the high cost of formal credit and the high level of collateral required by formal institutions.

As a result, very little formal financing goes to this population. Although a number of development-assistance programs, including housing programs, have attempted to provide credit to low-income households through formal institutions, more often than not the informal financial systems are the only channels used by the urban poor. Understanding the characteristics of these informal channels is therefore useful in planning credit programs to assist this population. The analysis of these characteristics will help also in adjusting the formal financial sector to better serve the AID target groups.

## CHARACTERISTICS OF INFORMAL FINANCIAL CIRCUITS

Some of the basic characteristics of West Africa's urban informal financial circuits are:

1. They operate outside the regulatory controls on lending and borrowing rates.

2. They depend largely on local resources for credit funds, but may have links to formal sector institutions in some cases.

3. They are highly localized and respond to a diversity of needs. While some are simple, small mutual assistance groups, others are quite complex organizations capable of mobilizing fairly large amounts of cash.

4. Their operations fulfill economic needs, but are carried out in a social context. Although transactions may be formalized, personal knowledge of the borrower is important to the lender. Applying for credit and repaying loans, then, becomes a social obligation as well as an economic necessity.

Informal financial circuits supply most of the credit needed for the functioning of the informal sector of the economy. Their importance to the whole of an urban economy is significant. For example, in Dakar, informal sector enterprises provide 70% of all employment. Of those enterprises, most are started and operated by individuals using informally-accumulated savings and credit. In fact, Dakar's informal credit system is characterized by the involvement of a significant number of brokers or intermediaries who provide links to both the formal and informal sources of credit.

The results of this analysis of West African informal financial systems demonstrate some surprising facts. Information gathered in this study disproves some of the previous assumptions about these savings and credit mechanisms.

## PREVIOUS ASSUMPTIONS ABOUT INFORMAL SECTOR CREDIT

These assumptions inferred that informal sector credit was:

1. Largely Unsecured
2. High Risk
3. Costly
4. Short-Term

This present analysis indicates that of the above four characteristics, only the last applies in all cases. Credit available through informal channels, particularly to low-income groups, is indeed very short-term money. The maximum terms rarely exceed one year. More often than not, these loans are rarely available for more than one month. Yet the remaining three beliefs are not valid according to the findings of this report. In studying the security, risk, high cost, and short terms of this credit, the following observations appear:

1. Security

Very little of the credit available is totally unsecured. Guarantors, property, postdated checks and even the informal promissory notes provide some form of security and reduce the risk to the lender. The promissory notes are often regarded as informally binding. Much has been made of the idea that security for loans stems from mutual confidence, the traditional sanctity of one's word, and social pressure to repay. In reality, though, many informal lenders require co-signers, guarantors, title to property, and other risk-reducing guarantees. Information gathered in Lomé indicates that moneylenders, called the gadiga, operating in the urban areas do require guarantees that are quite conventional. These guarantees may be the title to land, personal property, or a co-signer who can pledge securities in case of nonpayment. Though personal knowledge may be the ultimate guarantee to informal lenders, loans are often backed by a more formal guarantee such as a savings deposit with the lender. Thus, even the mutual assistance groups of Liberia require that loans to outsiders be guaranteed by members.

2. Risk

In regard to risk, the relationship between moneylender and borrower often involves personal knowledge and continual contact. Unlike bankers, the informal lenders may not always have any interest in knowing the specific use for the requested funds. They do, though, have a definite knowledge of and keen interest in the overall financial position of the borrowers. This knowledge may include the assessment not only of the individual borrower's assets and resources, but those of the borrower's family as well. Such personal knowledge involves more than friendship in the small communities of lenders and borrowers. It often includes an assessment of the credit-worthiness of "friends" without having to ask "personal" questions. In the absence of such information, guarantees based on "personal knowledge" of third parties have become more accepted forms of collateral. As a result, repayment of loans is both an economic and a social necessity. In addition, informal lenders are very persistent about collecting debts. It becomes obvious, then, that little evidence actually exists to indicate that the default rate of informal credit is high.

3. High Cost of Credit

Risk is usually presumed to be related to the cost of credit. Yet this study indicates that other significant factors contribute to the cost of informal credit. In fact, informal credit rates are often the same for loans with minimal risk of default as for higher risk loans. These rates result from more than simple greed on the part of employers who offer their employees loans at "loan shark" rates. High rates result from the fact that informal credit funds are scarce and highly localized. In effect, the high rates are mechanisms to ration credit. Sometimes an employer or moneylender may set the rate high to restrain a borrower from repeatedly seeking loans.

Another factor that contributes to the high cost is that many of the informal sector's lenders are entrepreneurs engaged in high-return commercial activities. They enjoy a certain monopoly power as lenders. The funds they lend would probably earn them a similar rate of return if used for investment in their primary occupation. Therefore their rates are not tied to what many believed to be high risk. Rather, most reports suggest that actual losses incurred through bad debts are not as high as one might assume from the high rates of interest. Still, this study does not intend to imply that the risk of non-payment is not real.

4. Short Term of Credit

As noted earlier, almost all informal credit is for very short terms. Short-term debt appears to be preferable to both borrowers and lenders. Borrowers seem to prefer short terms because they can then assume a known level of debt for a definite short period. Lenders prefer such loans because they can be rolled-over quickly, permitting lending to a number of borrowers over a short period.

Another advantage is that earnings can be compounded and risk minimized. Thus this study shows that, of all the observations made about the informal credit patterns, only the short duration is the characteristic applicable in most situations.

## SAVINGS PATTERNS IN THE INFORMAL SECTOR

This report notes that in the informal sector the access to credit is often linked to the ability to save. A striking finding of this study is the unversality of savings associations. Case studies show that the savings rate in the informal sector is very significant. In fact, self-financing is the most important source of capital for investment. Voluntary savings associations function as mutual assistance groups and provide a method for keeping savings safe. They also help to enforce regular savings habits. The classic model of such groups is the widely-found rotating savings and credit association. This model may be called a *tontine*, *nath*, or *susu*.

In their basic form, such associations are composed of self-selected groups. Normally the groups are small. Each member knows the others and agrees to contribute a fixed and equal sum to a common fund. Contributions are made regularly, usually at the group's monthly meeting. In return for contributing, each member gains the opportunity to use the pooled resources of the group, one member at a time. The order in which each member gets his turn to use the common fund is set at the outset. Normally, the life-span of the association is the length of time needed for each member to receive the fund.

These associations, then, provide a way for combining voluntary savings with access to credit. The first member in the rotation needs to make only his first contribution to gain access to the group's total resources. In effect, a member is able to gain access to a relatively large sum of money quickly. The sum, then, becomes a "loan" which the member repays to the group by making the rest of his monthly payments. The first member in the rotation becomes a pure borrower; the last member in the rotation is a pure saver. Should a member need credit before his turn in the rotation, he may be able to exchange positions with someone ahead of him.

These rotating savings and credit associations exist in both rural and urban areas. Some are quite simple, while others have evolved into operations similar to small banks. One example of a complex association would be the susu clubs of Liberia which operate as fixed-fund associations. Their primary goal is to earn interest on members' savings by being a source of credit for both members and non-members.

In the Francophone countries, however, these informal savings associations are much less complex. In fact, there is very little evidence of even interest being charged by the tontines of the Ivory Coast, Togo, or Niger. Only one tontine in Lomé reportedly loaned the accumulated funds through agreements between the headman and members. However, it is noteworthy that among the market vendors and small businesses, individuals organize the tontines rather than leaving the organization to the self-selection process. This individual, who may be the agent of a more economically powerful person, earns a fee for making regular collections of savings from tontine members as well as for arranging loans.

Known as "mobile bankers," these organizers are often of a different nationality from their clients. Yut, being an "outsider" is an advantage to the mobile banker. He does not have to respond to traditional pressures and social demands, but is able to make transactions on a "business basis." What is common to these various informal savings patterns is the principle of linking access to credit to a demonstrated savings habit. The access to credit that can be used for purchases or as insurance against adversity, provides the inducement to save more. In fact, these informal savings groups offer a quasi-contractual obligation to accumulate financial resources. Participants in these groups believe that without this obligation, they would not be able to save as much.

Data from other countries, such as India, suggest that in many areas informal credit organizations have aggressive deposit schemes which attract the funds of both lowand middle-income groups. Some of these groups run chits, a variation of the rotating African associations. Such groups have been successful in India, according to reports on innovations in India's banking system. In the case of one Indian bank, the collection of small deposits at regular intervals from farmers accounted for 30 percent of all deposits.

A promising sign of the effectiveness of such informal savings groups in Africa is that formal financial institutions have adopted these rather simple principles to mobilize savings. The prevalence of these informal associations in Africa attests to the success of this formal scheme:

> For the saver, such a deposit enables him to accumulate his small savings into a sizeable sum. Without this facility, very likely he would not have saved or, at any rate, saved as much. His motivation to save has been to accumulate for emergency or other anticipated expenditures rather than the inducement of earning interest. This deposit has thus been linked with this type of motive among the relatively poor.[1]

The introduction of these mobile banking systems into the marketplace does suggest that the mobilization of resources need not be limited to small, individual groups. These systems can and do benefit from operating on a larger scale. The mobile systems do avoid the inconvenience and strangeness of dealing with the formal savings institutions. In addition, they fulfill the need for small-scale entrepreneurs and traders to save and secure their money without undergoing any formalities. Despite its limited scale, the mobile system provides the urban poor with one of the few cheap accesses to credit apart from relatives and friends whose financial resources may be evan more limited.

## THE RELATIONSHIP OF CREDIT PATTERNS TO HOUSING IN WEST AFRICA

Several of the findings regarding informal credit in this report could influence the design of formal sector housing programs for the urban poor of West Africa. At present, little of the informal sector's credit is channeled into housing construction. Some attempts have been made to organize community groups on the same basis as the rotating credit and savings associations.

These community groups could advance short-term credit, guarantee loans, and collect repayments. Though further study of the effectiveness of such groups is necessary, it is now certain that formal institutions can successfully adopt localized, regular collection procedures both to collect debts and to attract deposits. It does appear that these community groups need to affiliate with formal institutions in order to have access to sufficient funds for housing construction. Yet, it is interesting to note that formal institutions are rarely as aggressive about collecting debt payments as are the informal associations.

During the initial stages of supplying credit, short-term, small loans are advisable. As clients demonstrate their capacity to repay these small loans, larger loans for longer periods can be made. In many housing programs, the emphasis has been on costs to the lender and on ways to reduce those costs. It is equally important that the borrower's costs be reduced. One way of accomplishing this reduction is to decrease the intangible cost of dealing with the unfamiliar practices of the formal institutions. Borrowers are also discouraged by the time involved in finding information about or making payments to formal institutions. It is obvious that these institutions need to streamline operations in more convenient and familiar local situations. They could also decrease collateral requirements by permitting group or even personal guarantees where no tangible assets are owned by the borrowers. All of these improvements could serve to stimulate the borrowing from and saving in formal institutions. This kind of financing is necessary for the improvement of housing in West Africa.

## INDIVIDUAL CASE STUDIES

### IVORY COAST

The following brief study on informal financial circuits in the Ivory Coast draws partly from selected interviews with participants in the informal financial circuits as well as from surveys of small-scale enterprises and tontines. Because the formal financial sector in Abidjan is relatively well developed, it follows that the informal financial sector is somewhat more developed than in other West African countries studied. While it is not possible to tap a sufficient number of sources to uncover the variety of financial circuits, links between Abidjan's informal financial circuits and its formal credit institutions appear to be somewhat more developed than in other Francophone West African cities. The following report identifies a number of these circuits which reflect the links between the formal and informal sectors. These six informal credit mechanisms are:

1. Consumer Credit
2. Salary Advances and Loans to Employees
3. Land Leaseholds
4. Supplier Credit
5. Tontines
   a. Informal Rotating Savings and Credit Groups
   b. Mobile Banking Tontines

1. Consumer Credit

This is one of the more obvious forms of credit transfers from the formal to the informal system. It involves the use of private and public agencies' consumer credit to satisfy unmet credit needs. Formal lending agencies such as the Crédit de la Côte d'Ivoire and the Côte Ivoirienne offer credit for the purchase of household or consumer goods. The loans are available only to salaried employees and are in the form of non-transferable certificates which are honored by participating merchants. These loans are easy to obtain and can be for as much as one quarter of an employee's annual salary. Repayment is over one year at 18 to 25 percent annual interest.

Many lower- and middle-level salaried employees, however, need credit or cash for purposes other than buying merchandise. Since they have access to consumer merchandise credit, they purchase the merchandise and quickly sell it for cash, at a discount, to a "credit broker." Credit brokers can usually be found on the street right outside the store where the employees exchange their loan certificates for the merchandise. The merchandise is sold at a discount of as much as 25 to 30 percent of its price, depending on the items and the urgency of the need for cash. A certificate for a color television for CFAF 187,000 (US $935), for example, may raise CFAF 120,000 (US $600) to CFAF 130,000 (US $650) in cash for the borrower.

Thus, the effective interest rate paid ranges anywhere from 43 to 48 percent. It is highest for certificates available through private consumer credit corporations such as Côte Ivoirienne, where the total cost of consumer credit after commissions are added is between 23 and 25 percent; this compares to only 18 percent interest on loans from the Crédit de Côte d'Ivoire. Despite such high interest rates, this market seems to be thriving. It is highly seasonal and strongest during the fall at the time of school re-entry, and slowest during the summer months. This pattern would seem to suggest that the loans obtained in this market are used primarily to satisfy family and personal needs. It is also likely that these loans are used for the purchase of other goods for which no credit is available, or to raise cash for family members and friends who have no access to credit. Also, these loans are a source of capital for the moneylending operations which are prevalent among colleagues in various public and private agencies.

These street-site consumer credit brokers serve two, usually limited-income, client groups: the low-level civil servant and the lower-income individual who then buys the merchandise at a discounted sales price. The markups on the cash prices paid by the broker to the borrower reportedly do not exceed 12 to 15 percent. The broker's advantage is that he does not risk having idle stock on his hands. If he cannot resell the item on the street, he is normally able to supply it at a discount to other stores in poorer neighborhoods where the item is resold at full sales value.

## 2. Salary Advances and Loans to Employees

A second widely used type of credit mechanism active in the informal sector is the granting of salary advances and loans to employees. According to a recent SETU survey of low-income households, employers represented the prime source of credit to about 40 percent of the salaried heads of households. This type of credit is normally available in the form of a two-week advance on salary, or half the monthly salary. In some cases, loans can be made for larger amounts and repaid over as long as a year. Some agencies and corporations have policies governing advances and lending, but in many cases the credit is nonetheless arranged informally by the employees and the firm's accountants.

Those employees seeking loans during the earlier part of the fiscal year have more opportunity to be granted larger amounts and longer terms of repayment since all loans must be settled by the end of the fiscal year. Most of the credit in the form of salary advances is available at no interest, and loans to employees are provided at concessional terms. Even where such credit policies exist within various agencies and corporations, informal loans may be arranged through the accountants or other highly placed employees. This type of credit comes, however, at a much higher rate of interest, reportedly between 30 and 40 percent, and is available for very short terms. Sometimes the lenders may simply require a series of postdated checks. Or, if the loan is arranged through the accountant, repayment comes through direct deductions from the employee's paycheck.

Even though these employee loans involve high curb-market interest rates and minimal risk to the lender, this form of credit is very widely sought. Borrowers in this market may have exhausted the more formalized and cheaper loans from employers. They may have already contracted the usual salary advance and loan, or they may be known to have other outstanding loans. A further advantage of these informal employee loans is the con- fidentiality behind such transactions.

3. Land Leaseholds

The data gathered in Abidjan suggest rather strongly that most forms of informal credit seem to be channeled to those who already have potential or real access to credit through formalized channnels. Another example of such an informal credit circuit is the system of obtaining "credit" for the construction of housing units through long-term lease of land. This land is leased by the owners who may have acquired it through inherit- ance, but who do not have the means to undertake construction projects on that land. This form of financing is the only example found of both long-term credit and housing finance. The process involves the payment of a monthly rental charge on land for a period which may extend to as long as 20 years, but which is limited generally to 10 years. During the course of this time, the lender invests in constructing housing units or commercial office space for rental.

In one of the cases reported, the total investment needed for the construction of a block of apartments was CFAF 50 million (US $250,000), of which CFAF 48 million (US $230,000) was provided by the investor to the landowner over a period of 10 years in the form of CFAF 400,000 (US $2,000) monthly rental on land. During the course of the 10 years, the investor, not the owner, had all rights to rental income which was estimated at CFAF 24 million (US $120,000) per year. Full recovery of the investment, inclusive of the land rental and cost of construc- tion, was therefore possible within a period of four years. It would most likely have been more profitable for the landowner to have attempted to obtain the financing through formal channels since the income gained from rental would have allowed full repayment of the loan within an even shorter period, at a lower interest rate. The lost rental income stream for a period of 10 years must be calculated as part of the opportunity cost for this alternative form of informal credit. Apart from this system, there is an almost total absence of credit on housing, even through informal channels.

Financing through land leaseholds is limited to investment housing rather than small private individual units. Contractors normally finance their work through advances paid by their clients. Occasionally they have recourse to short-term overdrafts from friendly bankers at a rate of 2 to 5 percent above the formal lending rate.

## 4. Supplier Credit

Channels of supplier credit, i.e., the sale of goods on credit to enterprises, seem to be applied selectively to small- and medium-scale businesses. This credit is often provided solely on the basis of commercial advantage for certain high return items. Regular wholesale suppliers to small- or medium-scale retailers often provide short-term credit to them at no interest on certain standard items while charging 20 to 30 percent interest on other items which have a fast turnover. The relationship between the supplier and retailer is not threatened by such occasional interest charges. It is understood that the commercial gain to both parties allows room for interest to be charged.

Supplier credit in general seems to vary in its availability. It seems to be more accessible to certain productive enterprises, while it is virtually nonexistent for others. This form of credit, apart from being relatively expensive to obtain, reportedly at 33 percent interest, indebts the small productive enterprise to the supplier. Often the supplier acts both as an intermediary for the sale of the goods produced and as a banker. The terms of payment for machinery and materials bought on credit through these intermediaries require a monthly interest payment until the production level and sale of merchan- dise allow for the reimbursement of the principal amount. While this relationship is often exploitative, the relationship between the artisan/entrepreneur and the supplier/banker is mutually dependent. Since the intermediary has an interest in gaining a return on the credit, he develops a vested interest in the welfare of the productive enterprise. To protect these interests, he must exercise strict control and supervision over the operations of his clients.

5. Tontines

Another type of informal credit circuit is the tontine. The tontine is one of the primary vehicles for accumulating savings and for gaining access to credit among lowand middle-income groups regardless of the nature of their employment. There are two distinct types of tontines in existence in Abidjan. The first type is the group rotating savings and credit association commonly found throughout West Africa. The second is the mobile banking association which is somewhat more organized and more recent in origin.

a. Informal Rotating Savings and Credit Groups

This type of association is usually formed by a small group of individuals who are linked by close social and/or economic bonds. Each of them contributes a predetermined and equal amount of money to a common fund on a monthly or weekly basis. Each, in turn, then receives the right to this fund. The cycle of rotation ends after all members have received their turns and paid their debts. In a twelve-person tontine, organized on a monthly basis, for example, the cycle lasts for twelve months. It may or may not be resumed by the same group of individuals with a few new members joining as others drop out.

The organization of a tontine is relatively simple with few governing rules. One of the members is normally assigned the task of collecting the individual contributions and disbursing the funds at the end of the month or week. This expedites the process of collection and minimizes the delay of payment in contributions.

The existence of tontines is thought to be quite widespread. Survey evidence, however, generally does not seem to corroborate this assumption. The recent SETU survey of a low-income community, PORT Bouet II in Abidjan, reports that only 11 percent of the households there were participating in tontines. A bias in reporting may be attributed in some measure to the fact that respondents to this survey were heads of households. Tontines, like many of the economic and income-earning activities in low-income communities, are not limited to the principal wage earner in a household. It is quite possible, therefore, that there is an underrepresentation of participants because the survey was directed at heads of households.

Very little quantitative data exist on the scale of savings accumulated informally through tontines. However, what data does exist suggests that on an individual level tontines force the saving of a sizable proportion of income, ranging from one-tenth to one-quarter of the individual's income. The actual amount saved depends not only on the monthly income but also on the purpose of savings. Many tontine members appear to join in order to accumulate capital for specific purposes. Some tontines require as little as CFAF 2,000 (US $10), while in others, members contribute CFAF 30,000 (US $150). There seems to be some reason to believe that the level of savings through tontines among those employed in the informal sector is greater than that for salaried employees. According to a survey of ten tontines, the proportion of income saved through tontines was higher for masons and tailors than it was among the tontines formed by salaried workers.

In part, this higher savings capacity can be traced to traditions in rural areas where incomes are irregular. In such areas it is necessary to retain part of current earnings against unforeseen shortages in the future. In urban areas, the capacity of individual tradesmen and entrepreneurs to accumulate capital is guided by an additional necessity, namely the limited number of alternative resources available for new ventures. Very little, if any, credit is available for start-up capital apart from that provided by family and friends. Therefore, personal savings, including that saved through tontines, is often one of the few means through which sufficient capital can be accumulated to purchase machinery and other supplies needed for small-scale enterprises.

The credit obtained by each but the last member to receive the fund through the tontine consists of the group's total contribution less the individual's own contributions during the course of the cycle. There is no interest on this credit, yet members with investment opportunity do bear an implicit interest rate in the cost of waiting to receive their turn. They can at times arrange to minimize this cost by exchanging turns with members who are ahead of them in the cycle of rotation.

The advantage of joining a small tontine group, according to participants, is that they feel they are able to save more than they would on their own. In fact, some of those who do join tontines reportedly engage for the duration of the cycle in a secondary income-generating activity with the purpose of saving all earnings. An example of this kind of saver is a midwife who occasionally would, in her free time, take up buying and roasting peanuts that she would sell to several stores. Her earnings from her sales operations amounted to CFAF 4,000 (US $20) per month. These earnings were collected at the end of the month from the store and deposited in their entirety in a tontine group. The perception that one is forced to save more as a member of a tontine helps explain why participants prefer to use these associations over formal systems even when they are quite knowledgeable about those formal alternatives. Additionally, the minimum deposit requirement of CFAF 65,000 (US $375) discourages small savers from using the banks.

b. Mobile Banking Tontines

The second type of tontine is generally organized by individuals who do not participate as contributors to a common fund but act as collectors and managers of other people's savings. These mobile "bankers" make daily rounds of the marketplace in Abidjan collecting deposits from the members of the tontine. The deposits are held for a period of one month at the end of which the aggregate amount saved, less one day's deposit, is returned to the individual. Thus, an individual tradesman pledging a daily deposit of CFAF 4,000 (US $20) for a period of one month will pay that amount for the service of the organizer.

Each of the contributors to the fund bears a different cost for the same service depending on the amount he or she deposits. Larger depositors, however, have an advantage in that they frequently obtain credit in larger amounts than those amounts available to small depositors. The tontine organizers are generally merchants and tradesmen who manage the tontine as a secondary occupation. Most are "outsiders" in the sense that they are either non-Ivoirian or belong to an ethnic group different from their customers. In particular, Nigerians play an important role as organizers. Reportedly, a Nigerian introduced mobile banking to Ivory Coast, beginning with a small group of traders.

According to Miracle, there is some reason to believe that many of these mobile bankers may actually only be agents of more economically powerful individuals engaged in moneylending activities.[1] They therefore collect deposits of small tradesmen and artisans and use that money for the loan operations of the larger businessmen and market women who head powerful cartels. These moneylending operations are essentially means of controlling market entry by the richer merchants. In cases where the mobile bankers act as their own agents, the collective deposits of their customers are essentially used either to help fund moneylending activities or to provide means of access to the formal banking system.

Memberships are large in these tontines. In fact, it is more advantageous for the mobile banker to have as many members as he can manage, whether or not he is acting as his own agent. Groups of 200 to 400 depositors are therefore not uncommon. The organizer, who is his own agent, deposits part of the aggregate amount collected from the participants in an account in his own name. He thereby establishes himself as an important customer and opens up access to a line of credit which would otherwise not be available to him. He can use this to further his primary occupation.

The organized tontines are somewhat more formalized than the rotating savings and credit associations. Each subscriber to the tontine has a savings card on which the daily contributions for the entire month are recorded. In fact, the fee charged by the mobile banker is referred to as the cost of the savings card. The cycle of savings must be renewed after the end of each month, and a new card is bought.

Savings through these tontines average between CFAF 200 (US $1) and CFAF 7,000 (US $35) per day, according to some informants, but contributions of CFAF 4,000 (US $20) or more are not uncommon. On a daily basis the organizer, assuming he manages to contact all his clients, can amass between CFAF 100,000 (US $500) and CFAF 200,000 (US $1,000). The amount collected does fluctuate because not all clients can be reached on a certain day. Some of the participants prefer to make deposits for several days in advance, while others are late in paying up their savings.

In addition to the convenient method of saving, these tontines also provide access to credit. Loans rarely exceed the total of a month's savings. An exception to this is made for depositors of large sums of money who have been long-standing clients of the mobile banker. Reportedly, no interest is paid on loans consisting of advances or pledged monthly savings. It is likely, however, that interest is charged on loans that are in excess of the total monthly deposits. Reportedly, these loans are made in amounts that are up to six times the money deposited. The credit-worthiness of the client is judged largely by the regularity of payment and the length of the client's participation in a tontine.

Most mobile bankers must keep a reserve of cash for loans and for payment to participants who wish to withdraw their deposits and drop out of the tontine. It is not clear how much money is held in reserve. However, given the regularity of the visits and the large amounts handled on a daily basis, participants rarely have to wait longer than a day to get advances or to withdraw their deposits.

The convenience of having mobile bankers not only allows traders and artisans to save more, but also provides security. Instead of paying the opportunity cost of leaving the workplace to deposit small or even large amounts of cash at a bank, the organizers of tontines perform this service for a fee. The system also allows traders to gain access to credit without having to wait for their turn in a rotating credit and savings association. Thus, for traders, this system minimizes the opportunity cost of losing an investment opportunity when it arises.

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## LIBERIA

This brief survey of the informal credit market in Liberia stems from a series of selected interviews with small- and medium-scale business promoters, members of *susu* clubs, and other knowledgeable participants in the Liberian informal sector. Gathering information was somewhat easier in Liberia than it was in the Francophone countries. Talking about debts, moneylenders, and credit was less taboo, even though such practices are considered as "illegal" in Liberia as they are in the other three Francophone countries. In Liberia, [illegible] as a way of life for low-income households is readily and widely acknowledged. Transactions necessary to acquire credit are, therefore, considered natural parts of the economics of survival. It should be noted that the informal financial sector is not geared to the needs of the poor, although that system is an essential part of their economy.

In Liberia there are three primary systems for gaining access to credit:

1. Legal Power of Attorney (LPA)
2. Moneylenders
3. *Susu* Clubs

### 1. Legal Power of Attorney (LPA)

The LPA is one system of making consumer credit available to salaried individuals. When granted to a merchant, the LPA enables that individual to receive the consumer's monthly paycheck, from which he deducts the payment due him. He then hands back the balance to the consumer. This system minimizes the risk in selling merchandise on credit, but does present problems for the consumer.

Such credit is available for a maximum period of six months. The amounts available may reach as high as 50 percent of the take-home pay and in some instances the employees reportedly never see their paychecks. It is the merchant who actually decides how much credit he is willing to grant the employee. He does this through knowledge of the monthly salary and employment history, but never takes into account other debts and obligations, such as rental payments or household size. These factors do not count in his calculations, for he is guaranteed receipt of the full paycheck without having to consider if the burden of debt imposed is too large for the individual.

In one of the cases reported, an employee with a take-home pay of $300 per month bought a bed, dresser, and radio which cost approximately $1,500, inclusive of the 10 percent credit charge. To pay back this loan within six months, the employee reported received only $50 per month after the merchant's deductions. She had to go herself to collect the amount due from the merchant; this in turn involved the frequent expense and inconvenience of not finding the merchant or the money available when she arrived.

Living on credit granted by merchants for consumer goods seems to be fairly common among lower- and middle-level salaried employees. There is very little awareness of the cost of credit granted through the LPAs. In principle, items bought on credit carry a surcharge of 10 percent interest. However, given the flexibility in the pricing of items, it should be noted that 10 percent represents the minimum interest received by the merchant. The customer buying on credit loses the flexibility of bargaining for the usual discounts available for cash payment. An item with a declared sales price of $1,000 may be bought for $800 cash, or $1,100 on credit over a maximum period of six months. It should also be noted that the LPA system, in principle, represents fairly favorable terms to consumers. The face value surcharge of 10 percent is cheaper than the consumer-discounted loans available through the banking system or the 20 to 25 percent informal loans. The problem, however, is that the LPA loan often does not distinguish between the price and the credit surcharge, which is assumed to be only 10 percent. The consumer, in effect, never actually knows the real cost of the credit granted. Just as charge cards in Western societies seem to encourage a segment of the population to live beyond its means, the LPA system of charging for a series of consumer goods seems to indebt families who can ill afford paying on the "installment plan." It is not known whether the heavy burden of debt reported by many of those using this system is simply due to good salesmanship on the part of merchants creating a "need" for a variety of unessential goods or due to a greater propensity to consume simply because the credit makes certain items seem more accessible.

The risk for the merchant accepting LPAs is that the individual's tenure in the agency may be terminated. Merchants, therefore, check with the employer and personnel officers on the employees who come to them as clients. The merchants normally have their own credit checks, and their assessment of credit-worthiness extends beyond the simple fact that the client is salaried. Working in certain agencies or enterprises where employee turnover is known to be high often bars all employees from receiving credit through the LPA system.

## 2. Moneylenders

Another informal credit source available to Liberians is the moneylender. Private individuals working as part-time moneylenders are quite numerous. Every job site and agency, including the university, has a few individuals who provide loans to their colleagues, classmates, and co-workers for very short terms, a maximum of three months, at 20 to 25 percent interest. The sources of these funds are not necessarily personal. A member of one of the smaller non-interest-paying susu groups, having received the pool of funds, may lend the money out at 20 to 25 percent. The member thereby makes use of the group's contributions without sharing the profits. This system does involve risks for both the lender and the group. However, among civil servants, many of whom reportedly join such susu groups with the intention of engaging in lending out the funds, risks are minimized by limiting loans to colleagues and establishing a working relationship with payroll and personnel officers who can bring pressure to bear on defaulting borrowers.

An additional source of money for this small-time lending activity is the formal sector consumer credit. A civil servant or salaried employee with access to this supply of funds may arrange to have it loaned out at a much higher rate of interest. An example of this is to be found in the case of a salaried employee who was not in a position to act as a lender without incurring great risks. She, however, had a relative working in the market who had the necessary daily contact and knowledge of her co-workers' financial positions and was therefore more capable of judging their credit-worthiness. The salaried employee took out a one-year, $1,000 consumer loan at a 12 percent discounted rate. The $880 principal was then used to provide several small short-term loans at 25 percent interest to various mark women. Given a maximum loan duration of two months, the funds earned a total of $1,320 in interest, of which $540 was kept as profit at the end of the year. Again, the risks of not selecting the right intermediary are reportedly high. In this case the "broker," who was totally new to this sort of activity and unlikely to operate in this market on a regular basis, simply kept the profits. However, established credit brokers in need of new sources of funds to increase their activities do accept such deposits from individuals, charging 10 to 20 percent of the profits for their service.

While these private, small-time loan sharking activities may be fairly numerous and the associated risks quite high, they are limited in scope by the size of the working capital available. The more professional moneylenders have access to sizable working capital from their own businesses and from deposits of individuals. They serve a broader clientele which includes informal commercial and productive enterprises that are often viewed as too small or too unstable by the banks. These larger lenders are also known to serve larger organized businesses whose demands and procedures are not deemed appropriate by the commercial banks. Black market dealers, diamond merchants, and even legitimate business concerns with quick cash needs to fund a commercial opportunity are all frequent customers of the larger, more professional moneylender. In addition, these moneylenders serve entire households or private individuals who need cash in larger amounts than they could obtain in the informal credit channels.

The more established moneylenders act as businessmen with their own stationery and application forms. The loan applications include information on income, employment history (often verified by the employer), and assets, and a clause stipulating the procedures which may be undertaken in case of nonpayment. Such practices are meant to be more than status symbols. The anonymity of the clientele served by moneylenders in urban areas has, in effect, induced some of the lenders to act more like formal bankers and undertake credit checks.

These moneylenders reserve the right to sue the borrower and repossess any property with a value equivalent to the outstanding loan. They usually make informal use of the normal law enforcement channels, such as the police and justices of the peace, without having to face the delays involved in more formal, official proceedings.

Transactions with these large moneylenders are more formalized. The pledges are not as simple as the verbal agreements, promissory notes and postdated checks that are characteristic of much informal lending. Yet, the advantage of these large lenders is that the borrower is more likely to receive the loan from the moneylender than if he were to offer the same information and guarantees to the bank.

The lending terms in the informal market are somewhat less stringent than those offered by the commercial banks. In the case of established enterprises undergoing financial difficulties or in need of quick cash, the 20 to 25 percent interest rate over 6 to 12 months is not as such a hardship as the processing of an application with the commercial banks for an 18 percent discounted loan which might not be granted. The lender, on the other hand, can afford to grant loans on more lenient terms because he feels secure that his informal collection network will guarantee a return of at least the principal amount.

Poorer households applying for loans in this larger market can pledge security or personal property and obtain cash equivalent to one-half the value of the item pawned. Large loans ($1,000) are also available through these moneylenders. However, given a household median income of approximately $200 per month, repayment of such loans over a maximum period of four months requires that the household go further into debt to friends and family.

3. Susu Clubs

Another very active and widespread informal credit and savings channel in Liberia is the susu. Originally, these were rural mutual assistance associations performing largely social functions as well as assisting in small-scale capital accumulation. At present, susu associations include both the rotating credit and savings associations found in most West African nations and fixed-fund groups which are somewhat less common in these countries.

The rotating credit and savings association has been described in the literature by Geertz as "a device by means of which traditionalistic forms of social relationships are mobilized so as to fulfill nontraditionalistic economic functions."[1] In urban areas, the furtherance of the economic interests has largely overshadowed the social functions of mutual assistance. While many of the susu clubs still manage to combine both a social and an economic function, the social aspects relate primarily to the group meetings once a week or once a month, and sometimes include donations to help members out in case of illness or a death in the family. When these clubs are organized on a tribal or village basis, the principle of mutual assistance includes both the extension of credit for members within urban areas and raising money for large-scale projects in the villages of origin.

In urban areas these associations vary in size, form, and function. The classic susu group consists of a small number of individuals who are known to one another and who contribute a specified and generally equal amount to a common purse on a monthly basis. Each one of the contributors receives the right to the pooled funds in turn and the cycle ends after everyone has received his or her turn. The cycle may or may not be resumed with new or additional members joining the group as others drop out. Generally, no interest is earned on these funds, and the principle behind them for the savers is to gather a sufficiently large sum to purchase commodities or to start a commercial or productive project. In some instances they lend out the money received in order to earn interest on it.

In their simplest form susus are pure savings associations which operate without officers. One of the group members is designated as the treasurer and is responsible for collecting the deposits of the other members. Funds are collected at the end of the month or at the end of the week, depending on the time basis upon which the fund rotates. The treasurer also disburses the fund to each member in turn.

Each but the last of the members receiving the fund in this small group is able to benefit from access to a certain amount of credit. Therefore, members benefit from acquiring a large sum of money before they are able to save it. Naturally, the person with the first right to the fund is in the most advantageous position since he or she gains access to credit in the form of the other members' savings. The loan is paid back in monthly or weekly deposits over a longer period of time than that available to other members. Thus, the first member in the cycle of rotation is a pure saver at a zero interest rate in each case.

Many of the existing susus have undergone considerable refinement and evolution from being classic forms of mutual assistance to operating as small-scale commercial lending and savings associations. This latter type seems to be flourishing and individuals can, according to one informant, shop for a susu club which provides the best deal. The prevalence and variety of these indigenous savings and credit associations are also underscored by the Massing and Seibel study conducted in Liberia. They note that there was a median of three such associations among each of the various ethnic groups studied.[2]

In the more organized susus, memberships are large (200 to 300 members). They are headed by a president and usually have one or more officers who may be compensated for their services through the payment of a $1 fee by each member in the association. The remuneration of officers, however, represents a very small percentage of the club's capital.

The affiliation through kinship and other common bonds of friendship, workplace, or neighborhoods does not apply as strictly in larger susus as it does in smaller susu groups.

Individuals wishing to join a club must be introduced by a member and are screened by the leadership of the group. Yet it is rare when all members are known to one another. The clubs allow flexibility in the amount that the individual wishes to save, i.e., not all members are required to contribute the same pre-fixed sum. The individual, once having been approved by the club, declares the amount of the monthly contribution he or she is willing to pledge at the end of the year. The cycle starts in January with the fund and interest earned on loans distributed to the membership by the first week in December. Thus, the twelve monthly contributions are collected over a period of eleven months. These funds are rarely dissolved at the end of the year. Instead, a new cycle is usually started with additional members joining.

Rules governing the level of savings and the enforcement of collection of contributions vary in these clubs. Individual contributions may range from $10 to $50 per month. A minimum and maximum amount is usually set and club officers, among the groups studied, reportedly shy away from accepting pledges of more than $50 per month since they regard this amount as an unrealistically high level of savings which is unlikely to be sustained over a period of a year. However, to assure a sustained level of contributions from the membership, fines of up to $1 are levied on contributions which are more than two months in arrears. Penalties for early withdrawals include the loss of all interest on savings and a small fine, which represents the treasurer's fee.

The basic principle behind the organized large-scale susu clubs is to make money for their members and to provide access to credit by lending out the money deposited to both members and nonmembers. During the first three months most of the deposits are loaned out at a discounted rate of interest, which in the clubs studied varied from 10 to 20 percent. The lower interest rate seems to be applied within clubs where participants' incomes are low or irregular, according to informants. However, it was not possible to determine if the level of income and its regularity were the only significant factors affecting the rate of interest on credit. Other studies on Liberian susu clubs, predominantly in rural areas, suggest that interest rates vary significantly, ranging from 0 to 360 percent per year, according to Massing and Seibel.[3] The calculation of interest on an annual basis is often misleading, however, since many clubs limit the number of times a debt can be rescheduled, and most loans are due within a much shorter period of time.

According to those interviewed, salaried employees with a regular income comprise a significant proportion of the membership in many of the more formalized susu. An important exception are the susus organized among market traders and artisans. These clubs have been in existence for a number of years, though their actual membership fluctuates as individuals drop out and others join. In one club of 300 members, all of whom were market sellers, monthly contributions varied from $10 to $50 per month. At the lower end of the scale this contribution represents at least 8 percent of the median household income in Monrovia and a significantly greater percentage for many of the market women.

Joining a susu club is more than a means of accumulating savings, for the successful functioning of the club depends on credit extended to both members and nonmembers. As a general rule, the maximum amount of a loan is related to the individual's expected contribution on an annual basis. Thus, an individual saving $10 per month will not expect to get a loan of more than $120 at any one time. Such loans are extended for a very short period of time. Among the market susus, the maximum loan term was reportedly not more than four months at 10 percent interest. Interest is normally paid up front. Thus, a loan of $100 will be calculated as consisting of $90 in principal and $10 in interest; the individual claiming to have "borrowed" $100 will have actually received only $90 in cash. In case of nonpayment, a grace period of another four months may be extended as long as an additional 10 percent interest is paid in full.

Linkages between the susu and the formal sector exist through the club's deposit of its funds in banks. According to individuals interviewed in this study, the treasurer rarely draws upon the funds once they are deposited in the bank. In cases where the treasurer has to actually draw upon funds in an account, the credit is available only at the end of the month, which is the usual time when deposits are made to the bank. The advantage to the borrowers in applying for a loan from the susu club is that the waiting time is rarely longer than a week or two, since funds are always available at the weekly meetings.

During the course of the first three months of the cycle these deposits consist entirely of the discounted interest on loans. Thus, if the total monthly contributions from club members amount to $2,000, the club will deposit only $200 or $400, depending on the rate of applicable interest, having loaned out the balance. Loan sizes vary but average over $100 in order to minimize their number. The maximum loan amounts available, according to informants, rarely exceed $400 to $500.

Access to credit is not limited to the membership. Yet all loans to outsiders require a full guarantee from a club member, and are provided at a higher rate of interest. For example, in one neighborhood club composed mainly of self-employed and non-salaried individuals, four-month loans could be obtained at 10 percent interest by members and at 25 percent by outsiders. Similarly, in another club, members were provided with two-month loans at 20 percent interest while nonmembers could get loans at 25 to 30 percent.

The duration of the credit extended seems to bear some relationship to the incomes of the various members. Clubs with a higher-income membership and higher monthly contributions will seek to extend credit over a shorter period of time and will therefore also earn a higher rate of return for the membership.

The success of the lending operations is what attracts members to save through these associations. The principle of the susu as a credit-granting informal institution is well established and accepted by both members and nonmembers. Any individual wishing to join after the first three months of the cycle must not only pay up his entire three months' share but is also charged interest on it. This represents a fee for gaining access to the use and benefit of the other members' savings that have been used to accumulate interest. The newer member profits from these activities in the form of dividends at the end of the year. In the event that he is not charged interest on the contribution, he is required to take out a loan immediately so that the rest of the membership can earn interest on the funds he acquires.

Susu lending activities seem to vary with certain periods in the year. During the first three months (January to March), credit is easily available through the susus. This period happens to coincide with the time when business activities are at their highest level. Contributions are also usually at their highest level, with members paying up as much as six months' worth of their annual dues. After school re-entry in September, credit available through the susus is more limited because the officers attempt to use the last three months of the year to clear up all outstanding debts. This period is also used to take stock of the club's financial position so that the officers can judge how much they will be able to pay out in dividends. According to the information gathered, the rate of interest on savings is nearly always at least equivalent to the rate at which credit is available to members. So some clubs pay out 10 percent, and others 25 percent, on savings, depending on the rate of interest applied on loans. Certain clubs guarantee the amount of interest they will pay their members at the end of the year.

In one of the clubs studied, the guaranteed savings rate was 25 percent. Any excess in profits earned on the lending activities remained in the common fund for use when the new cycle would begin again in January. The operations of this susu club composed of 300 members had been continuous for a period of 10 years. While much of the membership had changed during the course of that time, the fund itself was never fully dissolved or distributed among the shareholders at the end of the year. In principle, the membership could vote to divide all the money in the fund and therefore earn more than 25 percent on their savings.

Another characteristic of the susu is that loan payments are guaranteed through "co-makers," who are always other club members. The by-laws of the group also specify that in case of nonpayment, property equivalent to the value of the amount outstanding will be seized. There is strict enforcement of this measure through the credit officer/collector, who is normally appointed by the "president." The property seized is either auctioned off or sold.

The pressure to repay loans is not only exerted by the sanctions undertaken by the credit officer/collector, but is also backed by the interest of the group in earning their dividends at the end of the year. Co-signers for loans feel obligated to pay up in cases of default by the original borrower, and to collect the funds independently from the defaulting borrower so that he or she will not be shamed by the process of a collection committee sending out its representative to repossess merchandise or household items. An additional pressure is the fact that establishing credit-worthiness with such an association is important. Susu clubs are often the only source of credit available to the low-income population. Borrowers, therefore, realize that they will be "jammed" for money at some future date and cannot risk defaulting on loans.

Rescheduling of debts is allowed so long as the interest owed is paid up in cash. In the case where a $500 loan discounted at 20 percent and due within two months was rescheduled, the borrower had to pay $100 cash in additional interest before the term could be extended for another two months. Essentially by rescheduling the debt, the borrower was paying 50 percent in interest for a four-month loan. Assuming that the debt kept being rescheduled until the end of the annual cycle in December, when both principal and interest must be fully paid off, the interest payments would amount to 150 percent per year.

While informants claim that nonpayment of debts is the exception rather than the rule, it was not possible to get information on arrearages or on how frequently debts have to be rescheduled. According to informants, however, well-managed susus normally stop lending after September and school entrance in order to give the treasurer time to make certain that all outstanding loans are paid back fully by the end of the year. A more in-depth study of these associations would require looking into the books kept by treasurers to trace the actual loans made to see how much of the credit is rescheduled. There is some casual evidence, however, that arrearages may not be uncommon.

In the case of one of the susu clubs which charged 10 percent interest on loans to members, the total interest paid on savings by the end of the year averaged more than 20 percent. This increase was due, in part, to the higher interest earned on rescheduled debts and to loans to new members.

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## NIGER

This report brings together information gathered through selected interviews with individuals knowledgeable about the operations of the informal credit and savings mechanisms in Niamey. The existence of such informal credit circuits is both widely known and vehemently denied. It was, therefore, difficult to gather and verify information from as many sources as would have been desirable. Not only are known moneylenders shy about discussing their operations, but known borrowers universally deny having sought credit. Bearing this limitation in mind, researchers present this report as an attempt to identify some of the available credit channels. In no way is this report an exhaustive inventory of those circuits.

In Niger there are five main channels of informal credit:

1. The Rudimentary Private Credit Market
2. Merchant Credit
3. Moneylenders and Credit Brokers
4. Tontines
5. Commerce

### 1. The Rudimentary Private Credit Market

This is probably the most widely used source of borrowed funds. Transactions within this market depend upon obligations of kinship and friendship. As a rule, the loans involve small, totally unsecured sums which are extended over a very short period at no interest.

The majority of the borrowers are households with emergency cash needs, as well as small businesses and productive enterprises in need of start-up or working capital.

While the extension of this form of credit depends upon social obligations and widely acknowledged principles of mutual assistance, it should not be assumed that these values have not undergone some transformation within the urban context. According to informants, "friends" or colleagues working within the same departments who are known to be economically better off than their colleagues -- due to their access to supplementary sources of income -- are not averse to charging interest on loans. The interest quoted on a loan among co-workers for CFAF 10,000 (US $50) payable by the end of the month was 100 percent. The high rate of interest is intended to discourage the number of demands for credit. Collection of this type of loan is usually secured among salaried employees by a postdated check made payable on payday. In other cases, special arrangements for collections are made with the accountant responsible for disbursing checks.

While the example of charging 100 percent interest may be more the exception than the rule among "friends," it is often difficult to distinguish between friends and moneylenders, since even the commercial curb-market in Niger operates on the basis of personal knowledge and friendship. Though most studies of informal market enterprises note friends and relatives as the most important sources of external credit, there seems to be some reason to question the common assumption that such funds are always obtained at no cost to the borrower. Interest, when charged, is similar to that provided by professional moneylenders, and is highest for small unsecured sums (CFAF 10,000-50,000, or US $50-250). The agreements very likely are verbal, though promissory notes are sometimes demanded noting the full loan (principal and interest) and due date. No distinction is made on these promissory notes between the actual sum borrowed and the actual sum repaid. The loan amount is quoted as the principal and interest without being broken down into those two components.

Most family members feel an obligation not to refuse the demands of needy relatives for loans and assistance. Providing such assistance when it involves large sums carries some obligation for both lender and borrower. The lender may feel compelled to assist a relative with a large loan and is unlikely to demand any interest on it. At times, he or she may even treat it as a gift.

However, the obligation of the borrower involves some form of symbolic repayment. In the case where the money is to be used to start up a productive or commercial enterprise, such symbolic repayments in kind and in cash are assumed in perpetuity. The debt is never settled even though the initial capital invested may actually have been fully repaid in cash and in kind. There is no time limit set for continuing to repay either in cash or in kind, nor any record of reimbursement. An example of this kind of settlement is a CFAF 300,000 (US $1,500) loan extended t a relative towards the price of a taxi. The principal was forgiven as a gift and the only terms set were that contributions from profits were to be paid occasionally to the lender, who also had access to the vehicle. Over time the symbolic occasional payments as well as services actually more than paid for the original CFAF 300,000 "gift."

## 2. Merchant Credit

Another system of informal lending in Niger is the credit extended by merchants to consumers for the purchase of goods. This system is reportedly widespread, particularly for such items as food and clothing. Merchant credit involves a markup in price of anywhere from 35 to as high as 100 percent depending upon both the item being purchased and the nature of the relationship between the merchant and client. Clothing, which represents about 10 percent of average family expenditure, when bought on credit is more than likely to carry a surcharge of 100 percent. Thus a civil servant buying a boubou for Tabaski on credit reported being charged CFAF 30,000 (US $150) payable at the end of the month instead of the CFAF 15,000 (US $75) cash price. Similarly, purchase of pagnes on credit cost CFAF 20,000 payable over a period of 4 months instead of the CFAF 10,000 cash price.

The risk of nonpayment in these instances is reportedly high, particularly for items which are not necessities. However, the merchant's risk is more likely to be on the interest demanded rather than on the principal. Some merchants, therefore, demand postdated checks for the full sum (principal and interest) as proof of an obligation to repay. These checks, apart from the personal knowledge and the customer's need to maintain a line of credit with the merchant, represent the only security to the merchant.

In the cases where merchants extend cash loans, the guarantees required are also likely to take the form of a series of postdated checks. The interest demanded bears an inverse relationship to the size of the loan, period of repayment, and type of security offered. Large sums, over CFAF 100,000 (US $5,000), guaranteed by a co-signer, property, or goods, carry a smaller interest rate (reportedly 35 to 50 percent) than do small, unsecured loans. Access to such large amounts is, however, limited because of the guarantees required. Still, the reason the borrower chooses to obtain credit informally and pay the higher informal rate of credit is that he is more likely to get the loan processed faster and more confidentially than if he were to offer the same securities to a bank.

Merchants as lenders to poorer households are not likely to provide credit in the form of cash. Instead, they will allow individuals to obtain goods which in turn are sold below cost in order to raise the money quickly. The borrower repays this loan at the full cost of the good plus an additional interest charge as though he purchased them on credit. An example of this sort of credit transaction can be demonstrated in the purchase of a ton of cement with a sales price of CFAF 35,000 (US $1,750). An individual in need of a CFAF 20,000 (US $1,000) loan will buy the cement on credit for CFAF 40,000 to 50,000 (US $2,000-2,500) and sell it at a loss for CFAF 20,000 (US $1,000) to obtain the cash needed. The effective interest on this type of loan is as high as 100 to 125 percent. At times, the merchant "purchases" the goods back at the discounted price so that the same ton of cement can be "sold" to a variety of customers or borrowers, on credit.

All such credit is very short-term, and is rarely available for more than four to six months. This form of selling at a loss is used not only by households in need of cash but also by small-scale enterpreneurs who lack access to the banks and who are therefore dependent upon a line of credit from suppliers. Certain materials acquired on credit from suppliers are not always used for production. Instead, they are often resold at a loss to raise cash needed to buy other items for which credit is not easily available from suppliers.

3. Moneylenders and Brokers

In Niger, highly organized credit brokers using their own and other traders' funds operate on a large scale. These moneylenders stand apart from the small-scale lenders who reportedly exist in various agencies and who lend out funds to colleagues. Loans of up to CFAF 500,000 (US $2,500) are reportedly available from these sources to individuals in need of cash for investment purposes. The organized moneylenders require more formal guarantees; titles to land are not uncommon types of security. Interest charged by these lenders reportedly could go as high as 100 percent, but on most reported loans the interest ranged from 25 to 35 percent. The capital available for these activities seems to be fairly sizeable, as some of the credit on large sums was, according to informants, available for 2 to 5 years. This type of credit is normally made available to entrepreneurs who have some productive or commercial enterprise. Only one case was reported of an individual receiving a loan (CFAF 1,500,000, or US $75,000, for a period of 1-1/2 years at 35 percent interest) to complete construction of his house. It should be noted that rental of the house to expatriates would guarantee full repayment of the loan within a period of 10 to 12 months. However, construction of individual houses is normally viewed as an uninteresting investment to these lenders, for returns are faster and more certain in other commercial activities.

Other types of credit brokers specialize in funds raised through the sale of land and livestock to raise cash. Given the value of land within Niamey, informal sales are normally undertaken because the owner needs to raise cash quickly and does not have access to other types of credit. Landbrokers are in the business of finding suitable customers with the required cash for the landowner. The charge for this service is 5 percent of the total sale value. While the fee used to be as high as 10 percent, increasing land values and competition among land agents have had the effect of reducing the fee. Land agents have a volume of business which reportedly brings in an average of CFAF 275,000 (US $1,375) per month in fees for arranging to provide for the cash needs of individual landowners.

Livestock, which often forms part of the poorer household's "savings," is also sold during Tabaski through arrangements with the diwalli, the traditional brokers for the trade in livestock. The fees collected range from 5 to 10 percent of the sales values. Both of these types of brokers may in turn act as moneylenders since the volume of their business ensures them a large and steady source of capital.

4. Tontines

A traditional method of obtaining credit needed to purchase goods or undertake a productive enterprise is the tontine. In Niamey, the tontines reportedly operate in the classic fashion of a group of individuals who are known to each other and who make an equal contribution on a monthly or weekly basis and take turns in acquiring access to the aggregate deposits of the group. The principle behind forming or joining a tontine is forced savings. This, according to informants who were knowledgeable about savings institutions, has the advantage over using the formal system because the individual does not have access to the amount saved until he or she receives his or her turn, so the temptation to withdraw the funds periodically cannot easily be given into. If, however, the individual saver needs to obtain the money before his or her turn, he or she may arrange to exchange places in the cycle with the person who is scheduled to get the fund. Such transactions rarely involve any payments for gaining access to the fund out of turn.

The obligation to other members in the group is strongly felt and forces setting aside enough money to cover the required monthly contribution. Participants in these associations believe that this peer group pressure enables them to save more than they would on their own.

The savings target of households participating in tontines is reported to be a sizable portion of the monthly income, sometimes one-third or more. During the course of the tontine, the households reduce consumer purchases in order to increase savings to finance a specific project or to buy a specific item. Once the member of the tontine has received his or her turn, the money is used to acquire goods or working capital, especially in the case of market women. Another example of this savings/credit process would be for the member who used the funds to purchase a taxi to bring in income.

It is apparent that a variety of needs are met through this forced savings mechanism. For example, a group of teachers whose income did not qualify them for an adequate amount of formal construction credit, reported that tontines served their needs well. In fact tontines were their only means of accumulating sufficient funds to invest in materials as well as land. The teachers also recognized the limitations of savings accumulation through the tontines over gaining access to formal credit which would allow them to build their housing units faster.

The duration of the tontines varies with the number of people involved and normally ends after all members have received their turn. In such cases the preferred number is 10 to 12 members, so that the credit received by all members but the last person in the cycle will become available in less than a year's time. However, tontines with as many as 30 members are also known to exist and are used to pool funds for productive investments.

The reported size of the groups among market women is also large. Their deposits are made daily to one of the members selected to act as the banker for the group. The "pot" is then divided at the end of each week. It represents pure savings with access to credit, amounting to the full week's contribution, if needed, during the course of the week. The individual responsible for collecting funds reportedly does not receive any compensation for his or her services. He or she may, however, gain the advantage of being the first in the cycle of rotation. The risks of default are reportedly low since these groups are largely self-selected and are in daily contact with one another.

5. Commerce

Another form of informal savings which often escapes enumeration in surveys is called "commerce." This term refers to the practice of households undertaking a second cashgenerating activity in order to raise capital for special projects without reducing household consumer spending. Having access to a supply of goods, whether they be farm products, manufactured goods, or raw materials that can be used to raise cash in time of need, is looked upon as part of the normal process of managing a household economy. In fact, one informant, when asked what other avenues for savings existed apart from tontines, replied immediately, "commerce."

The use of this method of savings depends upon the household's having access to farm produce supplied from rural relatives or upon access to a supply of discounted consumer goods, purchased from a merchant in need of quick cash. The produce and consumer goods are then sold at a profit. These side commercial activities do not constitute a steady secondary stream of income. Instead, households engage in them to débrouiller and raise cash for specific projects, just as in the case of saving through the tontines.

These occasional commercial activities are rarely enumerated in income surveys. This fact may explain why a household's income, even when it includes income sources from various households' members, fails to reflect the capacity of even poor households to self-finance projects, including the construction of housing. One explanation is that this occasional commerce involves the contribution of all earnings to tontines. In this way a large sum of money is available to the household when needed, and there is no interference with the regular stream of current household income.

## SENEGAL

The following brief report on informal financial circuits in Senegal is based on information gathered in the field through interviews. This study also made use of the published reports on Dakar's informal sector carried out by the ilo and enda. Just as there exists an informal employment sector in Senegal, there are also informal financial circuits where capital is accumulated, borrowed, and loaned out in a manner which escapes regulation and monitoring by official controls. These circuits are based on informal credit arrangements, an extreme segmentation of financial arrangements, as well as mutual assistance associations for mobilizing resources and providing credit.

### Credit

In the study of Dakar's informal sector's enterprises, Van Dijk notes that the majority (73 percent) of small-scale entrepreneurs started their businesses with personal savings. In fact, an insignificant number of them, representing less than one percent, obtained their initial capital through a moneylender. This fact leads Van Dijk to conclude that there is no system of informal credit outside the rather rudimentary private credit market which operates between family and friends.

While this market is by far the most significant source of assistance, it would be misleading to assume that credit activities are limited to this market. In effect, this study indicates that a variety of informal credit systems, including moneylenders, operates in Dakar and serves a variety of needs. In fact, Dakar's informal credit system is characterized by the involvement of a significant number of brokers or intermediaries who provide links to both formal and informal sources of credit.

In Senegal, informal credit arrangements are usually made through the following systems:

1. The Rudimentary Private Credit Market
2. Moneylenders
3. Merchant and Consumer Credit
4. Supplier Credit

## 1. The Rudimentary Private Credit Market

Van Dijk and others have noted that friends and relatives tend to be the primary source of credit for low-income groups engaged in productive enterprises. This form of dependence is not limited to being able to count on the assistance of friends and relatives to provide cash for emergencies or other needs. The rudimentary private credit market extends to some extent, into the formal sector. Personal knowledge and relationships open up access to more institutionally provided goods and services. The case of the clandestine transport operators illustrates this point. Most of the car owners have no means of obtaining formal credit because their vehicles are not registered for transporting passengers. They do, however, have recourse to intermediaries who are willing to act as guarantors to make use of their own bank accounts to help in financing credit needs. It is not known what the costs of such services are, but in all the West African societies examined, there does not seem to be a greater willingness for individuals to act as guarantors for family members and friends than to assume the financial obligations of others. The guarantor is often someone who is familiar with both the borrowers and the market in which these entrepreneurs operate.

Guarantors need not be individuals, but may be families, as in the cases reported of fishermen buying engines for their pirogues. The guarantor's service is not entirely free and in some instances, where credit is used for purchase of equipment, a lease-purchase agreement is entered into until the debt is fully paid off.

## 2. Moneylenders

The activities of moneylenders seem to be rather limited in the financing of small-scale informal sector enterprises. However, their existence is not doubted in rural areas where they lend to farmers. In urban areas, according to informants, they operate through intermediaries -- démarcheurs -- who find the clients with cash needs. The démarcheurs (literally translated as "share pushers" or "coaxers") are brokers who know or make it their business to know which entrepreneurs or commercial vendors have cash problems. They then arrange to meet these needs for a fee paid up front by the individual client. Loan terms are negotiated among the three parties. Credit-worthiness of potential clients is assessed by the démarcheurs as well as by the moneylender when large sums are involved.

As has been noted earlier, the moneylenders do not seem to be involved in the financing of smalland medium-scale entrepreneurs. There is reason to believe that the flow of money to this sector as well as to the housing sector is limited not so much because of the "riskiness" of such operations, but because there is more money to be made much faster in financing trade activities, whether they be legal, quasi-legal, or illegal. The "small man" enters this market rarely in urban areas. In rural areas, however, moneylenders do serve farmers, and charge an interest rate of 18 percent per year on loans. Higher rates are reported by several sources, but in most instances, they are very difficult to verify. Interest on loans in the urban markets is reported to be in the range of 20 percent for three-month loans or 120 percent per year.

Loans made in this market are generally for large sums (millions of CFAF) to entrepreneurs who need cash in order to take advantage of commercial opportunities, e.g., a market stock-out. The clients of this market are usually involved in highly volatile ventures which are unlikely to pass the formal criteria of lending for commercial ventures. To the borrower, the interest charged is not more than the face value; few if any transaction costs are involved in terms of waiting time. The rate of 20 percent for oneto three-month loans includes the broker's fee. Thus, a loan for CFAF 15 million (US $75,000), for example, could carry a CFAF 1 million (US $5,000) broker's fee and CFAF 2 million (US $10,000) in interest to the lender.

The use by small-scale entrepreneurs of this source of credit is limited not only on the supply side but also on the demand side. The opportunity cost for self-financing is likely to be below the cost of credit in this sector, particularly given the short maturity of loans. For the small-scale entrepreneur to be induced to borrow at the rate of 20 percent over a three-month period, his expected rate of return over the same period of time must be considerably higher in order to reduce the borrower's risk.

## 3. Merchant and Consumer Credit

Consumer credit from merchants plays an important part in the economy of low-income households. In one survey in Pikine, it was found that 40 percent of the heads of households owed debts to Mauritanian and Toucouleurs merchants. Much of this credit was on food purchases and other consumption expenditures. Items purchased on credit carry a large surcharge. For example, a piece of cloth valued at only CFAF 5,000 (US $25) when purchased with a cash payment, costs CFAF 10,000 (US $50) on credit from merchants. This kind of credit is rarely extended for more than a month. The risk of default is high and accounts in some measure for the 100 percent interest rates on some commodities. Traders minimize their risks by extending credit to a known clientele. Thus, a dependent relationship between merchant and client is formed. In this market, risks are lowest for lenders when traders and clients are not of the same ethnic group. Social pressures in these instances cannot prevent the trader from collecting debts, and relationships can be kept on a more commercial basis.

Another form of merchant credit is the discounting of formal credit loans for consumer durables. This activity is undertaken by intermediaries who purchase the goods at a discounted price from the salaried loan recipients. The <u>démarcheurs</u> then turn around and sell the goods at a slight markup but still below sales price in low-income neighborhoods. Brokers operating in this market are apt to use their own funds to purchase goods from clients in need of cash. The discounting on such goods ranges between 17 and 30 percent of their sales value to the borrower. When interest payments on formal consumer credit are added, the effective interest paid is about 50 percent.

The brokers serve two client groups: those who have cash needs and access to credit in the form of consumer durables, and those who are in the market for such goods but who are not willing or able to purchase them formally for the full sales price or on credit. While this type of credit originates in the formal sector, a wider access to both goods and credit is provided informally, and the benefits accrue in the informal sector of the economy.

A variation on this type of discounting is the practice of selling at a loss. Again, this practice depends on access to assets -- frequently in the form of consumer goods. Here, the broker does not use his own funds but instead arranges to sell goods on consignment from retailers and wholesalers. The broker who needs to raise cash sells these goods at a discount, then uses the money earner to make loans or to invest in a high return venture, enabling him to pay off the "loan" and make a profit. Here, money is raised by brokers in the informal sector through individuals and entrepreneurs who are willing to pay the discounted price for goods. Risks in this market are high, but for the brokers their cost of borrowing appears to be lower than their expected rates of return on their transactions. While generally a means of raising capital, selling at a loss is not always an ultimately lucrative activity. Most small-scale entrepreneurs do practice some form of selling goods or materials at a loss in order to raise capital to be invested in other inputs.

## 4. Supplier Credit

Credit from suppliers tends to be selectively applied and, as in the case of consumer credit, depends to a large extent on knowledge between the supplier and the client. Less than 1 percent of the small-scale enterprises surveyed by Van Dijk reported receiving supplier credit for materials. The majority pay cash for goods purchased, or as in the case of manufacturers, their clients either supply their materials for goods ordered or else make down payments which are then used to purchase materials. This is particularly true of brick-makers and masons engaged in construction who almost never undertake prefinancing of work out of their own resources. Instead, they are totally dependent on advances paid by clients or materials supplied by clients.

Supplier credit for equipment is also selectively applied and may be quite costly. For example, engines for pirogues, which allow fishermen to increase their yields substantially, cost twice as much when purchased on credit as they do when paid for in cash. This credit is for a very short period of time, between three and six months, and involves the fairly sizable sum of CFAF 300,000 (US $1,500). Though the cash price is about half that amount, fishermen are willing to purchase these items on credit and assume a high level of debt for a short period of time. They expect to be able to pay off this debt from their increased earnings as well as by pooling family resources.

## Savings

Savings, or a capacity for self-financing, is evident in both the scale of informal sector enterprises, which in Dakar account for 70 percent of employment, and among households in constructing their units. In the case of small-scale entrepreneurs, most of this savings comes both from earnings within the sector and from previous employment in the formal sector.

The savings tradition also involves mutual assistance in the form of rotating savings and credit groups, or nath as they are called in Senegal. This organization of rotating savings and credit associations is reportedly an important means of amassing capital for productive investments as well as for expenditures on consumer durables. The nath seems to be primarily associated with the economic activities of women. It is a common form of mutual assistance among the market women, and even middle-income women who wish to start their own productive enterprises. However, this type of assistance is not limited to women. Nath can be found among groups of small-scale artisans and entrepreneurs in the informal sector. These associations are also not limited to low-income groups, but do tend to be the more prevalent types of associations in low-income neighborhoods.

Reportedly, among the operators of the clandestine transport system, cars rapides, in Dakar, the nath is used as one of the means of gaining access to a sizeable amount of cash at one time in order to meet business expenditure needs. These associations can group between CFAF 1,000 (US $5) and CFAF 3,000 (US $15) daily. Each, in turn, receives the total amount pooled in the common fund. This sum can range from a minimum of CFAF 20,000 (US $100) to a maximum of CFAF 120,000 (US $600) a day.

The order in which the fund is distributed to each contributor is either agreed to in advance or determined by drawing lots. The latter method is intended to force members to continue to participate. The lottery winnings need not be limited only to the one person receiving the fund. The winnings may be shared by three or four contributors, thereby speeding up the waiting time necessary to complete a cycle of rotation among large groups.

The associations on which information was available through published reports or interview sources seem to have rather simple operating procedures with slight variations to accommodate the needs of each particular group's members. Among market women, the nath is operated on a daily basis by women traders. The contributions are collected by one individual, who has the confidence of the entire group. The funds are then distributed to each member in turn on a daily basis. These associations are said to have been quite uncommon in rural areas and to have evolved in response to the need for credit among urban, low-income groups. Mutual assistance in the form of pooling funds on a periodic basis is, however, traditional and the nath appears to be an adaptation of these structures without the ethnic particularism in urban areas.

# TOGO

In 1981, Eugene Lerner, resident socio-economist for the AID Shelter Project Team, conducted a brief survey of Lomé's informal savings and credit mechanisms. From case studies and field interviews, Lerner identified five sources of savings and credit in Lomé. This report reflects later attempts to gather more extensive information on these five sources. This report, then, is based to a large extent on Lerner's findings, as well as on field interviews with small-scale entrepreneurs and sources who have knowledge of the informal financial market in Lomé.

The four credit and savings systems studied include:

1. Credit Advances to Consumers
2. Supplier Credit to Small-Scale Businesses
3. Informal Loans and Moneylenders
4. Tontines

## 1. Credit Advances to Consumers

As Lerner notes, merchants and tradesmen in Lomé frequently sell goods against later payment by their customers. Normally, the cost of this credit, especially for food and clothing, is very high. More recently, however, Lebanese merchants have begun to organize consumer credit cooperatives in public agencies. Members of these cooperatives can receive credit for up to six months at 10 percent interest.

The system being initiated involves a formal agreement between the merchant and the buyer which the employer or accountant can enforce. Forming a cooperative rather than dealing directly with the individual consumer allows the merchant to use peer group pressure, since all members have a stake in keeping this line of credit open to them. Prior to the introduction of this system, merchants allowed a line of credit only to selected customers or to their own employees for such durable consumer goods as refrigerators or televisions.

Merchant credit to producers/artisans is rare. In effect, most of the financing is borne by the customer, as has been noted earlier. In the case of housing construction, an advance of up to one-third the total cost of construction is required by small-scale contractors. An exception to this rule is to be found among some small-scale contractors whose earnings from their activities reportedly allow them to prefinance construction. An example of this is to be found in the case of a small-scale contractor who also had a highly lucrative wood-selling business on the side. He provides the only instance of a mortgage-type loan. It is not known how common such loans are, but it is quite likely that, given the problems small-scale contractors face in obtaining credit, the arrangement described below is somewhat unusual.

Profits from the sale of wood allowed this entrepreneur enough capital to undertake the prefinancing of construction units for up to CFAF 2 million (US $100,000). The total amount required for the construction of an individual villa was CFAF 3 million (US $150,000), however. The additional CFAF 1 million (US $50,000) invested was raised through both supplier credit and advances from other clients. Repayment of this loan by the customer was arranged over a period of one year in three installments amounting to a total of CFAF 4 million (US $200,000) after the construction was completed. This price included a markup of 25 percent on the cost of construction and an 8 percent interest on the cost of money to the contractor. Thus the actual cost of construction to the contractor was only CFAF 2.8 million (US $140,000). Annual interest on this loan after profits are excluded was at the rate of 14 percent. This interest rate represents twice the formal system's rate, and the repayment of such a large loan within one year limits access to this market for all but middle- and upper-income groups. Moreover, tying up the entrepreneur's own capital in the prefinancing of the house discouraged him from undertaking too many projects of a similar nature. He was much more interested in being able to use that capital to invest in small units which he could rent out, thereby recovering his total investment and making a substantially greater profit.

It is interesting to note that the contractor himself was unable to obtain bank financing for his operations. His only access to formal credit supply was through overdrafts extended for a period of four months at a time at 8 percent interest through informal arrangements with his banker.

## 2. Supplier Credit to Small-Scale Businesses

Supplier credit to small-scale businesses is selectively applied in Lomé. Most of this credit is very short-term, ranging from a day to 45 days maximum. Its availability depends on a host of factors, which include the relationship between supplier and merchant, the nature of the items being sold, and the nature of the enterprise. Interest charges are not necessarily high except on high-return items. Quite frequently suppliers charge no interest to long-standing clients. The cost of credit obtained from a supplier rarely falls below 10 percent. In some measure, it represents the risk involved but also the inconvenience of waiting to receive payment from customers. This cost is passed on to the consumer in higher prices for the goods.

Most small-scale artisans cannot obtain a sufficient amount of supplier credit and must rely upon their customers' advances to help finance the production of goods or construction of housing. The inability to finance the production process, except through these two sources and the profits of the enterprise, limits the small-scale artisans from expanding their activities. They are forced to limit their scale or operations to producing goods on command. As a result, they end up working below capacity.

## 3. Informal Loans and Moneylenders

Much of the conventional wisdom on informal loans and their accessibility seems to suggest that among the major advantages of such loans to borrowers is the fact that few if any guarantees are demanded. Information gathered in Lomé would seem to contradict this generally accepted assumption. According to those interviewed, moneylenders -- or the <u>gadiga</u> -- operating in the urban sector do require guarantees. Some of these guarantees appear to be quite conventional: title to land, personal assets such as a car, or the guarantee of a co-signer who can pledge such securities in case of nonpayment. The pledge of such securities by a co-signer is usually honored in cases where the borrower defaults. Access to the informal credit market, in effect, requires introduction by a client in good standing with the gadiga. The credit checks, in cases which involve large loans, are more than a simple confidence in the intermediary between the borrower and lender. While the gadiga is unlikely to be interested in the uses of the borrowed funds, he will normally inquire through his own network of informants about the overall financial position of the potential borrower. Given that intermediaries can be held liable for payment of loans, some of them reportedly charge the borrower a brokerage fee of 10 percent of the loan. The agreements signed by the borrower, lender, and guarantor, while not legally binding, are recognized by traditional chiefs. All disputes are settled informally, whether through recourse to traditional chiefs or through use of the police to threaten a defaulting borrower.

There seems to be contradictory evidence on how such loans are repaid. Several sources reported that checks were rarely used and all loans had to be paid in cash. They argued that this reduced the transaction costs to the lender. Yet, it is also likely that part of the reason cash payments are more common is due to the fact that many of the gadiga's clients do not maintain bank accounts.

Interest reported on loans also seemed to indicate a wide variation in terms, ranging from 12 to 30 percent. It was not possible to determine during the course of this study what factors influenced such a wide variation in the cost of credit. Informants are usually vague about the terms, arguing that interest usually rises with the duration of the loan and its size since long-term large loans involve more risk to the gadiga. Thus, according to informants, a CFAF 300,000 (US $1,500) loan with a maturity of six months will bear a 20 percent interest, while the interest on the same size loan with a shorter term (three months) would be only 18 percent. It should be noted, however, that long-term credit in the informal market is rarely available for longer than six months to a year.

Payment of interest is required in cash in cases where the loan is renegotiated, and interest payments must be kept up until the principal can be paid off. This process seems to guarantee the lender a return of at least the principal balance in the form of the periodic interest payments.

It is quite likely that losses are largely on the usurious interest rates demanded over long-term extensions of credit or the rescheduling of the debt. Moneylenders minimize their risks not only by the guarantees and securities demanded, but by operating with a small and stable clientele, particularly for small-size loans.

The sources of funds available to such lenders include public funds. The gadiga is frequently an accountant or paymaster, as Lerner's study indicates, but may also be involved in the formal sector credit system. Gadigas have sufficient deposits in banks to enable them to gain access to such credit when short of cash. This process reportedly involves paying a .ee above the normal bank lending rate, as a 10 percent cut to the banker who arranges and speeds up the process for such loans.

Other types of credit are available to the gadiga through overdrafts arranged for a 10 percent fee to the banker rather than by paying the standard number of points normally required on overdrafts.

The sources of funds are not restricted to informal access to public monies and privately arranged commercial credit. Many of those who do operate as gadigas are businessmen with excess capital which they are willing to lend out to a selected clientele within their neighborhoods. Their credit operations are a part-time occupation funded through the profits earned in their primary occupation. Reportedly, individuals engaged in real estate and the transport sector, both of which are highly lucrative, often undertake moneylending as a sideline. In the Be area, a low-income community in Lomé, one of the established gadigas was the operator of a small trucking business. He had established a working capital of about CFAF 800,000 (US $4,000) which he had used for his credit operations. Most of the loans made to individuals ranged between CFAF 100,000 and CFAF 150,000

(US $500-750). The maximum amount available for a single loan was CFAF 80,000 (US $400). He was willing to risk up to 10 percent of his working capital. Yet such a large size loan was the exception rather than rule for this <u>gadiga</u>.

Interest on loans was reportedly only 11 percent with full payment due in a period of four months. Over a period of a year, assuming that he did not suffer losses through bad debts or reschedule any of the debts, he earned an average of 33 percent in interest on his credit operations.

4. <u>Tontines</u>

<u>Tontines</u> in Lomé operate mainly as informal rotating savings and credit mechanisms. A varying line of credit is open to each individual saver in turn as he or she receives the deposits of other members in the group until the cycle of rotation is completed.

A few of the <u>tontines</u> among market women are fixed-fund associations whereby each member makes a deposit with one of the members specifically chosen for this task. Each one of the members receives his or her deposits less a certain fee paid to the collector at the end of the week. This type of small operation allows members to withdraw part of their funds during the course of the week, as well as to obtain credit. A more organized and larger type of <u>tontine</u> exists in certain markets, however, and has reportedly been introduced by Nigerian tradesmen. The larger system involves the collection by the organizer of daily deposits from members for a period of a month. At the end of the month he returns the full amount paid less one day's deposit, which he keeps as a fee for himself.

The organized <u>tontines</u> are said to have fairly large memberships of 200 or more -- certainly larger than the rotating savings and credit type of association. The members do know each other because of a common bond at work. In fact, in the Atakpame market, these mobile bankers tend to organize groups among sellers of certain products. This practice leads one to suspect that they function as agents for the larger businessmen and women in control of the distribution and marketing of certain commodities. Attempts to reorganize the membership of these groups into a more institutionalized credit union met with some resistance from the more economically powerful individuals within the group. This resistance would also tend to support the assumption that the functioning and existence of such organizations are not merely a matter of the need for individuals in the marketplace to be able to avail themselves of a fairly easy savings and credit mechanism. Rather, the common economic interests are also significant factors in the operation of such groups.

While the success of _tontines_ depends on mutual confidence and shared interests, the mobile banking system avoids some of the pitfalls of rotating credit and savings associations. In the former type of _tontine_, confidence in the organizer is all that is required. Rather than having to be concerned about the ability and scrupulousness of fellow members to continue to participate and acquit themselves of their debts, the market seller who participates in a mobile banking operation deals directly with one individual. This direct method has the further advantage in that the settlement of disputes can be handled in a businesslike fashion without creating any social tensions among closely knit friends, kin, and co-workers. The system also allows the savings and credit groups in the marketplace to pool even greater resources than is possible among the small-sized groups which depend on personal knowledge and close social bonds.

Among the market women both the small and organized _tontines_ operate to provide working capital and to make bulk purchases possible. Thus, it is not merely the common bond of working the marketplace which is at the base of these _tontines_. They are clearly related to the common trading activities and provide the cheapest form of credit for working capital that is available from moneylenders. Even in the case where the mobile banker is used, the cost of access to credit (represented by the monthly fee) is only 3 percent per year and is an insurance premium for the merchant.

## BIBLIOGRAPHIC NOTE

The literature on the informal sector has grown in volume, though very little of it deals in depth with informal credit markets, particularly in urban areas. The most comprehensive studies deal with rural, small-farmer credit, specifically the AID Spring Review of Small Farmer Credit, Vol. XVII (1973), with articles covering Asia, South Africa, Africa, and Latin America. Surveys of urban credit markets have focused on the more commercially developed Asian countries. India and Korea informal markets have been the subject of two IBRD Domestic Finance Studies, namely, C.V. Aivars and Thomas Thimberg, Urban Informal Credit Markets in India (1980), and Jung Chul Parks, The Unorganized Financial Sector in Korea 1974-76 (Domestic Finance Study #28, 1976).

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