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The Role of Informal Credit Markets in Support of Microbusinesses in Developing Countries

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WORLD CONFERENCE ON MICROENTERPRISES

WASHINGTON, D.C., U.S.A.

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ANNEX I

(Note: The data in tables relating to Thailand are confidential and may not be cited.)

WORLD CONFERENCE ON MICROENTERPRISES

I. INTRODUCTION

"... it is not necessary to know everything in order to know anything". Clifford Geertz

"... there is one thing worse than exploitation--it is not being exploited." Joan Robinson

This paper analyses the role of informal credit markets (ICMs) in relation to microbusinesses (MBs) in developing countries with special reference to Asia and Africa, and attempts to draw relevant conclusions for policy and an agenda for discussion. This paper draws on the available literature and on the field experience of the author in Africa and Asia as a central and commercial banker and with IMF consultation and technical assistance missions for review of financial systems and interest rate policies in member countries. Its main focus is on finance for non-farming businesses with appropriate references to the experience of agricultural credit, which in many respects is relevant for small and microenterprise financing.

Since the paper examines the relationship between ICMs and MBs it is useful to have working definitions of these two principal concepts. The ICMs may be defined as all legal but officially unrecorded and unregulated financial activities and transactions which are outside the orbit of officially regulated institutional finance. For our purposes, we exclude the so-called parallel or black money markets, and their role in the shadow or underground economy.

The term micro-business (MBs) is used to indicate, broadly, micro-enterprises (typically fewer than 10 employees) engaged in unincorporated income generation in non-farm primary activities of individuals and households under an owner-manager organization. The micro-enterprises are part of the informal real sector. The other constituent comprises small-scale enterprises i.e., incorporated businesses in the formal sector (typically fewer than 50 employees) under a owner-manager organization. This dichotomy between owners and small-scale rule enterprises broadly conforms to the usages of national and international development and donor agencies. More important for policy is the fact that both micro- and small-scale enterprises share common characteristics and problems, notably of limited access to insitutional finance, except for a small minority of established firms of good standing.

Since the activities of both lenders and borrowers are informal, unregulated and unrecorded, they necessarily escape the scrutiny of official statistics. Consequently, it is virtually impossible to study the relationship between ICMs and MBs in terms of time-series or cross-section analysis. Nevertheless, the available empirical evidence based on qualitative historical and contemporary studies, ad hoc sample surveys, and even anecdotal evidence and stylized facts are an adequate base for formulating a feasible agenda of purposive policies by national, international and donor agencies in order to enhance the efficacy of ICMs in relation to MBs. (Bouman 1977; Miracle and Cohen 1980; Timberg and Aiyer 1983, 1984; Holst 1984; Chandavarkar 1984, 1987) This is certainly borne out by the experience of India, Thailand and Korea, which have, arguably, the best documented ICMs. But as much as the informality of the ICMs it is the ignorance, prejudice and even the hostility of central banks and governments to this sector which accounts for both the sparseness of information and the total lack of a positive policy stance on the ICMs. It is, however, more important to recognize that as in other spheres of economic policy, action on ICMs need not and cannot always await the full availability of information!

II. ICMs: COMPOSITION AND CHARACTERISTICS

ICMs are by their very nature heterogeneous as they cover the lending, borrowing, brokerage, and remittance activities (often based on verbal contracts and understandings) of a wide variety of lenders. Typically, ICMs comprise professional and non-professional money lenders (often relatives and friends), indigenous bankers-cum-merchant middlemen, private pawnshops and finance firms, personal and business fixed fund and rotating savings and credit associations (ROSCAs), landlords, the more prosperous agriculturists, and all those who provide suppliers and trade credit. Although ICMs are heterogeneous in composition they share some typical basic economic characteristics, notably, predominance of cash transactions, freedom from official registration and regulation, ease of entry or exit, small scale of operations, multiple-interest relationship (financial and socio-cultural) between lenders and borrowers, and above all the informality which constitutes their primarily economic rationale and the basis of their substantial competitive advantages over the formal financial institutions (FIs). But it would be misleading to treat ICMs as an enclave or as a sector because given the high fungibility of finance even in developing countries they are part of a continuum with the formal financial sector and have strong functional links with it, competitive as well as complementary.

For policy purposes it is necessary to disaggregate ICMs according to the ownership pattern and activities of the lenders, the nature of transactions, and instruments. First, there are the proprietary groups (individuals or family businesses) such as money lenders (professional or non-professional), private bankers, pawnshops and pawnbrokers. Money lenders operate with their own capital, do not usually accept deposits and combine money lending with the functions of landlords and merchant-middlemen. Non-professional money lenders, together with relatives and friends are an important source of credit and in certain regions like South East Asia account for the bulk of informal rural credit (Tables 1 and 2).

Private bankers too largely use their own capital in lending but supplement it by borrowings from the formal sector and accept deposits on a limited scale. Their lending operations are through book entries for lines of credit or short term credit instruments (e.g., discounting of postdated checks, indigenous bills of exchange sight and usance like the 'Hundi' in the Indian subcontinent and the 'cek putih' in Indonesia, promissory notes, truck receipts, travel vouchers, etc.). The most common instruments of borrowing in India are demand notes which do not require revenue or judicial stamps unlike the term bills. These intermediaries (like the shikarpuris, multanis, shroffs, or chettiars in India) are usually based on ethnic family groups and operate largely in urban areas in India and South East Asia. ICMs provide funds for purposes which banks do not finance sufficiently (e.g., wholesale trade), or which require more speedy finance than banks can provide (e.g., exports); and for those borrowers who find it difficult to produce acceptable collateral (e.g., restaurant owners, laundries, batteries, film financers, building contractors, etc.). Unlike rural money lenders, who give consumption and production credit, urban ICMs confine themselves to business credit.

The other important proprietory group of lenders are private pawnshops (largely in South East Asia) licensed by government under appropriate legislation like the Pawnbrokers Act 1972 in Malaysia and the Pawnshop Acts BF 2505 (1962) and BE 2517 (1984) in Thailand. These pawnshops customarily lend small amounts for consumption purposes and occasionally for business purposes against the collateral of portable household effects which are not usually accepted by commercial banks. They are not a significant source of finance for MBs. The amount lent depends on the appraised value of pledged collateral and the rates of interest are subject to legal ceilings (2-3 percent per month in Malaysia). In Thailand pawnshops operate under an annually renewable license. They normally lend up to 80-90 percent of the appraised value of gold and jewellery; diamonds up to 60-80 percent; electrical goods around 50 percent. - Interest rates range from 1.25 percent per month (2,001-10,000 baht) to 2 percent per month (up to 2,000 baht).

The mutual units in the ICM sector comprise fixed fund associations (akin to the savings and loan associations in the USA) and the rotating savings and credit associations in Africa, Asia and the Caribbean (Tables 3 and 4). They are usually organized among socially cohesive groups on the principle of rotating access of each member to a continually reconstituted capital fund based on fixed contributions from each member and/or distribution at fixed intervals and as a whole to each member in turn by lot, agreement, or bidding (auctions). (Holst, 1985) The auction system is popular in the urban areas of Asia but virtually non-existent in Africa. The basic principle of a ROSCA is that of an installment system for deposits and loans designed to pool small savings. Generally, the holder of the first position in a sequence ROSCA, who is usually the organizer, is a pure borrower and the last a pure saver. As a rule, the longer the duration of the loan (i.e., the earlier the borrower's position in the sequence) the higher the rate of interest to be paid. However, interest rate calculations are not always explicit or rational. In practice, ROSCAs show considerable flexibility in resolving conflicts of interest between the early recipients' preference for unsecured credit and the concerns of late recipients for the safety of their savings. This is achieved through various devices such as contributions in kind or increasing contributions over the cycle. Potential borrowers can take more than one share, or participate in more than one association at the same time, which provide for variable contributions (e.g., as in the djanggi in Cameroon). By joining a ROSCA with a cycle of specific contributions members can opt for a payment-repayment schedule suited to their individual cash flow pattern. Unused funds may be deposited in a FI. ROSCAs provide unsecured loans, although there are exceptions as, for instance, the chit funds in India which insist on securities, promissory notes, or cosigners to ensure that early borrowers continue their contributions. The uses of funds by ROSCAs in Africa show a varied combination of production and consumption credit which also suggests that such associations are more supportive of micro-businesses than of small-scale enterprises (Table 5). Thailand seems unique in its division of personal and business ROSCAs, with the latter being more important as an element of urban ICMs (Table 6). Thus, ROSCAs are like miniature credit unions based on the 'mutuality' principle, since all gains accrue to participants. They mobilize traditional social relationships to fulfill economic functions and are apt examples of an intermediate financial technology and of the 'Economic Theory of Clubs', i.e., of voluntary economic entities which are intermediate between the purely private good and the purely public good.

The proprietary and mutual lenders typify the role of ICMs as an autonomous sector which historically antedates the advent of formal finance in developing countries. In contrast the third major constituent group in the ICMs consisting of fringe banking institutions such as private financing firms, represents the 'reactive' component of informal finance inasmuch as it manifests the responses to the monetary controls over, or deficiencies, of the formal sector. A good example is the growth of private finance companies in India, Malaysia and Thailand. The proliferation of private financing firms in Kerala in India in recent years is clearly a response to credit restrictions on commercial banks and the closure of credit unions in implementation of the Kerala Chitties Act, 1975. These private financing firms offer a much higher rate of interest (payable monthly) than the commercial banks on deposits in the form of promissory notes encashable at short notice. The interest on deposits above the legal maximum of 9 percent and on loans above the legal limit of 12 percent under the Kerala Money Lenders Act is said to be paid in unaccounted money from the underground economy. The firms lend only to local MBs in the form of 3 months or 100 days block loans or daily repayment loans (both given after deduction of the interest in advance) which are repayable in 100 daily installments. The loans are given on the guarantee or recommendation of a partner on the strength of a promissory note with two known sureties or for larger amounts on equitable mortgage deeds and other collateral securities. Some firms even accept postdated checks at the time of issue in order to ensure timely repayment of loans.

The widespread operations of lenders in the ICMs acting as principals and dealers are sustained by an extensive network of brokers, couriers, and assorted middlemen who are 'market-makers' as well as the links of ICMs with formal finance, like the 'compradores' in South East Asia and guarantee brokers of commercial banks in India.

III. RECIPROCITY OF SAVINGS, CREDIT AND REMITTANCE FACILITIES

There is a mistaken tendency to associate ICMs too exclusively with their credit activities to the neglect of their potential for mobilization of savings and to overlook the significant interdependence of savings and credit facilities. Admittedly, ICMs seem to be net lenders and their activities by and large are predominantly on the credit side, except for some groups of money lenders, indigenous bankers, and ROSCAs in Asia and Africa who also accept deposits. But what is more significant from the policy point of view is the strong evidence of reciprocity (i.e., the practice of lending to depositors) as a contributory factor to the success of small savings schemes. The experience of savings banks, credit unions, informal savings and loan associations, suggests that the efficacy of savings mobilization depends in part on whether "they can profitably lend to the same clientele from which deposits are mobilized" (Vogel and Paul Burkett 1986). This lack of reciprocity also explains the relative unpopularity of post office savings banks (e.g., in India) which do not extend credit to depositors and have become passive collectors of deposits to support the government budget. Experience suggests that the potential benefits of reciprocity like economies of scope, lower loan default rates and increased savings mobilization outweigh any possible losses of economies of specialization. Consequently, reciprocity in conjunction with financial innovation is a crucial determinant of the viability of financial intermediation in developing countries. The success of the ROSCAs in India and Africa in combining credit and savings facilities is a notable example of the significance of reciprocity (Anderson, 1966; Bouman, 1977, 1979, 1984; Begashaw, 1978; Miracle et al, 1980).

In India the popularity of an important ROSCA, (the chit funds) is explained by the fact that the subscriber is entitled to borrow from it by offering discount at the auction. (Banking Commission, Government of India, 1972). These funds combine regular savings and borrowing facilities for specific needs, but there is no assurance that the money will be available when needed since there may be other strong bidders and in the event of a tie there is a lottery. The chit fund does not prima facie extend credit to productive enterprises but as recognized by the Commission their removal without offering alternative outlets would create a gap. The problem, according to the Commission, is how to regulate them. There is no information on the operating costs of ROSCAs, overdues and defaults (see Table 7 for procedures for dealing with problem loans in Thailand). The fact that ROSCAs have been able to compete successfully with postal savings banks is largely due to their combined provision of credit and savings facilities.

ROSCAs seem to be less popular in Latin America where they function mainly as an alternative to installment credit in financing consumer durables, but they are reported as important in Jamaica where they are known as the Partner system (Katzin, 1959; Manhertz and Marston, 1979). Credit unions, on the other hand, are more popular in Latin America. They have the ability to provide low cost deposit services but having been pushed into a role similar to that of agricultural development banks, their competitive advantage as lenders seems to have been eroded creating the same loan delinquency problems as faced by development banks. (Christen and Vogel, 1984).

The experience of the Grameen Bank, Bangladesh which has successfully replicated and improved upon the better features of ICMs is amply supportive of the feasibility and desirability of combining savings and credit facilities for the landless poor. In this Bank, in addition to weekly personal savings of 1 taka per person, (30-32 takas = 1 US dollar) each borrower is required to pay a group tax of 5 percent of the loan received. The weekly savings and the Group Tax Constitute Group Funds which individual members can borrow for consumption and investment purposes without the consent of the remaining members of the group. The resultant high marginal rates of savings (25-50 percent of the additional income generated by the Bank credit) are additional evidence of the high productivity of credit with rates of return ranging from 10 to 40 percent on the invested capital. The evaluations suggest that the rates of return are higher for trading and modern industrial activities and lower for traditional processing and artisan-type activities. (Dharm Ghai 1984) The Syndicate Bank (South India) has successfully operated a scheme which matches "Small Savers" to "too Small Borrowers" the bulk of whom are MBs (Thingalaya 1978).

There is, however, in all this discussion a major unstated problem. The principle of reciprocity of credit and savings is no doubt unexceptionable but the question is: Would ICMs be able to provide loanable funds beyond a certain small scale which may not be commensurate with the needs of growing MBs. For instance, the "nidhies' in South India which cater to housing finance, are said to suffer from a shortage of resources and are unable to satisfy the entire credit requirements of their members.

A notable advantage of ICMs are the concomitant facilities for inward and outward remittance which are cheaper and often even more reliable than those those of FIs and the government postal system. In India MBs rely quite often on a functionary ('the Angadia') who doubles up both as a broker and courier. In fact, overseas migrants' remittances through ICMs (sarvafs in the Arab countries, and Hundi agents in the Indian subcontinent) are so much more popular in the developing countries (e.g., Middle East, El Salvador, Bangladesh, India, etc.) because of lower costs, greater convenience and high flexibility. (Nazli Choucri 1986; Farid Bakht and Raisul Mahmud 1987) The 'transfer' houses in El Salvador reportedly, arrange more conveniently for remittances from the U.S. to El Salvador at a far lower cost while also offering a more attractive rate of exchange to the recipients, a feature common to all ICMs. The remittances of overseas migrants, which are largely channeled through ICMs, to the home countries, have generated an extensive network of economic and financial relationships including financing of MBs. These remittances are used largely for housing, answer durables, repayment of past debt, and social expenditure but a fair proportion also helps finance MBs (Chandavarkar 1980) A survey for Bangaladesh showed that nearly 90 percent of businesses established by migrant families were financed mainly by remittance money and that migrants were actually providing a service through the ICMs by financing working capital for businesses (Farid Bakht and Raisul Mahmud 1987). There is, however, more scope for diverting remittances into MBs since there is strong evidence that an excessive amount has gone into real estate and consumption or else into over saturated businesses (e.g., bakeries and taxis in Jordan).

While some of the ICM entities (e.g., ROSCAs, private bankers and finance companies) do provide an interlinkage between savings and credit facilities, it would seem that ICMs are better geared to the retailing of credit than the collection of savings which in any event are beyond the scope of formal deposit insurance and central bank supervision, since such procedures are restricted to FIs enjoying formal relations with the monetary authority. Consequently, the safety of personal savings with ICMs is not comparable with those held with FIs.

A rather conspicuous gap in the ICMs is their inability because of lack of expertise to provide concomitant marketing and technical assistance facilities to borrowers, although they often supply raw material on credit (e.g., in carpets or power looms in India). This, however, should not be regarded as a case of market failure insofar as lenders in urban ICMs are primarily specialized suppliers of working capital for business purposes and are not miniature conglomerates. In contrast, rural ICMs cater for both consumption and business credit.

IV. COST AND CONDITIONS OF INFORMAL CREDIT: INTEREST AND THE COLLATERAL SYNDROME

Informal credit to MBs is usually in the form of unsecured (i.e., without collateral) interest-bearing monetary loans. There is also a segment of interest-free loans which generally reflect kinship and patron client relationships particularly in the rural areas where there is also a fairly significant proportion of non-monetized credit (e.g., 24 percent of total rural credit in Malaysia, see Wells 1980; and about 37 percent in the Phillippines as reported by the Interagency Committee, 1972).

It is well known that effective rates of interest in ICMs whether nominal or real, or explicit and implicit, are generally much higher than in the formal sector (Tables 8 and 9) and in practice exceed the ceilings under usury laws which are notoriously difficult to monitor and enforce. However, even the high rates of interest in the ICMs, which largely reflect the monopoly and monopsony power of money-lending merchant middlemen and the high risk premium consequent upon the absence of collateral, do not clear the credit markets. (See Tables 10 to 15 for various estimated elements of informal rates of interest.) This strongly suggests that credit rationing is an ever present factor in the ICMs. Consequently, availability is more important than the cost of credit for the typical borrower like the MBs.

The major constraint on formal credit to the MBs is the inability of the latter to furnish acceptable collateral which is a necessary condition of all institutional credit. The typical MBs borrowers do not possess bankable collateral and even when they do possess them the usually vexatious procedures and hours of work of FIs effectively debar MBs from institutional credit, as the following letter to a leading Indian newspaper by a frustrated customer of a nationalized commercial bank vividly illustrates:

> Pawn-brokers and Small-Men
>
> "Sir, many may prefer pawn-brokers to the Nationalized Banks for raising loans, for certain valid reasons. The small men cannot wait for a long time to get their loans. For instance, the other day I approached an agent of a Nationalized Bank to pledge some gold articles worth 3 sovereigns. It happened to be a Saturday. The Bank staff told me to meet them again on the following Wednesday at about noon, as the Bank's appraiser would visit that Bank only on Wednesday. Is it possible for a person to wait up to Wednesday while he needs money badly on Saturday itself? The Pawn-brokers, though they are charging exorbitant rates of interest, will lend money as and when it is needed. The Nationalized Banks should make arrangements to enable the small men to get loans at any time on their working day by pledging their goods, if they are to replace usurious pawn-brokers effectively." M. Jagannathan (The Hindu, Madras, 30 September 1973).

The administrative formalities of institutional finance, particularly the time and paperwork involved are a formidable deterrent to MBs, many of whom may even lack the formal education necessary to cope with the requirements. In some ICMs (e.g., India) a broker undertakes to do any minimal paperwork necessary for recourse to the ICMs. There are, no doubt, some negative aspects to informal credit notably the fear of challenge by civic and tax authorities and even a certain social odium, which also explains why in a major Indian survey, half the respondents denied even using ICMs! (Timberg and Aiyar, 1984). Nonetheless, the convenience and flexibility of ICMs seem to far outweigh any such drawbacks. In fact, the major strength of ICMs is their ability and willingness to extend credit much more quickly and flexibly than FIs without collateral (except in the case of pawn-brokers and pawnshops) on the basis of purely personal knowledge and credit appraisal of the borrowers, with or without guarantee by other customers, a classic example of 'character' loans as a technique of transformation of intangible collateral into tangible credit. The unsecured credit extended by the ICMs has several advantages from the borrowers' point of view. First, it does not tie up inventories or collateral. Secondly, many MBs do not generate acceptable collateral (e.g., laundries, drink shops, restaurants, construction contractors). There are, of course, some forms of secured credit in the ICMs. For instance, firms purchasing the accounts receivable of textile mills in Bombay (India) extend secured credit.

By and large, informal lenders concern themselves with the overall credit standing and total financial position of the borrower rather than with the specific end purpose of credit (Timberg and Aiyer, 1984). Nor do they supervise the end use of credit being generally content with surveillance of the borrowers overall activity, including even his social conduct which is only possible in a close face-to-face society based on multiple-interest interrelationships. They lend on the basis of the projected cash flow of the borrower rather than asset protection or any of the standard banking ratios. However, in the ICMs in India there appears to be some notional relationship between the net worth of a customer on the credit extended to him which ranges from 25-33 percent of net worth (among the Shikarpuri and Rastogi financiers). The Gujerati financers are said to lend on the basis of the cash and stock position of their clients rather than on their net worth. The Shikarpuris who lend to a more varied clientele than their rivals -- also reflected in their higher than average interest rates -- prefer to lend to income tax assessees and often ask for tax returns. A major determinant of credit extension is said to be the record of punctiliousness in servicing of loan obligations.

There are also other screening mechanisms in ICMs, which are both legal and prudential. For instance, in India, urban informal financiers generally try to avoid infringement of the restrictive state money-lending laws. They do not therefore lend in amounts less than Rs 3,000 (Rs 12.50 = 1 U.S. dollar) or to agriculturists who are specially protected under these laws. In addition, most lenders have informal maximum limits to any one party (e.g., Rs 25,000 in the case of the Shikarpuris). Borrowers who require larger accommodation can arrange through brokers to put together loans in multiples of Rs 25,000. This is something akin to the loan syndication techniques of sophistocated formal markets. Likewise, in some centers such as Amritsar (in the Punjab) there are informal limits for overall credit apportionment at least for large clients -- one-third each from own resources, FIs, and the ICMs. Those lenders who are primarily financiers like the Shikarpuris are more concerned with limits on their own exposure, whereas lenders and brokers from other communities are too specialized in the finance of one or another commodity or product (e.g., spices, cloth, etc.) to be able to limit their exposure in it. Consequently trade credit appears to be a very substantial item of informal finance which often exceeds pure multipurpose credit.

It is interesting to note that despite the absence of collateral, the bad debt experience of lenders to MBs in the urban ICMs in India is said to be roughly comparable to that of similar credit to commercial banks (Timberg and Aiyer 1983, 1984) which suggests that collateral requirements of the latter do not make a material difference to the quality of credit. This is also borne out of the remarkable experience of the Grameen Bank of Bangladesh, which extends collateral-free credit to landless customers and yet boasts of a loan recovery rate of about 98 percent, although the rate of interest (16 percent) is about the same as charged by FI. The high recovery rate reflects cumulative effects of: the group liability principle which provides a substitute for collateral; the intensive supervision of credit; and the innovative device of weekly repayments of credit installments spread over a 50-week period, irrespective of the maturity cycle of the end-use of credit. The Bank, like the ICMs, uses a net worth criterion rather than income or cash flow. Membership is restricted to owners of less than 0.5 acres of cultivable land and the value of whose family assets does not exceed the market value of one acre of medium quality land in the area. The net worth/asset criterion also helps to directly identify the poor landless borrowers and, together with the ceilings on credit, helps to keep out the better-off sections of the rural population.

V. INFORMAL CREDIT AND FINANCE OF MICROBUSINESS

Because of the inherent informality and secrecy of ICMs it is obviously not possible to collect and present systematic data on their size, flows, and turnover. Even the well endowed Banking Commission of the Government of India (1972) found it difficult to obtain adequate information on ICMs. The subsequent study on urban ICMs in India (Timberg and Aiyar 1980) based on interviews with one thousand respondents (lenders, borrowers and intermediaries) noted that "informal credit market actors are notoriously shy about publicity--and the task of convincing them was an arduous diplomatic one" (Ibid., p. 13). The available quantitative evidence, based on surveys of small firms, borrowers and lenders, on the financing of MBs through ICMs is presented below for selected countries in Africa; Asia; Latin America; and the Caribbean.

The evidence from Africa (Page 1979, pp. 21-24 and Table 11 of this paper) shows the following broad features.

The start-up capital is often miniscule, with a reported mean of about $70 (in 1974-75) in Sierra Leone (Liedholm and Chuta 1977, Table 8) and for rural industry in Kenya (Child, no date). The initial investment is almost wholly financed from own savings or those of relatives or friends and subsequent investments are financed largely from retained earnings, though institutional finance plays a somewhat larger role. There is no information on the rates of interest charged by friends or relatives. The opportunity cost of own savings or funds lent by relative and friends is difficult to estimate but Page (1979) suggests a real rate of 15-25 percent. Although most surveys echo complaints of inadequate working capital, the major complaint sees to have been material shortages rather than any capital market failures. (Little, et al., 1987).

Interestingly, this pattern is broadly replicated in the Caribbean (Jamaica and Haiti) and Latin America (Columbia), except for the higher average initial investment ($300 in Jamaica with a range of $70 - $17,000) (Fisseha and Davies 1981). In Jamaica ninety percent of the start-up finance for client's with less than 25 employees originated from own savings, with friends and relatives providing another 6 percent. In Haiti, banks provided less than 3 percent of initial investment finance ($100 to $6,000) for enterprises employing less than 50 workers. The principal source of start-up finance in Columbia has been personal savings, often derived from severance compensation but supplemented by other personal savings, family loans and suppliers' credit (Cortes, Berry, and Ishaq 1987, Chap. 4). Altnough the role of institutional finance seems to have increased with the growth of the borrowing units, the share of self-financed capital was above 75 percent in the two sample sectors (metal working and food processing) and less than half the firms resorted to any institutional finance mainly because of the paperwork involved and the dislike of indebtedness. Significantly, while the lack of collateral was the main reason for rejection by institutional lenders, social and educational status were reportedly influential in obtaining credit. There was also some association between the extent of ICM credit and the economic surplus generated by the MBs. (Cortes, Berry, and Ishaq 1987)

The establishment survey and other information for Asian countries (Korea, Malaysia, the Philippines, and Thailand), leads to the following main findings on the role of ICMs.

The Korean ICMs are possibly the largest in relation to the money supply among developing countries. The declared volume of indebtedness to the ICMs (reported by 40,677 enterprises of all sizes in response to the Presidential Emergency Decree of August 3, 1972) was 345.6 billion won close to 80 percent of money supply and 24 percent of FI credit (Park 1976). The Korean ICM are substantial lenders not only to MBs but also to the formal sector. Surprisingly, Korea, despite its large and extremely sophisticated ICMs, shows a higher proportion of institutional finance (9 percent in 1973 of units in the size group 5-49 workers) as the main source of start-up finance than elsewhere (Ho 1980, p. 75). This survey, which covered all manufacturing, showed that the larger the size of the unit the larger the share of FI finance. About one-third of investment was financed from outside sources, much less for the smallest units; one quarter relied on outside sources for working capital, mainly to banks, but also the ICMs (suppliers, friends and relatives).

In Malaysia it is said that resort to ICMs by most enterprises normally occurs after exhausting all their past internal savings and access to FI credit. But small business units seem to prefer the ICMs despite the high interest rates because of speedy access without stringent collateral requirements. (The SEACEN Centre Report, 1986, p. 174) There are no figures for start-up finances for Malaysia but of the new investments in the size group (1-50 workers) 18 percent obtained some associated bank credit and 20 percent obtained credit from banks for working capital. (Little et al. 1987, p. 284) More than half of the working capital represented supplier's credit until the size class of over 100 workers was reached, where bank credit became predominant. Bank credit rose sharply with size of enterprise but entrepreneurial characteristics were more important in explaining credit use than establishment characteristics like age and size. (Bruch 1982)

In the Philippines an all Size Sample Survey found that the modal size of start-ups was 6,000 - 20,000 pesos (1978 prices) i.e. $800 - 82,700, of which 8 percent was from FIs and the rest from the ICMs. But recourse to institutional credit for both fixed and working capital increased after start-up (Anderson and Khambatta 1981, pp. 110-111).

In Thailand the role of the urban ICMs (i.e. personal and business ROSCAs, cheque discounting liable credit) seems far more important than in the other Southeast Asian countries (Duangmanee Vongpradhip 1987, pp. 271). The Thai ICMs are notable for the distinctive entity of business ROSCAs and the most extensive resort to cheque discounting practices outside Taiwan. Interestingly, only 23 percent of the business ROSCA funds came from own funds, supplemented by about 9 percent from other ROSCA credit and 8 percent from abroad. About 47 percent came from borrowings from commercial banks and finance companies. The bulk of ROSCA credit (59 percent) was used for working capital purposes, 22 percent for repayment of loans and 8 percent for lending. About 34 percent of funds obtained through cheque discounting was used for working capital and 17 percent each for fixed investment and for coping with cash flow problems with FIs and 15 percent for inventories.

In India the Banking Commission (1972) reported that the ICMs (indigenous bankers) provided one-twelth to one-half of all credit to different categories of industrial units. A study of urban ICMs (Timberg and Aiyer 1980) showed that they represented about 50 percent of that provided by commercial banks and serve sectors or needs not served by banks at only slightly higher rates of interest. They lend (without collateral) mostly for short-term working capital to small scale enterprises in the upper range (i.e. with assets between Rs 100,000 - Rs 1 million). In regard to start-up finance, another survey showed that, except in the case of power loom companies, for most small-scale enterprises over 80 percent came from own personal savings. (Little et al. 1987, p. 209). In the case of power looms companies, where the funding is financed by the merchant under the putting out system, trade credit was dominant.

A sample survey of the successful experiments in Gujarat (India) of assisting small-scale techno-entrepreneurs showed that about 48 percent of the techno-entrepreneurs raised more than 25 percent of seed capital from own savings: about 57 percent sought assistance from families and friends for meeting more than 25 percent of finance. Money lenders accounted for less than 10 percent of the amount (Patel 1978). Significantly, even when funds were borrowed from families, friends and private sources, the interest paid was close to what the banks would have charged (12 percent). But the main problem for the new entrepreneurs was shortage of working capital after the ICM financing was used up at a very early stage of production.

Surprisingly, there is no reference in the literature to what is often a major source of the cash flow and working capital problems of MBs - the inordinate delays in settlements of payments due by governments and public authorities who do not pay any interest on overdue bills to their suppliers. Although such delays affect all categories of suppliers to governments, they impinge more severly on the MBs. For instance, the author recalls the not untypical experience of an MB in the Bombay (India) suburbs which supplied laboratory equipment almost exclusively to public sector schools and colleges but was rarely paid its dues before 6 months - 1 year and then not without frequent lobbying with the paymasters! Meanwhile, the FIs were not willing to finance these 'receivables' and the proprietor was, therefore, forced to resort to the ICMs. Thus we have the supreme irony of MBs who borrow from the ICMs because of bureaucratic failures and are then obliged to extend credit at zero rates of interest to governments, while being punctilious in making quarterly property, sales, and income tax payments.

VI. LINKAGES OF INFORMAL AND FORMAL CREDIT

In all developing countries ICMs have links with formal credit through their lines of credit with commercial and development FIs. ICMs cater not only to the MBs and the informal real sector but also supply those credit requirements of the organized sector which cannot be met by FIs. Regrettably, these aspects have been hardly studied except for some studies relating to Korea and India. In Korea, ICMs have been a major source of finance in giving flexibility to the needs of a high-growth economy. (Cole and Park 1975) In India, changes in monetary policy have had a significant effect not only on the lines of credit in the informal sector but also on the rates of interest in the same direction. A contractionary credit policy has been observed to raise interest rates in the ICMs in India even as an expansionary policy lowers it (Acharya and Madhur 1984).

An econometric study of Korea (Pereira Leite and Reza Vaez-Zadeh 1986) concluded that limitations on the availability of credit tend to affect economic decisions directly instead of through interest rate movements. The results indicate that the main source of investment financing for small enterprises is internal resources and that increased availability of bank credit was unlikely to affect significantly changes in the working capital of either small, medium or large enterprises. The selective credit controls adopted in Korea to provide incentives to the small enterprises did indeed help to expand their investment activity, albeit only slightly.

The Korean experience is also not untypical of the proposition that, in developing countries, changes in formal credit lines do affect informal lines of credit suggesting that availability of credit (i.e. credit rationing) is more influential as a policy variable than movements in rates of interest. However, the lessons of Korean experience have to be qualified to allow for the fact that since 1965 commercial banks have been required to lend a minimum proportion of their total loans (since 1980 it is 35 percent for national banks and 55 percent for local banks) to small and medium enterprises. These minimum lending ratios constitute a hidden subsidy to MBs.

Korean experience is, however, even more instructive in demonstrating the linkage of formal and informal finance in the behavior of savings. Thus an increase in interest rates in the institutional sector after the interest rate reforms of 1965 resulted in an inflow of savings from the informal sector. On the other hand, in Thailand reverse flows of savings into the informal sector have been observed from time to time because of the higher rates of interest on chit funds, pyramid schemes, etc.

VII. CONCLUSIONS RELEVANT TO POLICY AND DISCUSSION

The following broad conclusions arising from the preceding analysis and evidence are relevant to policy and may serve as a basis for discussion in the conference.

- Personal savings are a substantial source of start-up finance and seed capital for MBs.

- The share of institutional finance seems to rise with the increase in the size of MBs. But the share of ICMs in the total finance of MBs is still large.

- The availability rather than the cost of working capital, short and medium term, seems to be the major financial problem of MBs.

- The efficiency of ICMs depends on the reciprocity of savings mobilization and credit extension. There are viable substitutes for collateral such as group credit and group liability (through entities like business ROSCAs and the borrower groups of the Grameen Bank) but ICMs seem better suited to be retailers of credit than collectors of savings.

- Non-credit inputs (premises, materials, power, marketing, absence of single stop facilities) are as critical as credit for MBs.

- Since MBs do not always remain in the micro-sector but grow in size, their credit requirements cannot be met by ICMs after a certain size and scale threshold. Therefore, they have also to be trained to become eligible clients of institutional finance. This would also enlarge their portfolio of choice between ICMs and FIs and the competition between the two sectors.

- Likewise, lenders in the ICM sector may at some point wish to graduate to institutional status. This process too should be facilitated through appropriate procedures and policies.

- The success of institutional lenders in dealing with MBs is strongly correlated to the extent to which they replicate the desirable features of the ICM (e.g. flexibility and credit related to personal appraisal and net worth rather than collateral and cash flows).

- There is need for an appropriate intermediate financial technology in matching the credit requirements of MBs (e.g. Grameen Bank in Bangladesh and the Syndicate Bank in South India). The scope for entry of ICMs in new areas (e.g. lease finance) also merits attention.

- Insofar as delayed payments by public authorities are a major source of cash flow problems of MBs, Government and municipal authorities should be required to expedite such payments and to pay appropriate interest (e.g. corresponding to treasury bills of similar maturity) on any overdue obligations to suppliers and contractors.

- Central banks have been prone to benign neglect or obstructiveness of innovations by FIs intended to help small savers, investors and MBs. (e.g., The Reserve Bank of India discontinued the Pioneering Investors Agency Service of the Syndicate Bank for small investors in shares with an assured return of 9-10 percent on the ground of its inconsistency with 'pure banking' functions!)

- Governments and central banks should create a favorable working environment for ICMs (e.g. by establishing special units in central banks, as in the Bank of Thailand) to study and assist ICMs and offer competitive rediscount and refinance facilities to any documentary credits originating from ICMs and presented by approved brokers and intermediaries.

- Changes in monetary policy do affect the cost and availability of informal credit but with varying time-lags.

- ICMs have a positive role as retailers in the finance of MBs as they provide efficient and flexible (unsubsidized) credit to productive sectors which are generally not catered to by institutional finance because of cost, risk and related factors. It is unlikely that institutional finance will be able to displace ICMs altogether in meeting the requirements of MBs. Nor is "such displacement essential" (Banking Commission, India, 1972, p. 464).

- The core of a positive policy, therefore, is to enhance the efficacy of ICMs on a disaggregated basis (by types of lenders and borrowers and category of finance, i.e. start-up or working capital) through removal of obstacles to lending entities, markets, transactions and instruments. Attempts to merely formalize the informal credit sector would only serve to erode the intrinsic economic rationale of ICMs and their competitive advantages relatively to institutional finance, and would, therefore, be counterproductive. It is fallacious to associate an increase in the scope of ICMs as a case of 'disintermediation'.

Table 1. Sources of Non-institutional Rural Credit in Selected SEACEN (South East Asian) Countries

(Percentage share of total non-institutional rural credit)

	Thailand1/ 1972/73	Sri Lanka2/ 1969	Philippines3/ 1971/72	Nepal4/ 1969/70	Malaysia5/ 1979
Professional moneylenders	8.0	14.7	3.1	2.1	3.3
Non-professional moneylenders	42.5	45.7	95.9	64.2	70.0
Friends and relatives	45.1	34.4	1.0	32.5	10.0
Others	4.4	5.2	---	1.2	16.7
Total	100.0	100.0	100 0	100.0	100.0

1/ Bank of Thailand Staff Estimates, Task Force on Agricultural Credit Development.
2/ Central Bank of Ceylon, Survey of Rural Credit and Indebtedness, 1969.
3/ Philippines National Survey, 1971/72.
4/ Agricultural Credit Survey, Nepal, 1971.
5/ R.J.G. Wells, The Informal Rural Credit Market in Peninsular Malaysia, 1980.

Table 2. Share of Non-institutional Rural Credit in Selected SEACEN Countries

(In percent)

	Institutional		Non-institutional	
Nepal	79	(1969/70) 1/	57.1	(1982) 2/
Malaysia			75.0	(1979) 3/
Philippines			31.5	(1971/72)4/
Sri Lanka	86	(1963)1/	60.0	(1981/82)5/
Thailand	94.5	(1965)1/	52.5	(1972/73)6/

1/ Unorganized Money Market in the SEACEN Countries, SEACEN Center, unpublished, (1985), which cites the following.

2/ Nepal Rastra Bank, An Evaluation Study of Small Farmers Development Projects of Nepal, 1982.

3/ R.J.C. Wells, The Informal Rural Credit Market in Peninsular Malaysia. (1980)

4/ Philippines National Survey, 1971-72.

5/ Central Bank of Ceylon, Consumer Finance Survey Report.

6/ Bank of Thailand, Task Force on Agricultural Development.

Table 3. Informal Savings and Loan Associations in Africa

Country	Local Name	Remarks
Liberia	Esusu	
Gambia	Osusu	
Sierra Leone	Asusu	
Senegal	Tontine	
Ivory Coast	Diaou moni, wari moni	
Ghana	Nanemei akpee	
Benin	Ndjonu, tontine	Fund does not rotate
Nigeria	Esusu, isusu, dashi, adashi, oha, bam	Some groups have both a rotating and a nonrotating fund
Niger	Asusu	
Cameroon	Njangim djanggi, tontine, credit rings	
Zaire	Ikelemba, kitemo, osassa	
Ethiopia	Ekub, ikub	
Uganda	Chilemba	
Zambia	Chilemba	
Rhodesia	Chilemba	

Source: Adapted from Miracle, et al., July 1980, p. 705.

Table 4. Rotating Savings and Credit Associations in Asia

Country	Local name
India	Chit funds kuries, etc.
Indonesia	Arisan
Korea	Mujin Kye
Malaysia	Tontine Hui 1/ Kuthu 2/
Philippines	Paluwagan
Singapore	Tontine Hui 1/ Kuthu 2/
Sri Lanka	Cheetu 2/
Thailand	Pia Huey 1/

1/ Hui or Huey is a generic term for ROSCA in Chinese. Someof the Caribbean countries have similar associations like the partner system in Jamaica and the susu in Trinidad.

2/ No interest element.

Table 5. Uses of Funds by Informal Savings and Loan Associations: Africa

Use	Sierra Leone	Liberia	Ghana	Benin	Nigeria	Niger	Cameroon	Zaire	Congo (Brazzaville)	Ethiopia	Zambia	Malawi
Trade 1/	X	X	X	X	X		X	X		X	X	
Acreage expansion		X		X			X	X				
"Property"				X								
Buses, trucks, or taxis		X		X			X	X		X		
Bicycles for business					X							
Canoes			X									
Palm groves					X							
Fish nets			X									
Grain grinding mill				X								
"Tools"					X							
Seed					X	X				X	X	
Fertilizer				X			X				X	
Hire labor				X								
Roads, schools, or hospitals		X			X		X			X		
Livestock				X						X		
Education					X		X					
Bridewealth		X		X	X		X	X	X			X
Taxes					X							
Collateral for loan					X							
Build houses (use unspecified)			X	X	X		X		X	X		
Improve houses 2/		X		X			X		X			
Litigation					X							
Travel (purpose not specified)								X				
Food or clothing	X				X	X	X	X	X	X		
Bicycles (use unspecified)				X	X		X					X
Sewing machines												X
Radios		X		X								
Jewelry												
Ceremonies (including funerals)		X		X	X		X	X				
Parties & other entertainment		X			X		X			X		
Medical expenses			X				X					

Source: Marvin P. Miracle, Diane S. Miracle, and Laurie Cohen, 1980, p. 716.
1/ Includes "buy trade goods", "finance new business", and "build rental houses".
2/ Provision of a metal roof specifically mentioned for Benin and Cameroon.

Table 6.

Thailand: Comparison of the Sources of Funds
(per cent)

Sources of Fund	Personal Rotating Credit	Business Rotating Credit	Cheque Discounting
Own income	87.8	23.3	53.2
Friends and relatives' income	6.4	-	-
Borrowing from financial institutions		47.5	21.7
Borrowing from friends and relatives	1.0	4.1	3.5
Borrowing from abroad	-	8.4	-
Cheque discounting	-	6.0	-
Funds taken out of rotating credits	2.0	9.0	5.2
Cashing cheques due	-	-	14.2
Other	2.8	1.7	2.2
Total	100.0	100.0	100.0

Source: Bank of Thailand Staff Estimates.

Table 7. Thailand: Dealing with problem loans

(In percent)

Recourse	Personal Rotating Credit	Business Rotating Credit	Cheque Discounting
Go to Court	2.8	13.6	24.4
Organizer's responsibility	49.9	36.5	-
Sharing of losses by participant	13.8	12.2	-
Rescheduling of debt	17.4	32.1	44.7
Dissolving the game	2.6	-	-
Liquidate collateral	-	-	24.1
No action taken	-	3.0	-
Other	-	2.6	6.8

Source: Bank of Thailand Staff Estimates

Table 8. Informal Rates of Interest by Region

(In percent per annum)

Region	Number of countries 1948-51	Number of countries 1968-71		Interest rates 1948-51	Interest rates 1968-71
Africa	1	7	mean	45	65
			median	45	60
Asia	10	11	mean	41	32
			median	31	30
Latin America	5	10	mean	48	38
			median	30	30
Middle East	6	4	mean	44	24
			median	43	20
All regions	22	32	mean	44	40
			median	33	30
13 countries common in both periods 1/			mean	40	30
			median	34	28

Source: U. Tun Wai, 1980, p. 181.

1/ These consist of Nigeria; India, Indonesia, Pakistan, Philippines, South Viet Nam, Sri Lanka, and Thailand; Colombia, Honduras, and Mexico; Jordan and Lebanon.

Table 9. Informal Rates of Interest by Country

Region and country	Date	Lower exceptional	Usual	Occasional	Higher exceptional
Africa					
Burundi 1/	early 1960s				300
Ethiopia	1970		40-60		
Ethiopia(Chilalo)	1971		70	90	120
Ghana	1955		50	70	100
Ivory Coast	1972		150	200	
Madagascar	1962				300-400
	1971		30	100	
Nigeria	1958		20-50	50-70	
	1961	less than 10	10-50	70	
Senegal	1960s		60	80	
Sudan	1972		60	130	200
Asia					
Hong Kong	early 1960s		30-40	60	120
India	1962	8-12	18-37	33 1/3-50	100-150
Indonesia	1950-57		40		80-100
Korea	1969	36	42-54	72	100 2/
Malaysia	1968		24-36	40-60	133-200
Nepal	1969-71	10	25	50	
Pakistan	1962		20-32	46	100
Philippines	1954-55	10-20	25-30	100	200
South Viet Nam	1966-67	12	36	60	
	1972		30-36	60-72	
Sri Lanka 3/	1969	6	26 4/	35	above 100
Thailand	1962-63	11	22-35	40-50	80-150
Latin America					
Bolivia	1961		48	96	120
Brazil	1969	15	29-40	60	
Chile	1964-65	27	85	105	155
Colombia	1963		24	60	95
Costa Rica	1969	12	18-24	35	over 100
Ecuador	1965-66	2	20-27	50	80
El Salvador 1/	1970		25		
Honduras 1/	1971		40		
Mexico	1968		36-72	144	300
Paraguay	1972	18	24-30	36	60
Middle East					
Afghanistan 5/	1963		33		
	1971	18	35	50	
	1971	7	18-24	30	48
Iran	1971				
Jordan 1/	1971		20		
Lebanon	1972	10	16-20	25-36	

Source: U. Tun Wai, Economic Essays on Developing Countries, Sijthoff and Noordhoff, Netherlands, 1980, p. 180.

1/ No range of data available.
2/ 1967-68.
3/ About 45 percent of loans have no interest.
4/ Weighted average.
5/ Most loans are free of interest and obtained from family members.

Table 10. Lending Cost Structure of Informal Rural Lenders in Malaysia

(In percent)

Lender	Opportunity Cost	Average Administrative Cost	Risk Premium	Monopoly Profit	Weighted Average Interest Rate
Pawnshop	7	3	2.64	1.43	14.07
Shopkeeper	7	3	2.64	3.74	16.38
Moneylender	7	3	11.40	6.04	27.44
Rice miller	7	3	5.30	-3.56	11.74
Relatives	7	3	5.40	-9.78	4.62
Friends	7	3	5.40	-7.56	6.84

Source: R.J.G. Wells, The Informal Rural Credit Market in Peninsula Malaysia, 1980.

Table 11. Indian Village: Components of Interest Rate 1/

Lender	Interest Rate	Opportunity Cost	Cost of Distribution	Risk Cost	Monopoly Profit
1.	143	95	14	43	-8
2.	159	100	24	25	9
3.	146	87	31	23	6
4.	134	54	22	35	24
5.	143	62	23	40	18
6.	143	72	20	36	15
7.	138	65	23	39	11
Average	143	77	21	36	9

Note: Column averages may be affected by rounding.

1/ Charged by Different Lenders Expressed as Annual Percentage Rates on Amounts Loaned.

Source: Karam Singh, "Structure of Interest Rates on Consumption Loans in an Indian Village," Asian Economic Review, Vol. 10, No. 4, August 1968, pp. 471-478.

Table 12. Thailand: Factors Affecting Interest Rates

(Percent per annum)

Types of Urban Informal Credit	Implicit Loan Rate	Transaction Cost	Risk Premium
Personal Rotating Credit	75.01	negligible	1.84
Business Rotating Credit	24.97	3.59	3.64
Trade Credit	36.30	n.a.	1.24
Cheque Discounting	30.90	1.56	5.40

Source: Duangmanee Vongpradhip, 1978; Bank of Thailand Staff Estimates

Table 13. Thailand: Implicit Interest Rates for Rotating Credit

(In percent per annum)

	Personal Rotating Credit		Business Rotating Credit	
	Implicit Deposit Rates	Implicit Deposit Rates	Implicit Deposit Rates	Implicit Deposit Rates
All Groups	67.54	75.01	13.32	26.93
Professional, technical and administrative workers	44.38	49.61		
Clerical, sales and service workers	27.06	35.19		
Industrial workers	120.96	132.51		
Economically inactive	56.76	66.12		

Source: Bank of Thailand Staff Estimates

Table 14. Thailand: Interest Rates on Trade Credits*

(In percent per annum)

<table>
<tr><th>Industrial Group
Producers/Traders</th><th>Consumers
Goods</th><th>Construction
Material</th><th>Pharmaceu-
ticals</th><th>Vehicles</th><th>Electrical
Appliances</th><th>Fuel</th><th></th></tr>
<tr><td>Producer</td><td rowspan="2">26.4</td><td>42.5</td><td>14.0</td><td></td><td>79.3</td><td></td><td></td></tr>
<tr><td>Distributor</td><td>23.3</td><td></td><td rowspan="2">7.5</td><td rowspan="2">27.3</td><td></td><td></td></tr>
<tr><td>Importer</td><td></td><td></td><td>4.8</td><td></td><td></td></tr>
<tr><td>Jobber</td><td>42.7</td><td></td><td></td><td></td><td></td><td>11.8</td><td></td></tr>
<tr><td>Agent</td><td>15.6</td><td></td><td>12.2</td><td>5.9</td><td>45.8</td><td></td><td></td></tr>
<tr><td>Wholesaler</td><td>39.8</td><td></td><td></td><td></td><td>43.1</td><td></td><td></td></tr>
<tr><td>Retailer</td><td>37.4</td><td></td><td></td><td>62.0</td><td>34.4</td><td></td><td>Ave. for
all group</td></tr>
<tr><td>Weighted Average**</td><td>34.5</td><td>42.5</td><td>23.9</td><td>13.4</td><td>38.7</td><td>11.8</td><td>36.3</td></tr>
</table>

Note: * The interest rates in this table are calculated from a formula $\frac{Cx365}{t-a}$ which takes into account the factor "a" which is the number of days within which cash payment can be made, still with a discount. The normal practice allows between 7 and 10 days for this. Because of the lack of data "a" is taken to be 7.

** Weights used are the corresponding trade credits given for one producer/trader.

Source: Bank of Thailand Staff Estimates

Table 15. Thailand: Interest Rates for Cheque Discounting in 1984

(Percent per annum)

Region	Interest Rate
Central	29.7
North	33.0
North-East	28.3
South	45.8
Whole Kingdom	30.9

Source: Bank of Thailand Staff Estimates

Table 16. Informal Rural Credit Market in Malaysia

Types of Informal Lender	Range of Nominal Interest Rates (%)	Average Nominal Interest (%)	Collateral
Pawnshop	0-100	14.07	Gold and jewelry
Shopkeeper	0-140	16.38	Unsecured, land title, buffalo, license, or forward sale
Moneylender	0-83	27.44	Unsecured
Rice-miller	0-40	11.74	Forward sale
Relatives	0-60	4.62	Unsecured
Friends	0-50	0.84	Unsecured

Source: R.J.G. Wells, The Informal Credit Market in Peninsular Malaysia, 1980.

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Table 17. Sources of Finance for Initial Investments
By Small Enterprises in Some African Countries

(Percentage of Initial Investment by Source)

	Nigeria		Ghana	Tanzania	Sierra Leone	Uganda
	Western Region	Ibadan				
Own Savings	97.7	59.0	90.8	78.0	60.2	77.5
Relatives	1.9	35.0		15.0	19.5	-
Banks	.02	2.0	10.8	1.0	0.9	0.8
Government	-		-	1.0	-	-
Money Lenders	.03		-	-	0.9	
Other	-	4.0	-	6.0	18.3	21.7

Sources: Cited in Page (1979, page 21).

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