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N I G E R

FINANCIAL SECTOR ANALYSIS

Prepared for

Service Central de l'Habitat
Direction de l'Urbanisme
et de la Construction
Ministère des Travaux Publics
des Transports et de l'Urbanisme

and

Office of Housing
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NATIONAL SAVINGS AND LOAN LEAGUE

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Currency Equivalents

The CFA (Communaute Financiere d'Afrique) Franc is fixed with respect to the French Franc (FF 1 = CFAF 50) and floats with respect to the US dollar. At the time of the preparation of this report, the following exchange rate was in effect:

US$1 = CFAF 300
CFAF 1 million = US$3,333

ABBREVIATIONS

ADB	African Development Bank
BALINEX	Banque Arabe Libyenne pour le Commerce Exterieur et le Developpement
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BDRN	Banque de Developpement de la Republique du Niger
BIAO	Banque Internationale pour l'Afrique Occidentale
BICIN	Banque Internationale pour le Commerce et l'Industrie du Niger
BIPN	Banque Internationale pour le Niger
BOAD	Banque Ouest Africaine de Developpement
CCCE	Caisse Centrale de Cooperation Economique
CDN	Credit du Niger
CNCA	Caisse Nationale de Credit Agricole
CNE	Caisse Nationale d'Epargne
CNSS	Caisse Nationale de Securite Sociale
CPCT	Caisse de Prets aux Collectivites Territoriales
GON	Government of Niger
IDA	International Development Association
KfW	Kreditanstalt fur Wiederaufbau
PT	Ministere des Postes et Telecommunications
SNAR	Societe Nigerienne d'Assurances et de Reassurances
SONUCI	Societe Nigerienne d'Urbanisme et de Construction Immobilier
SSE	Small-Scale Enterprises
STB	Societe Tunisienne de Banque
UMOA	Union Monetaire Ouest Africaine
UNCC	Union Nigerienne de Credit et de Cooperation
USAID	U.S. Agency for International Development

Fiscal Year

October 1 - September 30

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I. PURPOSE

This study provides information on the financial sector of Niger, together with an analysis suitable for the shelter sector assessment. In particular, it describes the institutions and mechanisms used to allocate and distribute financial resources for housing and shelter services, both in the public and private segments of the formal sector and in the informal sector. Furthermore, this analysis results in the recommendation of appropriate methods by which the system might be more efficiently developed and improved.

II. THE ENVIRONMENT

Niger is a member of the West African Monetary Union (Union Monetaire Ouest Africaine or UMOA) which also includes Benin, Ivory Coast, Senegal, Togo, and Upper Volta. Formed in 1974, the Union comes under the authority of the Conference of Chiefs of States of its members, while it is managed by a Council of Ministers drawn from its member states. Members of the Union share a common currency, a central bank, and credit and monetary policies. The currency, the Communaute Financiere d'Afrique franc (CFAF), is fixed to the French franc at the current rate of FF 1 = CFAF 50. With its convertability guaranteed by the French Treasury, the CFAF floats with respect to the U.S. dollar.

The central bank, Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), is headquartered in Dakar, Senegal but has a local branch in the capital of each of its member states. Under the general direction of the Council of Ministers, BCEAO is managed by a Governor, a Board of Directors, and national credit committees, one from each member state. It is this national credit committee which links the member government to BCEAO's national branch. Overall policy is determined by BCEAO's Board of Directors which is expected to place the interests of the Union as a whole over those of individual member states.

BCEAO operates as a traditional central bank. It issues currency, licenses and supervises banks, rediscounts loans, and regulates certain financial activities. It major policy objectives have been to reduce banks' dependence on it for liquidity, tighten its control over their lending activities, and direct funds towards specific sectors.

To accomplish these objectives, BCEAO exercises its regulatory powers in a number of areas. To control credit growth in each country, BCEAO sets an annual target for credit expansion in order to conform to anticipated annual economic growth. It also sets an absolute ceiling on central bank refinancing. Within these limits, banks may refinance up to 35 percent of their total loan portfolio from BCEAO, but these are no longer granted automatically as in the past. This encourages banks to utilize existing liquidities in the Union's banking system first through refinancing amongst themselves on the Union's money market.

As of December 1980, Niger's registered loans (excluding direct foreign borrowings) represented 85.6 percent of total credit outstanding in the economy (CFAF 89.8 billion) as follows:

		CFAF Billion	Percent
Short Term	(0-2 years)	56.2	73.1
Medium Term	(2-10 years)	19.3	25.1
Long Term	(over 10 years)	1.4	1.8
	Total	76.9	100.0

Of the total credit outstanding, 15.5 percent was refinanced by BCEAO. By June 1981, total credit outstanding had risen to CFAF 91.2 billion of which 16.9 percent was refinanced by BCEAO. This very small proportion of central bank refinancing shows that bank loans are financed mainly by local deposits (some of which are public) and foreign borrowings.

The overwhelming preponderance of short-term commercial loans has been somewhat reduced proportionately in recent years, but medium- and long-term development loans remain a modest quarter of the total.

BCEAO also regulates interest rates which are uniform throughout the Union. The final lending rate is based on one of the two discount rates now in effect (preferential or normal) according to the purpose of the loan and then allowing a certain spread over that rate. The preferential rate applies to loans: 1) to member governments, 2) for short-term agricultural credits, 3) to small-scale enterprises (locally-owned SSEs with CFAF 30 million or less bank credit outstanding), and 4) for private housing not to exceed CFAF 15 million for the construction of the first and principal residence of Union citizens. All other loans come under the normal rate.

To reflect international market conditions and for the first time since April 14, 1980, these rates were adjusted upwards by two percent effective April 7, 1982. The present interest rates follow and apply whether or not BCEAO rediscounts the loan:

Type of Borrower	Discount Rate	Allowable Spread	Allowable Final Rate
		%	
Preferential			
Agriculture	10.0	1.0 to 2.0	11.0 to 12.0
SSE	10.0	1.0 to 3.0	11.0 to 13.0
Housing	10.0	1.0 to 3.0	11.0 to 13.0
Normal	12.5	0.0 to 5.0	12.5 to 17.5

The applicable interest rate on savings accounts was also raised two percent on April 7 and now stands at 9.5 percent.

The preferential rate was established to further specific economic and social objectives. Nevertheless, the allowable spread on preferential rate loans of from two to three percent is not sufficient to entice many of the banks, in particular the private commercial banks, into participating in such lending on a significant scale. This is especially true in lending for SSEs and private housing where administrative costs and risks are substantially higher. As a result, there are indications that this may actually reduce the flow of funds to these sectors. In Niger the major portion of lending to these sectors is carried out by government-controlled banks with its encouragement.

The other major area in which BCEAO exercises its regulatory authority is foreign exchange transactions. All foreign exchange must be deposited with the central bank which then credits the depositor with CFAF. The foreign exchange is then put at the disposal of the Union, and only the BCEAO can transfer it out of the Union.

Although BCEAO is empowered to require reserve deposits from licensed banks, this power has not been used in any member country. In spite of this, many Nigerien banks deposit a substantial part of their liquid assets in BCEAO, keeping only enough currency on hand for their daily needs. On request, these deposits can be converted to money market certificates earning 15 percent interest annually.

III. THE FORMAL BANKING SECTOR

The banking system in Niger is composed of seven banks, four of which are private commercial banks and three of which are controlled by the government. All are supervised by the BCEAO. While differing in some important respects, the private commercial banks share many characteristics such as a pronounced preference for short-term commercial lending operations, import/export financing, company finance, and checking accounts. A description of the four banks follows:

1. Banque Internationale pour le Niger (BIPN)

The BIPN came into existence on January 1, 1980. Prior to that, it had operated as a branch of the Banque Internationale pour l'Afrique Occidentale (BIAO) of which it is now a subsidiary. It is the oldest commercial bank operating in Niger (it opened in 1944), and it has four branches in Arlit, Maradi, Tahoua, and Zinder. It is also the largest private commercial bank and it operates in most sectors of the economy. Two-thirds of its resources come from Niger, and the rest almost entirely from France. It has made a number of foreign currency (mainly Euro-dollar) loans to major Nigerien companies, but it also makes small loans to salaried functionaries. All are short to medium term. It makes no loans for housing.

2. Banque Internationale pour le Commerce et l'Industrie du Niger (BICIN)

BICIN is a subsidiary of Banque Nationale de Paris and began operations in Niger in June 1979. Its sole office is in Niamey. It also is a classic commercial bank operating along much the same lines as BIPN. In the past, however, 10 to 15 percent of its loans went for housing, but all of them for substantial villas too expensive to qualify for the preferential discount rate. The terms of these loans were between five and seven years at an annual interest rate of from 15 to 16 percent. Since there is now a substantial surplus of housing in Niamey, it no longer considers loans for housing.

3. Banque Arabe Libyenne Nigerienne pour le Commerce Exterieur et le Developpement (BALINEX)

BALINEX's operations are also of the classic commercial type, including checking accounts for individuals. Having begun operations in October 1978, it too only has a single office in Niamey. A small bank, it makes one or two loans for villas a year, but then only if the beneficiary is a preferred client. As with the other banks, BALINEX prefers short-term financing.

4. Citibank

Citibank is also a very new bank in Niger, having opened in November 1979 with a single office in Niamey. It is the smallest bank operating in Niger and has a target market which consists only of the government and big commercial companies. It prefers to make large project loans for which it carries out appraisals, both economic and technical, utilizing staff from its New York office. While it offers checking accounts for companies, it does not do so for individuals. It has no loans outstanding at this time, and all of its liquid assets (save those required for its daily operations) are presently on deposit at the BCEAO in money market certificates earning 15 percent interest annually.

To sum up, Niger's private commercial banks do not now lend nor are they interested in lending for low-cost housing. They operate as commercial banks operate everywhere: they are profit oriented. As worthy as the social objectives inherent in low-cost housing finance are, they conflict with this orientation because interest rates and thus spreads are low, maturities long, administrative costs higher, and risks greater. The contribution of commercial banks to economic development lies in other sectors.

The three government controlled banks were created by the GON as specialized agencies with CNCA lending only for agriculture, BDN lending only for housing and small consumer purchases, and BDRN lending for everything but housing and automobiles. A description of these banks follows:

5. Caisse Nationale de Credit Agricole (CNCA)

CNCA was established by the GON in 1967 to serve the agricultural sector exclusively. It has branches in Zinder, Tahoua, Dosso, and Maradi. In other areas, it operates through the Union Nigerienne de Credit et de Cooperation (UNCC). A semi-governmental organization under the Ministry of Rural Development, its purpose is to organize farmers into cooperatives. The CNCA provides a substantial portion of its financing through the UNCC.

Since CNCA does not offer regular deposit accounts nor does it mobilize savings, its funds come from its assets, various official sources, and government and government-guaranteed domestic and foreign borrowings. The loans CNCA makes are on the same terms as those made by other banks. It offers maturities of up to four years depending on the nature of the specific project being financed. It has three methods of lending:

1) production loans are made for goods and equipment only (no cash) and for specific projects or individual cooperatives;

2) marketing advances provide cooperatives with cash so that they will be able to pay their members for the crops they bring in; and

3) prefinancing or bridge financing for goods eligible for reimbursement under existing and approved loans.

It makes no loans for housing or for materials used in the construction of housing.

6. Banque de Developpement de la Republique du Niger (BDRN)

BDRN is the largest and most important financial institution in Niger. It is not only a commercial bank but also is one of the strongest development institutions in the Union with high profitability and a firm financial base.

Founded on May 29, 1961, just after independence and with the assistance of the Societe Tunisienne de Banque (STB), it is headquartered in Niamey and has 11 branches throughout the country. More are planned to open shortly. No other bank in Niger has such a widespread network of offices. It operates in all sectors of the Nigerien economy with the exception of automobile lending. It now refers virtually all requests for housing loans to the Credit du Niger, but in very rare instances it makes exceptions and grants loans for housing.

BDRN's share capital has recently been increased to CFAF 2.5 billion with the government and public and parastatal organizations controlling 59 percent of the shares (37 and 22 percent respectively), Nigerien private investors (4 percent), BCEAO (12 percent), and foreign public and private shareholders (25 percent).

BDRN is clearly the government's bank. The Minister of Finance is its Chairman as well as head of its credit committee which approves all but the smallest loans. Government representatives have a majority on this committee. Furthermore, BDRN's General Manager is a senior economic advisor to the government. Finally, BDRN acts as the government's banker in that it holds substantial deposits for the GON and also borrows internationally on its behalf and with its guarantee.

BDRN's staff is augmented by continued technical assistance provided by Tunisian expatriates from STB. In addition to regular training for professional staff, an in-house training unit for middle management and support staff is to be established under the terms of a recently approved IDA credit. In general, the professional staff is of good quality, but thinly spread.

BDRN's interest rate structure conforms to BCEAO regulations, and its operations are of three types: commercial banking, development lending, and equity participations. Commercial banking is BDRN's central activity, comprising 70 percent of its business, and it is the major source of its profits. BDRN engages in all aspects of commercial banking. It has the largest clientele of any bank in Niger and is estimated to account for about 60 percent of the total market.

BDRN's development activities are comprised of both medium- and long-term loans and equity participations for which it caries out appraisals. It has been particularly active in project promotion for the government and for local investors. In order to finance these operations, BDRN utilizes its own assets, term deposits, and BCEAO rediscounts. It has also turned increasingly to foreign borrowing from bilateral (USAID, KfW, CCCE) and multilateral donors (IDA, ADB, BOAD). It has not, however, sought loans from foreign private commercial banks. The sectoral distribution of BDRN's development portfolio as of September 30, 1980 follows:

Sector	Term Loans CFAF Million	%	Equity Participation CFAF Million	%
Mines and Energy	4,990	41.2	214	21.0
Construction	2,036	16.8	30	3.0
Transport	2,054	17.0	30	3.0
Building Material	209	1.7	87	8.8
Textile and Leather	574	4.7	37	3.7
Metal and Woodwork	165	1.4	150	15.2
Agro-industries	328	2.7	85	8.6
Tourism	995	8.2	166	16.5
Other	764	6.3	188	19.1
Total	12,115	100.0	987	100.0

Source: IDA and BDRN

One important aspect of BDRN's operations concerns its relations with the government. Besides holding a variety of governmental deposits, it also provides three lending services: prefinancing projects inscribed in the next year's budget, medium- to long-term lending for specific governmental projects, and borrowing on the international capital market for specific development projects with the government's guarantee. While BDRN's exposure in government operations is high and considered by some to be excessive, it continues to grow. Nevertheless, this relationship has been highly profitable, since BDRN earns interest on its spread on its loans to government as well as on the government's very substantial deposits. Furthermore, government suppliers are often required to bank with BDRN.

A recent IDA appraisal of BDRN praised it for its managerial ability and resulting profitability, but it also noted that BDRN would have to adjust in the future to a changing and less favorable environment caused by three factors:

a) declining uranium revenues and increasing debt servicing obligations;

b) reduced government revenues leading to substantial withdrawals of public deposits with BDRN; and

c) keener competition from the newly established commercial banks.

IDA expects BDRN to meet these challenges successfully. As a result, BDRN has adopted a strategy which aims at reinforcing its development operations, reducing its dependence on public deposits by relying increasingly on foreign lines of credit, and strengthening its administrative capabilities.

7. Credit du Niger (CDN)

CDN was established on March 27, 1958 and reorganized in 1963. Its subscribed capital amounts to CFAF 220 million, of which the government owns 45.45 percent, Caisse Centrale de Cooperation Economique (CCCE) 27.27 percent, BDRN 18.18 percent, and BCEAO 9.10 percent. It is Niger's only housing finance institution, although it makes a small portion of its resources (11 percent) available as loans for small consumer goods and automobiles (it has virtually stopped making automobile loans and only made two in 1980). It also has the power to buy, develop. and sub-divide land, construct buildings for housing or commerce, and to rent or sell them. Its sole office is in Niamey, and BDRN acts as its agent in all financial transactions.

CDN is also responsible for the management of Societe Nigerienne d'Urbanisme et de Construction Immobilier (SONUCI), the only national housing construction corporation. The Directeur Generale of CDN holds the same position in SONUCI which is in effect a subsidiary of CDN.

Since CDN has not been able to attract and therefore does not accept regular deposits or savings accounts, its funds come from its reserves, BCEAO rediscounts, and loans from the government, CCCE, and Libya. It was also the beneficiary of the Fonds National de l'Habitat, but this fund was not renewed upon its depletion in 1977. It is resource poor, particularly in long-term resources, and this has severely limited the level of its operations for a number of years.

Nevertheless, it does make loans, but only to salaried employees, mostly government functionaries, but in no case can the debt service on the loan be more than one-third of his salary. This is in line with the government's policy of providing housing for its employees. For small consumer goods, the purchaser must make a ten percent down payment, and the amount of the loan is fixed at no more than four months' salary. He must repay it in 12 months at 12 percent interest. For housing loans,the purchaser must own the plot of land. The down payment for a first house must be ten percent of the estimate of the cost of the work up to CFAF 10 million and 50 percent of the estimate over CFAF 10 million. For a second house in permanent building material, the down payment must be 50 percent of the total amount. The term of the loan is a function of the building material to be used and whether it is new construction or an improvement according to the following table:

Type of Building Material	New Construction	Improvement
Permanent	15 years	7 years
Semi-Permanent	7 years	5 years
Banco	4 years	3 years

The interest rates charged conform to BCEAO regulations and are as follows:

13 percent for loans financing the first house;

15.5 percent for loans financing a second house in the interior of the country; and

17.5 for financing a second house in permanent building material in Niamey (due to lack of funds and the fact that these houses are entirely for speculation, this category of financing was discontinued in October 1981).

CDN will finance a second home if the first house is not of permanent building material and when the second one will be of permanent material and the owner's principal residence. Again, the debt service on the loan cannot exceed one-third of the person's salary, and the debt must be repaid in its entirety before he reaches the retirement age of 55. If the loan is for a house constructed of permanent or semi-permanent material, fire and life insurance are required. CDN also often requires a guarantor.

During the fiscal year, October 1, 1979 to September 30, 1980, CDN made the following loans:

		Amount in CFAF 000	Percent
Housing:			
Permanent		773,460	61.80
Semi-Permanent		199,070	15.90
Banco		141,330	11.29
	Sub-Total	1,113,860	88.99
Automobiles (2 only)		850	0.09
Consumer Goods		136,700	10.92
	Total	1,251,410	100.00
Their breakdown by term was:			
Long Term		616,180	49.24
Medium Term		497,680	39.77
Short Term		137,550	10.99
	Total	1,251,410	100.00

More than three-quarters of the loans made for housing were for houses located in the city of Niamey.

Clearly, CDN has not been able to meet its mandate fully, and it has hardly been able to provide low-cost housing loans at all. This is due to the terms of its lending as well as to its lack of resources. All of this is aggravated by the high cost of building materials and the low income levels of the target population. Since it has not been able to attract deposits, it has had to rely on government and foreign loans and BCEAO rediscounts. These latter, however, are restricted and refinance only up to 35 percent of its loan portfolio. CDN has proposed revitalizing the Fonds National de l'Habitat to the government. The proposal is that all salaried workers contribute one percent of their income and employers two percent. While this would indeed provide CDN with liquidity, the government does not consider it a priority. Thus, CDN can provide financing only to salaried people who comprise three percent of the population, many of whom are government employees.

In order to overcome the handicap of lack of resources, consideration was given in 1980 to the absorption of CDN into BDRN. This remains a credible option given CDN's continued inability to meet its mandate.

In summary, the formal banking system of Niger provides virtually no financing for low-cost housing. The small amount of financing that is provided is through CDN, and it is often restricted to financing only a minor part of the total cost of each home. This situation will be intensified as a result of the recent interest rate rise to 13 percent. If the formal banking sector is to become active in the provision of finance for low-cost housing, there will have to be a major restructuring of the system's operations.

IV. OTHER FINANCIAL INSTITUTIONS

1. Caisse Nationale d'Epargne (CNE)

CNE grew out of the old postal savings system set up throughout French West Africa prior to independence. At independence, the system was divided amongst its beneficiaries, and Niger retained a fund operating within its borders alone. CNE assumed its present structure and organization in 1974. It resides in the Ministere des Postes et Telecommunications (PT) which, through its network of post offices, acts as its agent for deposits and withdrawals. As a result, CNE's staff is minimal. Since it is not a bank in the conventional sense, it is not regulated by the BCEAO.

CNE exists primarily to provide funds to the GON's Treasury, and therefore it does not make loans (with the exception of a single three-year loan at ten percent per annum to PT). It was not established as a profit-making enterprise but rather to encourage savings and to further economic and social development by channeling the funds of small savers into other organizations where they can be used more productively. In fact in CY1980, CNE had a deficit of about $5,500 on total savings deposits of $1.8 million. It attributed this to the cost or printing additional forms needed to process the substantial growth of 45 percent in the number of transactions over those in 1979.

CNE is predominantly a postal savings system in which small savers can deposit excess funds. In 1978, it also created a retirement savings program. Originally restricted to employees of PT, it was opened up in 1980 to anyone who wished to take part. By the end of 1980, however, the amount deposited in this program (about $6,000) was insignificant compared to the regular savings program. CNE also has its own reserve fund of about $230,000 which it can invest in financial instruments guaranteed by the GON, land and office buildings for itself, building plots for rental housing, and GON-guaranteed shares of financial institutions which facilitate the purchase or construction of homes.

The major portion of CNE's income comes from two sources: investment income from its reserve fund and the excess of the interest it receives from the Treasury over the interest it pays its depositors. At the moment, the interest rate it pays its depositors is 7.5 percent, and it receives 9.25 percent from the Treasury, leaving it with a spread of 1.75 percent. It is expected that within a short time CNE's interest rate will move up in line with the recent BCEAO rate increase. While this is not legally required, it will be necessary if CNE is to be competitive with other savings programs. If the Treasury moves up its borrowing rate from CNE in parallel as anticipated, there should be no adverse impact on CNE's earning. In fact, the higher return to depositors may attract additional savings.

As described in the table below, CNE's regular savings program has grown steadily over the five-year period 1975-80 in terms of deposits and number and size of accounts:

	Total Deposits (CFAF 000)	Number of Accounts	Average Size of Account (CFAF)
December 31, 1975	167,464	14,752	11,352
December 31, 1980	533,836	26,757	19,951
Average %-age Increase	26	13	12
%-age Increase in 1980	41	18	19

As can be seen, the growth in 1980 exceeds the average five-year annual increase in all categories. Preliminary figures indicate that this growth continued in 1981.

While the amount of total deposits has grown steadily over the five-year period, so has the number of transactions which, as noted above, increased by 45 percent in 1980 alone leading to a small operating deficit. While the number of transactions grew gradually throughout 1980 with an excess of withdrawals over deposits, the amount of monthly transactions fluctuated wildly with an excess of withdrawals over deposits at vacation time. This volatility in savings mentality presents a real challenge to CNE in mobilizing medium- and long-term resources. Finally, it should be added that about two-thirds of all depositors live in Niamey, making the system heavily oriented towards the capital.

In conclusion, CNE accounts for a very modest portion of the financial sector, and any overall conclusions based on the figures presented here would be tenuous at best. There is the clear implication, however, that savings by small savers is growing in Niger, but how fast and by how much must be viewed in light of the average annual inflation rate of over 15 percent between 1975 and 1980. Since its deposits now go directly into the Treasury for its general use, it is an unlikely source of funds for low-cost housing. This would require a GON policy decision to reallocate them for that purpose.

At the same time, CNE has proposed the creation of what amounts to a contract savings program. Any person who regularly saved an amount sufficient to earn CFAF 25,000 in interest over a three-year period would be entitled to a housing loan, the servicing of which could not exceed 25 percent of his monthly income. At the current interest rate of 7.5 percent, this implies saving about CFAF 6,000 a month, which would result in a holding of about CFAF 240,000 at the end of the period. This is affordable to below-median income families. It is not known, however, whether this would mobilize a significant amount of additional savings, and whether the Treasury would agree to the reallocation of funds which are now available for its general use to those tied to specific future uses. Since the demand for loans at the end of the three-year period would probably exceed the supply of funds in the program, it would also be necessary to set aside additional start-up capital. In view of the general absence of resources in Niger, it is unlikely that the GON would consider low-cost housing of sufficient priority to allocate significant funds for this purpose.

2. <u>Caisse Nationale de Securite Sociale (CNSS)</u>

CNSS is the social security administration of Niger which receives its funds from contributions made by salaried workers and their employers. These funds are applied to three programs: family allowances, work-related accidents, and pensions. CNSS's income is deposited in the GON Treasury where it earns five percent annual interest, although it has recently requested that this rate be raised to eight percent. While it is not now and probably never will be a source of funding for low-cost housing, it owns 1.74 percent (CFAF 2 million) of the shares of SONUCI, and it also owns some rental housing.

3. Caisse de Prets aux Collectivites Territoriales (CPCT)

A public financial organization founded on March 17, 1970, CPCT finances regional infrastructure projects for local administrations. Administered by the CDN, CPCT provides three kinds of financial services to local authorities:

a. short-, medium-, and long-term loans, with guarantees, to provide financial resources for investment programs in infrastructure (economic, social, and administrative) and for the development of production;

b. short-term Treasury advances to offset late receipts at the outset of the fiscal year; and

c. to accept deposits of communal funds as well as the receipts of specific taxes (i.e., water, electricity).

The resources of the CPCT come primarily from its capital (CFAF 500 million subscribed by the government) and from contributions made by the local authorities of 3 percent of their receipts. This latter form of contribution ceased on September 30, 1977. While the government also provided funds in the form of loans, it has made no further loans since 1979.

Since its origin, CPCT has made loans of CFAF 3,436.7 million, 65 percent of which went for projects in the city of Niamey. In FY 1981, it made 18 loans for a total of CFAF 331.7 million as opposed to CFAF 273.7 million in FY 1980. Of the former, 42 percent went to Niamey. Virtually all of its loans are medium and long term. By far the greatest amount of its total lending has been for roads (55 percent), but there has also been substantial lending for vehicles, markets, and schools. The rest was for social infrastructure, wells, and small dams. Less than six percent has been lent as short-term Treasury advances.

At the end of FY 1981, CPCT had 25 doubtful loans amounting to CFAF 68.9 million or 6.7 percent of its portfolio, but by January 31, 1982, this had been reduced to CFAF 39.8 million or five percent of its portfolio. CPCT makes no loans for housing of any kind, nor does it appear to be a possible source of such funding.

In conclusion, none of the non-bank financial institutions appear appropriate or likely sources of funding for low-cost housing. Furthermore, in spite of a strong cooperative movement represented and encouraged by UNCC, not a single credit cooperative exists today in Niger. This is generally attributed to the widespread lack of savings throughout the country.

V. OTHER SOURCES

1. Insurance Companies

Insurance companies in Niger generate substantial liquid provisions and reserves. The Five-Year Plan noted that in 1977 (the last year for which detailed figures were available) total premium payments were CFAF 1,425 million, of which 61 percent were for automobile, nine percent for fire, 21 percent for transport, and nine percent for other. Claims totalled CFAF 590 million (81 percent for automobile, three for fire, five for transport, and 11 for other). This leaves a balance of CFAF 835 million in liquid provisions and reserves.

In 1979, total premium payments reached CFAF 1.7 billion, and preliminary figures indicate the industry is growing substantially, especially in the areas of credit and life insurance. The most notable aspect of the above figures is the overwhelming preponderance of automobile insurance related to other forms of insurance.

In its effort to make the insurance industry more responsive to the needs of Niger, the government took part in forming the Societe Nigerienne d'Assurances et de Reassurances (SNAR) in 1978. Its purposes were to repurchase portions of the portfolios owned by foreign companies, decentralize the industry throughout the country, and encourage mixed enterprises to utilize SNAR's policies.

The excess funds generated by the insurance industry can be viewed as long-term savings. As such, however, the industry has not invested directly in projects but rather has maintained its reserves in the form of term deposits in local banks. They thus became part of the total money supply available to the banks, which have utilized them in their day-to-day operations, both commercial and developmental. As described above, however, the banks' use of funds in the housing sector has been minimal and practically non-existent for low-cost housing. Again, as described above, a specific policy decision would have to be made by the government to utilize these funds for low-cost housing, and this seems quite unlikely at the present time.

2. Contractors and Suppliers

There is no indication that contractors and suppliers play a substantial role in the formal provision of credit for housing construction. To a very limited extent, contractors and suppliers do provide short-term informal sector credit. This relationship is described in the next section on informal sector financing.

VI. INFORMAL SECTOR FINANCING

The vast majority of Nigeriens do not have access to modern banking facilities, and of those who do many perfer to rely on informal credit mechanisms. The procedures involved in obtaining credit from banks are complicated, uncertain, and time consuming which adds to the borrower's cost, both subjectively and objectively. To the small borrower such loans are not always viewed as cheaper in spite of the nominal and frequently subsidized interest rate in the formal sector. The disadvantages associated with institutional credit make informal credit circuits more attractive.

A basic characteristic of these informal credit circuits is that they operate outside of regulatory controls on lending and borrowing. They depend on indigenous resources generated by participants whether they be friends, relatives, moneylenders, or traders and only indirectly on credit resources available through institutional means. Informal financial circuits are highly localized, responding to a diversity of needs which the formal sector cannot or does not serve adequately.

Another basic characteristic is that the credit available through informal channels, particularly to low-income groups, is very short-term money. The maximum term rarely exceeds one year and, more often than not, it is rarely available for more than a month. As a result, little informal sector financing is utilized for low-cost housing. Nevertheless, it is utilized on occasion, in particular as bridge financing at critical stages in the construction of homes.

In Niger there are four informal credit circuits available to individuals. The first, the rudimentary private credit market, is probably the most widely used source of borrowed funds. Dependent upon obligations of kinship and friendship, these loans usually involve small, unsecured sums which are extended over a very short period at no interest. While this form of credit depends upon social obligations, these values have undergone some transformation within the urban context. According to informants, friends are not averse to charging interest on loans; sometimes up to 100 percent per month. In the absence of savings, this high rate 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 or by special arrangement with the accountant responsible for disbursing checks.

In this type of transaction it is often difficult to distinguish between friends and moneylenders, since this market operates on the basis of personal knowledge and friendship. Thus, while most studies of informal market enterprises note friends and relatives as the most important source of external credit, this does not mean that such funds are obtained at no cost to the borrower.

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1 For the information contained in this section, I have drawn heavily on Sonia Hammam's Informal Financial Circuits in West Africa.

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 obligations for both lender and borrower. The lender may feel compelled to assist a relative and is unlikely to demand any interest on it and, at times, may even treat it as a gift. Nevertheless, the obligation of the borrower in this credit market almost always involves some form of symbolic repayment.

The second informal credit circuit, merchant credit, is extended by merchants to consumers for goods purchased and is reportedly widespread, particularly for such items as food and clothing. It involves a markup of anywhere from 35 to 100 percent depending upon both the item being purchased and the nature of the relationship between merchant and client. The risk of nonpayment is reportedly high, but more so on the interest demanded than on the principal. Thus postdated checks are often required. These, personal knowledge, and the customer's need to maintain a line of credit with a merchant, represent the merchant's only security.

Merchants sometimes extend cash loans and, in this case, the interest rate bears an inverse relationship to the size of the loan, repayment period, and type of security offered. Large loans with some form of security carry a smaller interest rate (between 35 and 50 percent) than do small unsecured loans. The borrower usually chooses the informal loan with a higher interest rate over the formal bank loan because it is processed faster and because he has more confidentiality than if he were to offer the same securities to a bank.

Merchants rarely provide cash credit to poorer households. Instead they provide goods which can be resold at a loss in order to raise cash quickly. Thus, cash can be used to buy inputs for which credit is not easily available from suppliers.

The third, moneylenders and brokers, represent small-scale moneylenders, lending out of their own funds to colleagues, and more organized credit brokers using their own and other traders' funds who operate on a larger scale. The latter benefit individuals in need of cash for investment purposes, and they require more formal guarantees (titles to land are not uncommom types of security). Interest charged by these lenders reportedly goes as high as 100 percent, but on most loans it ranges from 25 to 35 percent. This type of credit is normally made available to entrepreneurs who have some productive or commercial enterprise. Only one case is known of an individual receiving a loan (US$75,000 for a term of one and a half years at 35 percent interest) to complete construction of his house. Construction of individual houses, however, is normally considered an uninteresting investment, 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. 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. Livestock, which often forms part of the poorer households' savings, is also sold through traditional brokers. The charge for these services is normally five percent of the total sales price. These brokers may in turn act as moneylenders since the volume of their business ensures them a large and steady source of capital.

The fourth source of capital from the informal sector comes from savings. A traditional method of obtaining credit is the tontine, a group of individuals who are known to each other, making an equal contribution on a monthly or weekly basis and taking turns in acquiring access to the aggregate deposits of the group. The principle behind forming or joining a tontine is forced savings. The obligation to other members in the group is strongly felt and forces setting aside enough money to cover the required periodic contribution. Participants in these associations believe that this peer group pressure enables them to save more than they would on their own.

The savings is almost always undertaken in order to finance a specific project or purchase a specific item, but it is rarely used for housing. Nevertheless, a group of teachers whose incomes did not qualify them for an adequate amount of formal construction credit reported that the tontines were their only means to accumulate sufficient funds to invest in materials and towards the purchase of land.

Another form of informal savings is small commerce. Access to a supply of goods (whether agricultural or manufactured goods or raw materials) that can be used to raise cash is looked upon as part of the normal process of managing a household. Urban households with access to farm produce from relatives in rural areas will attempt to sell these at a profit. These activities do not constitute a steady secondary stream of income, but are engaged in to raise cash for specific projects or for the purchase of certain items.

The use of this method of savings depends upon access to either farm goods or items purchased at a discount from those in need of quick cash. These in turn are resold at a markup in price. This may help explain why current income fails to account for the capacity of households to self-finance projects, including the construction of housing.

It can be seen from this review of the informal sector that long-term loans for low-cost housing play a marginal role. Thus, an informal financing system, or one modelled on it, appears to offer little opportunity of mobilizing long-term savings for low-cost housing.

VII. CONCLUSIONS AND RECOMMENDATIONS

An effective housing finance system has not yet been developed in Niger, and this is especially true for low-cost housing. Only the few wealthy families or salaried employees (roughly three percent of the active population) have access to commercial banks for housing loans. Most of these loans are for medium terms at high interest rates. Only the CDN offers long-term loans and then only for houses built of permanent building material which the poor cannot afford. The rest of the CDN's loans are medium term, and furthermore the owner must own the plot of land and be able to make a ten percent down payment on the cost of the house. With interest rates now at 13 percent, the average salaried employee can borrow enough only to build a wall around his lot and perhaps a water connection.

Since so few people qualify for loans, virtually all low-cost housing is self-financed over a period of years as resources become available to the owner. Thus, the main source of financing is the individual's personal savings, which generally involves selling off a portion of his property: land (often a part of the building lot itself) and livestock. Sometimes interest-free family loans will help him speed up the process, and sometimes he will turn to the informal sector for short-term bridge financing at interest rates which would generally be viewed as exceedingly high. At best, he might be able to obtain a construction loan for one to two years at an annual interest rate of from 30 to 50 percent. Nevertheless, the average purchaser must ultimately rely both on his financial resources and his wits which implies that only the relatively wealthy can afford homeownership. Those not so well off are forced to live in primitive huts usually without any services whatsoever.

It is clear from the foregoing that the greatest constraint in the provision of low-cost housing is the lack of resources. Greatly reduced government revenues caused primarily by the drop in uranium prices combined with the general lack of domestic savings mean that the demand for existing financial resources far exceeds their availability. Development projects are underway for which funds do not now exist, and Niger is becoming increasingly dependent upon external sources of concessional aid for their completion. Thus, the basic problem is one of allocation of resources. As an urban phenomenon which does not affect the vast majority of Nigeriens, the provision of low-cost housing does not appear to have a high priority.

Nevertheless, the prices people now pay for rental housing in Niamey suggest that they can afford to own better shelter if an effective financing mechanism combined with suitable solutions are available and in place. What is needed is an infusion of seed capital to stimulate the mobilization of savings, in this case through the amortization of mortgages, together with a substantial lengthening of mortgage maturities to provide wider access to the target population. The high level of interest rates charged by the informal sector suggest that even the recent official interest rate increase to 13 percent should only be a mild constraint to affordability if appropriate structural reforms are implemented.

Niger's greatest need is for an institutional framework for the provision of finance for low-cost housing. Clearly the present system with the CDN as the government housing bank is not effective. A number of possible solutions to this problem were considered. The lack of a sufficient number of qualified professionals argues against the creation of a new institution. Thus, realistic solutions are reduced to two: a) the revitalization of CDN through substantial technical assistance, and b) the incorporation of CDN into BDRN. For reasons discussed below, the second option is preferred.

BDRN is the largest bank in Niger, is profitable, efficient, and possesses a well-qualified staff. The incorporation of CDN into its activities would be the most efficient method available to provide Niger with an effective housing finance system. As with CDN, it is controlled by the government and will undertake specific activities requested by it. It is, in effect, the government bank, and its director general is a senior economic advisor to the President of Niger. BDRN is also the continuing beneficiary of long-term technical assistance from Tunisia, and it has received numerous foreign loans including those from AID. Under a recently-approved IDA credit, an in-house training facility will be created to upgrade the qualifications of BDRN's staff. The addition of a housing portfolio could easily be assimilated into BDRN's ongoing activities. The limited training that would be necessary to build up an expertise in housing finance, in particular low-cost housing, could be provided in its own training unit.

BDRN also possesses its own substantial resources. Should some of these be set aside for housing, a modest low-cost housing program could be initiated with the technical cooperation of the Ministry of Public Works without recourse to scarce government funds, rationed concessional foreign assistance, or high interest foreign obligations. This, however, would probably require government approval, but this should be easier to obtain than budgeted funds.

BDRN is also considering the establishment of a leasing agency which would be a wholly-owned subsidiary. To be established under the aegis of IDA/IFC, this would first of all assist in the reconstruction of the Grand Marche which was recently destroyed by fire. Once established, this agency could also act as BDRN's window for low-cost housing development. Whatever institutional structure is eventually agreed upon, the creation of a small-savers window to mobilize personal savings for housing should be an integral part of it.

Should such a radical restructuring of the system prove impractical, the first option is also feasible. If this solution is chosen, CDN should divest itself of all its non-housing activities which should then be transferred to BDRN. There are precedents in transferring specific types of lending activities among the government-controlled banks, and so this should not prove difficult. CDN could then become a true housing bank, extending loans only for housing. It would, however, need a substantial infusion of resources in order to become an effective housing finance institution. Furthermore, in order to provide affordable solutions to the target population, it is essential that CDN restructure its credit terms to allow longer maturities for all types of construction loans. In view of the recent rise in interest rates, the argument to extend maturities to up to 20 or 30 years becomes all the more compelling.

Since CDN is not now involved in extending loans for low-cost housing, it would probably require considerable technical assistance to achieve this capability. CDN should also open a window for small savers in an effort to mobilize personal savings for housing. Such institutional strengthening would require a substantial training program for CDN's staff which would no doubt need augmentation as well. Nevertheless, it is a realistic and workable solution in providing finance for low-cost housing in Niger.

LIST OF PEOPLE MET

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