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Rural Financial Markets in West Africa: Roles, Experiences, Constraints and Prospects for Promoting Rural Development

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Abstract

The majority of the countries in West Africa depend in large part on the rural sector. It is believed that the future development of these countries will depend in part on the successes or failures in nurturing, supporting and developing the rural areas and the rural economy, particularly in making more financial services available and accessible to rural sector inhabitants. The rural sector on the other hand, is served primarily by the rural financial markets (RFMs), a market often characterized as grossly inadequate, poorly developed, small and shallow. In this paper the rural economy and the rural financial markets is examined with emphasis on the role, experiences, constraints and prospects for promoting rural development.

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1. Introduction

It is the shared belief that the majority of the countries in West Africa depend in large part on the rural sector[1]. Future development of these countries or the lack of it will depend in part on the successes or failures in nurturing, supporting and developing the rural areas and the rural economy, particularly in improving the plight of rural households including support for their activities. After all, the majority of the population in these countries live and work in the rural areas.

The rural sector is served primarily by the rural financial markets (RFMs), a market often characterized as grossly inadequate, poorly developed, small and shallow. Regrettably, the lack of access to financial services is considered one of the major constraints to rural development in West Africa, particularly to increasing investments and productive activities in the rural sector of LDCs. It comes as no surprise, therefore, that the observed heightened interest and efforts on the part of governments of West African Countries and Development Assistance Agencies (DAAs) alike to explore avenues to strengthen and expand the rural financial markets[2].

This paper examines the rural economy and the rural financial markets in West Africa, with particular emphasis on the role, experiences, constraints and prospects for promoting rural development. It also explores avenues for strengthening and expanding the rural financial markets.

2. The Structure of Rural Economies

The rural economy is characterized by the activities of rural inhabitants. The majority of these inhabitants in rural West Africa are engaged in agriculture, often as smallholder farmers. Only a small number of rural inhabitants are engaged in non-agriculture, off-farm, income generating activities (IGAs), often to supplement their agriculture-based income or are organized in these activities as the only earning activity and source of income. This latter group operate for the most part micro, small and medium scale enterprises (MSMEs)[3].

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[1] There are about 20 countries making up the West African Sub-region. These countries include: Liberia, Gambia, Senegal, Sierra Leone, Côte D'Ivoire, Ghana, Benin, Nigeria, Cameroon, Burkina Faso, Chad, Equatorial Guinea, Guinea, Guinea Bissau, Mali, Mauritania, Niger, Sao Tomé and Principe, Togo and Cape Verde. The population of the sub-region is estimated to be over 200 million.

[2] For example, the International Monetary Fund (IMF) and the World Bank. The term DAAs is also used here to include Donor Agencies.

[3] Mostly non-corporate.

2.a The Relative Importance of Agriculture in Sub-Saharan Africa

Agriculture with the exception of Nigeria represent the largest sector of economies, the West African Countries supporting 50% of the population and contributing substantially to the GDP and to export earnings. The agriculture sector is often characterized as comprising two-sub-sectors: the smallholders who often cultivate on traditional or customary land, and the estate operators who manage leasehold and/or freehold land.

Within each category, other classifications are possible, based on the size of land or holdings. To provide a complete picture of the rural sector in these countries, one must add another category comprising of operators of small scale non-agricultural enterprises. Reliable data on these categories for West African Countries as a whole, however, is not available. Available data for some countries for these categories, often vary and are at times incomplete.

2.b Smallholder Farmers in Africa

The family is the primary source of labor in the smallholder sub-sector. Technology is very rudimentary in the smallholdings, and land management is generally poor. The majority of smallholders are subsistence cultivators with very low cash income levels and with a small proportion of their income coming from crop production and a much smaller proportion from off-farm IGAs. Generally, households with large land holdings tended to earn more than smallholders, and depended less on off-farm IGAs.

Insufficient capital and a lack of access to credit have been explicitly recognized as one of the critical factors influencing and limiting the growth of the smallholder sub-sectors in West Africa, particularly, in adopting basic agricultural technologies, and in engaging in other off-farm income earning activities. Other constraints impacting on rural households productive capacity in include limited land for expanding the area under cultivation and mounting population pressure which is contributing to the increased fragmentation of holdings and encroachment into marginal lands. The increasing cost of external transportation, poor rural infrastructure, the limited access to information and insufficient human capital amid policy environment that generally are not effectively supportive have all contributed to the lack of growth in the smallholder sub-sector in West Africa.

2.c Estate Operators

In the West African Countries characterized by an estate agriculture subsector, the estates have been known to operate on leasehold land and/or freehold land, and often occupy large portions of land. These estates generally specialize in the cultivation of cash and export crops, and employ for the most part rural inhabitants. Unlike smallholders, estate farmers have generally benefitted and favored by formal sector lenders and even by government programs. For the most part, they have suffered less from the lack of access to credit and critical technology that characterize smallholders. Nevertheless, they all share in some common problems, including insufficient investment capital, limited arable land, particularly, in those countries with population pressures.

2.d Micro, Small, and Medium Enterprises in Africa

Micro, small and medium enterprises (MSMEs), also, play an important role in the survival of rural households in West Africa. Available studies on rural households have normally differentiated the constituents of the sub-sector by sizes of loans distributed. Although very little is known about the actual size and operation of MSMEs in West Africa as a whole, it is believed to be considerable. The estimates also vary from country to country. MSMEs in rural areas of West Africa are engaged in a variety of activities including production, trade and services, but mostly in the latter two areas.

The activities of MSMEs run across various categories of the rural household. Generally, MSMEs tend to engage in off-farm activities either part-time to supplement agricultural income or full-time as the main source of employment and earnings. Many MSMEs, like the majority of rural households, are faced with a shortage of capital, and have no access to institutional finance. Existing financial institutions do not cater to these groups for several reasons, including (a) the lack of collateral and (b) a preference for handling sizeable loans rather than smaller loans. Furthermore, the procedures for obtaining credit are generally, too cumbersome for a largely illiterate, rural poor. Without alternative opportunities brought about by specific developments in terms of resource mobilization, accessibility to credit facilities, and an enabling policy environment, the expansion of small-scale industries and off-farm IGAs will continue to be hindered and/or limited. The expansion of this sub-sector is particularly important for rural development in the face of increasing land constraints in a growing number of West Africa Countries.

3. Financial Institutions in Sub-Saharan Africa

In this section, recognition is made of the fact that almost all of the economies in West Africa depend heavily on agriculture, which accounts for over 50% of all exports and occupies the time of over 60% of the population, the majority who are smallholders and a small number who are engaged in non-non-farm IGAs. These smallholders and MSMEs constitute the clients of the rural financial markets, and their financial needs will have to be addressed. If growth is to take place in the rural sector of West African Countries, there will be need to address the financial needs of rural inhabitants.

Furthermore, if the sector is to survive and continue to contribute significantly to the overall development a properly functioning and well developed rural financial system will be needed.

Table 1
Profile of Financial Institutions in Sub-Saharan African Countries

Country	Commercial Banks in Urban Areas	Commercial Banks in in Rural Areas	Post Office Savings Banks in Urban Areas	Post Office Savings Banks in Rural Areas	Rural Based Non-Commercial Banks
Sierra Leone	22[a]	8	13	0	7
Ghana	204[b]	104	N/A	N/A	N/A
The Gambia	4	3[c]	1	N/A	0
Burkina Faso	5[d]	N/A	N/A	N/A	N/A
Benin	16	0	1	0	0
Côte d'Ivoire	14[e]	0	N/A	N/A	N/A
Mali	7[f]	0	N/A	N/A	N/A
Niger	6[g]	0	46[h]	N/A	N/A
Senegal	9[i]	0	N/A	0	N/A
Togo	8[j]	0	41	N/A	N/A

Source: Questionnaire Response from Central Banks to Respective Countries

a. 5 (Headquarters) operating in the capital of Freetown, and 17 branches in Freetown and district headquarters in the provinces
b. Total count may include branches.
c. Includes one branch.
d. With 4 branches presently serving the agriculture sector.
e. With 164 branches (Urban-rural breakdown not provided).
f. With 50 branches (Urban-rural breakdown not provided).
g. No breakdown of branches.
h. No Urban-rural breakdown
i. With 60 branches (Urban-rural breakdown not provided).
j. 14 branches (Urban-rural breakdown not provided).

The rural sector in West Africa and the rural population in West Africa, it would appear have not been adequately served by the rural financial system. Access to financial services remains limited, and in some cases access to formal finance remains nonexistent. In fact, the lack of access to formal financial services, is considered one of the major constraints to increasing investments and productive activities in the rural sector of West African Countries. It is estimated that about 50% of rural households and micro-entrepreneurs may not have access to adequate formal and informal financial services particularly, the former.

4. The Structure of Rural Financial Institutions

The rural financial system in West Africa is in large part similar to the system in most LDCs. It comprises for the most part the activities of formal and informal financial markets, together with their respective institutions[4]. The former, also, consists of

[4] The activities of Formal Financial Markets (FFMs) /Formal Financial Institutions (FFIs) are regulated and are subject to official and direct monetary controls. This contrasts with the activities of Informal Financial Markets (IFFMs)/Informal Financial Institutions (IFFIs) which are often not subject to review and control by monetary authorities. For a general and elaborate discussion and usage of the terms "formal" and

semi-formal financial institutions (SFFIs), non-banking financial institutions (NBFIs) and formal organizations providing a variety of financial services. With the exception of Nigeria, with a growing number of rural branches, only a few Formal Financial Institutions (FFIs) in West Africa are actively engaged in providing services to the rural sector. FFIs, for the most part, tend to be urban-based and tend to specialize in other types of clients or non-agriculture activities (See Table 1). In several of the countries many of these FFIs are still dependent on the government and/or external donors, and many are yet to be viable and self-sustainable.

Informal finance, on the other hand, continues to play a significant role in meeting, the credit needs of rural inhabitants and MSMEs. Their contribution, however, is limited by a host of factors, including inadequate financial resources and legal constraints. Despite the role played so far by both formal and informal finance in rural West Africa, it is evident that the needs of the rural sector are still poorly and inadequately met by both formal and informal finance. The rural financial markets, in particular, continue to be characterized by a number of weaknesses including: (a) limited access to rural customers, (b) high cost of services, (c) absence of savings facilities, (d) financial non viability, (e) lack of active competition, and (f) inability to expand services to respond to and create opportunities[5]. Finding effective methods of deepening the rural financial markets and making more financial services available to rural inhabitants remain as challenges facing the governments for West Africa countries.

The financial sector in West Africa LDCs comprises two main subsectors: the formal and the informal sub-sectors. The role and activities of these sub-sectors are largely complementary and do overlap. The financial system, on the whole for the majority of the countries in West Africa however, remain small and undeveloped with very small and limited money market and capital market activities. Stock market activities is virtually non-existent, again with the exception of Nigeria.

"informal", See Gladson Nwanna, "Stimulating Savings in the Informal Financial Sector of Less Developed Countries" *The Journal of Social. Political and Economic Studies*, Washington D.C. (Vol. 14, No. 3. Fall 1989; Anan G. Chandavarkar, "The Non-institutional Financial Sector in Developing Countries: Macroeconomic Implications for Savings Policies," *Savings and Development,* No. 2, 1985. p. 129; Holst, Jurgen. "The Role of Informal Financial Institutions in the Mobilization of Savings," in Dennis Kessler and Pierre-Antoine Ullmo, eds., *Savings and Development.* Paris: Economica, 1985. Note: The term FFM is used in this paper to include the activities of Semi-Formal Financial Institutions (SFFIs) such as development financial institutions.

[5] Von Pischke, J. D., Adams, Dale W. and Donald Gordon. *Rural Financial Markets in Developing Countries: Their Use and Abuse*. Baltimore, The Johns Hopkins University Press 1983, p. 227.

5. Formal Finance in the Rural Sector

The formal financial sector (FFS) in the countries of West Africa consists largely of a central bank, commercial banks, finance houses, building societies, development finance institutions (DFIs), savings institutions and insurance industry. The latter often comprising of insurance companies and brokers, as well as pension and provident funds. Of these, only a small number, typically, commercial banks, the Post Office Savings Bank and a number of Non-Banking financial institutions is actively present or engaged in providing financial services to the rural sector and to MSMEs[6]. The majority of FFIs tend to be located, and their services concentrated primarily in the urban sector.

The reasons for the inadequate investment financing and other financial services to the rural sector are many and varied for both the formal (FFS) and the informal (IFS) sectors. FFS often view most rural sector activities as non-bankable, among other factors, because of the (a) high risk of default associated with small operations (b) high transaction costs (c) the absence of suitable collateral and (d) the lack of banking experience among rural households. Other related reasons have included the uncertainty of the production patterns, to unfavorable investment climate, often, due in part to prevailing government policies. The IFS, on the other hand, has developed appropriate tools and techniques for providing financial services to the rural sector and to micro-enterprises, but often lack the breadth, depth and term transformation to provide the full and appropriate range of financial services.

5.1 Commercial Banks

The presence of Commercial banks in the rural sector is limited ,to savings mobilization. Although commercial banks have been instrumental in providing some credit to the rural sector of a few of the countries; much of the credits however, have often gone primarily to finance estate agriculture. Incidentally, very little or no credit is provided the majority of smallholders and microenterprises that dominate the rural sector. In several of the countries whose financial sector is undergoing reforms, particularly those whose economic programs have aggressively been supported and/or backed by the IMF and the World Bank,e.g. Ghana, the financial sector reform efforts are envisaged to provide an environment that will encourage as well as increase the commercial bank and formal finance presence in the rural sector.

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[6] Von Pischke, J. D. *Finance at the Frontier: Debt Capacity and the Role of Credit in the Private Economy*. EDI Development Studies, The World Bank, Washington D.C. 1991, p. 173.

5.2 The Post Office Savings Bank

The POSB plays a leading role in savings mobilization in rural West Africa. In some countries, it is believed, the POSB is be holding perhaps the largest amount of rural savings with FFIs. In some of the countries the POSBs command the most visible presence among FFIs operating in the rural sector. In addition, it often has the most extensive network of deposit taking facilities nationwide, a large number of which are located in the rural areas.

The close proximity of POSB facilities to rural savers and its wide-spread rural locations have all contributed to its growth and popularity in some of the West African Countries. In some of the countries the competitive interest rates and tax exempt interest income status of post office savings have also contributed to their growth and popularity. In all of the countries, however, the POSB is only legally mandated to mobilize domestic savings, hence cannot engage in credit allocation to the private sector. This inability to extend credit to the private sector, in effect, have often limited the ability of POSBs to provide a wide range of financial services. This, discourages some rural savers , particularly, those who plan to borrow from their banks. Clearly, the POSB has the potential to become a much more effective institution in intermediating between the financial markets and reaching more rural households. To be able to do this however, the operation of the POSB needs to be strengthened and its mandate expanded to allow it to engage in resource allocation.

5.3 Non-Bank Financial Institutions (NBFI's)

The activities of NBFIs activities in the rural sector are limited and so are their services to MSMEs. The limited range of financial services provided by these institutions to MSMEs and rural households include: credit, savings facilities, training and business advisory services. Most of these institutions, nonetheless, with a few exceptions, are engaged primarily in resource allocation, being for the most part prevented by law from mobilizing domestic resources. This, coupled with the fact that a good number of these NBFIs continue to experience some difficulties and are yet to be self-sustainable, raises concerns about their ability to continue to provide services to the majority of their target group. Many continue to depend on the government and foreign donors. The lack of independence, inadequate resources, and a restricted mandate are all contributory factors that need to be addressed if they are expected to contribute significantly to rural development. Of importance is allowing some of these institutions to broaden their activities and to engage in both resource allocation and mobilization. A more immediate need, however, is for these institutions to be strengthened and self sustainable.

5.4 Experience with Formal Financial Systems

Formal Finance presence and activities in the rural sector generally remain small and limited to just a few institutions. Most FFIs have not been particularly active in the rural sector. They have basically been urban-based and non-agricultural focused. Their reluctance to service the rural sector and small businesses has been attributed to a variety of factors, some, that have been noted earlier. Even among the formal and semi-formal institutions presently providing services to the rural areas of LDCs many are still not as active as expected nor have they been quite effective and successful in fulfilling their mandate. The lack of independence from the government for most of the institutions, the legal restrictions on their activities and inadequate financial and human resources are all constraints that continue to limit their services. This is in addition to management-related problems and the usual institutional and operation problems of dealing with the rural sector; the latter, ranging from poor infrastructure and inadequate training, to high loan delinquency and low recovery rates.

5.5 Constraints in Formal Financial Systems

In general, formal finance activities in rural West Africa have been adversely affected by a host of factors and constraints both internal and external. The net effect on rural development, however, has varied, fluctuating more or less with the health of the economy. The decade of the 80s was particularly noteworthy to several West African Countries as a period characterized by many economic uncertainties that included external shocks and high inflation. These uncertainties add to existing constraints, creating a situation which continues to hinder formal finance institutions' ability to mobilize savings and extend credit to the rural sector. In addition, it created gaps for rural financial services that the informal sector must continue to fill. By and large, the economic situation as always, continues to provide a challenge to governments and public policy overall.

6. Informal Finance in the Rural Sector

The Informal Financial Sector (IFS) plays a highly important and significant role in the allocation and mobilization of resources in West Africa particularly, in providing financial services to rural inhabitants and to MSMEs at a comparatively lower cost and risk than FFIs. Principal institutions in the informal financial markets in West Africa include Moneylenders, Traders, Estate Owners, Grain-millers, friends, relatives, neighbors, businesses and employers. They also include Mutual and Social Welfare

Associations, such as Saving and Credit Associations (SCAs) and Cooperative Savings Associations (CSAs) and Community Funds (CFs)[7].

The factors that account for the existence of IFIs in other developing countries and that explain their activities and popularity among rural households and microenterprises seems to be the same across the majority of West African Countries. These factors include: (1) autonomous factors (which relates to the functioning and organization of the indigenous economy; (2) the characteristics of the informal financial markets (which relates to the unique and informal nature of its activities); (3) repression of formal and semi-formal financial markets; and (4) prevailing macroeconomic environment (conditions and policies).

Whereas, FFIs remain reluctant in servicing the rural sector and considers the rural sector activities as non-bankable among other limiting factors, the IFS, on the other hand, has developed appropriate tools and techniques for providing financial services to the rural sector and to micro-enterprises. IFIs however, often lack the breadth, depth and term transformation to provide the full range of financial services. For the most part they are often unable to meet the demands for their services due to inadequate resources and their inability to access formal finance.

Although the actual size and financial contributions of IFIs to rural development are not known for certain, due to the inherent characteristics of the market, it is believed to be considerable[8]. Credit supplied by the IFIs to rural households goes to finance and support a variety of activities, including consumption, investment, and savings. Depending on the type, IFIs charge various rates of interest on their loans. The rates range from zero nominal rates often charged by friends, relatives and neighbors, to up to 100 % per month by some moneylenders. The majority of the loans from IFIs are short term loans, partly due to the nature of their funding and income sources.

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[7] A popular form of Cooperative Savings is the Rotating Savings and Credit Associations (ROSCAS). CSAs are similar in operation to the so called "pyramid schemes" that have surfaced from time to time in several parts of developed and less developed countries alike. Several states in the US, for example have banned such schemes. For detailed discussion on ROSCAS, see Bouman, F.J.A. 'Indigenous Savings and Credit Societies in the Third World: A Message," *Savings and Development*, 1, 4, 1977, PP. 181-214.; Nwanna (1989); World Bank: *World Development Report, 1989*: Financial Systems and Development, p.114.

[8] J.D. Von Pischke. Dale W. Adams and Gordon Donalds. *Rural Financial Markets in Developing Countries: Their Use and Abuse.* Baltimore, The Johns Hopkins University Press 1983.

7. Informal Financial Sector Systems

Not much is documented or known about the IFS in West Africa. Research in this area is limited, and reliable data are hard to find. We identify here some of the better known institutions and the roles they play in informal finance.

7.a Monevlenders

Moneylending is indigenous to West Africa arid has a history dating back several decades. Moneylending as a trade or profession, as in several developing countries and societies is not legally approved or recognized in most west African countries, although it has not been officially disapproved either. Many Moneylenders in West Africa engage in the trade full-time, others operate on part-time basis while still engaged in other jobs or businesses.

Moneylenders are numerous in West Africa, and their activities permeate both the urban and rural areas. Moneylenders, in particular play a significant role in servicing some of the credit needs of a majority of rural residents with little or no access to formal finance. They have also been credited with financing the start-up of several SMEs in West Africa. The source of start-up capital for moneylenders vary. They range from past savings, and earnings from agriculture and other IGAs, to salary and wage earnings. Additional funds come from interest income on previous loans, and, in some cases, cheaper funds borrowed from other sources (including other moneylenders).

There is, however, much less variation in the lending pattern among Moneylenders. Moneylenders in West Africa generally extend credit to anyone who meets their basic criteria of personal knowledge and/or has collateral or a guarantor. Several of the moneylenders interviewed indicated that they are, like formal lenders, equally concerned about the ability and willingness of the borrower to repay (the possibilities of default). The terms and conditions of credit vary. The rate of interest charged also vary, ranging between 25% to 100%. The effective rate of interest on loans is estimated to be as much as 30% per month.

Loans by moneylenders are mostly short-term and are based on personal knowledge of the borrower. Many loans by moneylenders require no collateral. In some cases. however, a guarantor may be required. The size and terms of the loan depend on the resources of the moneylenders, as well as on the degree of personal knowledge and the quality of collateral or guarantor. In the event of default or non payment, the creditor may have recourse to the guarantor. And when that fails, confiscation of the debtor's property is a common alternative. Generally, they wait longer and are more open to re-negotiation than FFIs. Because of the absence of an official recognition of the trade, moneylenders rarely resort to the court system to seek redress. There are no reliable data on loan recovery and loan default.

Several factors limit the ability of moneylenders in West Africa from being much more active in delivering their services and hence in contributing more efficiently and effectively to resource mobilization and allocation. The foremost constraint is the lack of legal or official approval and sanction of the profession; as a result moneylenders have had to operate very much in private (underground). Furthermore, the absence of such recognition has had the effect of inadvertently preventing moneylenders from using the legal system to enforce loan recoveries. Inadequate financial resources, also limit their ability to extend more loans to those in need, and the lack of recognized "legal status" denies them the alternative opportunity of directly and openly seeking financial help from the formal financial sector.

7.b Estate Owners (Landlords)

Estate owners in West Africa have, also, been instrumental in resource allocation, in particular, among tenant households. Most of them are engaged, primarily in the production of cash and export crops. The majority of these estates employ tenant labor to produce their crops, supplying them with inputs and provisions on credit.

Estate Owners in West Africa are believed to play a significant role as resource allocators. The majority of the loans made by Estate Owners to tenants are made at the considerably lower interest rates. Most estate owners demand some form of security from tenants, although for an equally large number of them only the tenants' signature was all that was needed. Although defaults are not common since for the most part tenants sell their products to the estate owners, rarely, in the case of any defaults do estate owners take action, for fear of losing their tenants. Although it is estimated that some estate owners derive some of their income indirectly, through lending to tenants, and some devote some of their time to lending, there is no indication that estate owners provide regular credit to non-tenants or to borrowers outside the estates.

Estate owners in West Africa are generally more fortunate when it comes to access to additional funds. As noted previously, commercial bank loans to the agricultural sector has gone mostly to the estate subsector. Those estates that engage, for the most part, in the production of commercial and export crops often possess ownership and title of their land which is an important consideration for loan qualification.

7.c Traders, Grain Millers, Smallholder Farmers and Other Lenders

Not much specific data is available on the activities of these IFIs, especially as it relates to resource allocation. Similarly, not much is known about the terms and conditions of their credit. The amount of credit advanced by traders is not known for certain. The credits are basically in the form of cash advances or credit sales of commodities. Very low interest is charged on these loans, and in some cases, none at all. The latter is usually the case where the intention is to attract clients and promote sales, although the low nominal rates sometimes by traders may in fact be made up by high product prices. The default rate varies rural communities, ranging from relatively low to relatively high. Like many IFS institutions, inadequate resources limit the ability of traders to service more clients. Generally, the demand for credit from traders is often surpassed by the amount of available resources, and their inability to access additional funds from the formal financial sector means they must deny credit to many potentially needy and credit worthy clients.

Besides traders, grain millers also play an important role as creditors in rural West Africa. Most of the loans command little or no interest charges. Non-interest bearing loans are not uncommon, and have been used often as a way of promoting friendship and good public relations. The average loan repayment time is less than one year. Very little or no default rate is reported for this group. The amount of loans extended by Grain Millers is often limited by shortage of loanable funds.

Besides Traders and Grainmillers, Smallholder farmers also extend, mostly short term credit among themselves. Only in a few instances is interest charged on these loans. As a way of promoting solidarity and reciprocal obligations, most of the loans are interest-free. Smallholder loans are generally small in size, with an average repayment time of six months. The default rate on smallholder loans is generally small. Smallholders, like grainmillers and Traders, have not been successful in making a substantial amount of loans or term loans vis-a-vis FFIs because of insufficient financial resources. Access to formal sector credit for this group is very limited.

7.d Mutual Aid Institutions:

These include Savings and Credit Associations (SCAs), Cooperative Savings Associations (CSAs) and Community Funds (CFs). SCAs play a significant role in the mobilization and allocation of resources in the rural areas of West Africa. SCAB are found in both urban and rural areas. Participants include persons from all walks of life. Essentially, each member contributes a fixed sum of money to the fund as agreed upon. Money accumulated in the fund may, then, be lent to members or non-members. At the agreed termination date for the fund, the total sum accumulated, including interest is distributed to members. SCAs ranging from 2 to 250 is not uncommon. Most SCAB in West Africa are formed by workmates, neighbors, friends, relatives and business colleagues. The primary reasons cited for joining a SCA have included using it as a source of future loans, earning money for members, and as a way of saving.

The actual number of rural households who take part in SCAs are not known or its contribution to the rural and national economy. It is however, believed to be considerable. Interest rates charged on loans vary between SCAs. Rates also vary for members and non-members. Nonmembers are often charged more.

Moral suasion and peer pressure are often used to encourage regular contributions and repayment of loans. In the event of non-payment of loan over a prolonged period of time, some SCAs resort to other measures including automatic direct deductions from the member's salary. This practice, however, is common with urban-based SCAs whose members, as well as primary loan beneficiaries are salaried workers.

SCAs in West Africa, generally, are limited in their ability to generate more resources due, in part, to the inability of members and potential members to earn more from their respective activities. Many, however, have proven successful in intermediating and allocating resources in the economy, most of which go into productive uses.

7.e Cooperative Savings Associations(CSAs)

CSAs, commonly known in the literature as Rotating Savings and Credit Associations (ROSCAs) are as indigenous to West Africa as are Moneylenders. Unlike with Savings and Credit Associations, in CSAs members contribute equal sums of money periodically, which is, then, given to members in turns in its entirety, one member at a time. Once every member has taken a turn, the CSA technically, dissolves and a new arrangement may be started. CSAs, also known by different names in different parts of West Africa (See Table 2) are an important source of savings mobilization. Membership in CSAs is considered larger than in SCAs. The size of CSAs vary, ranging from 2 to 50 persons per CSA. Most groups, however, tend to have less than ten members. The composition of the groups tend to also vary along income; religious, sex, occupational, geographical and blood lines. CSAs are nonetheless, found to be popular among low income than rather among higher income groups.

The majority of CSAs, like SCAs in West Africa, are formed between workmates, friends, relatives and neighbors. In forming CSAs, members indicate being motivated primarily, by the desire to raise money and by the desire to force themselves to save money. For many members, the fostering of friendship and solidarity is as important as the other benefits derived from CSAs. The majority of CSA members spend their respective allocations on various items, some more productively than others.

7.f Community Funds: (CFS)

Community groups in West Africa are also active in the mobilization and allocation of financial resources. Community Funds can be found in urban as well as in rural areas. The composition of these community groups varies; some are religious groups, some are social, and some civic. Individual villages within several large village communities have set up funds, with membership comprising the entire village, some part of it or a group of villages forming or constituting a community fund. The size of membership of CFs in West Africa vary. In often comprising in some areas a Community Fund may comprise as little as 50 members

Table 2

Rotating Savings and Credit Associations in West Africa

(ROSCASICSAs)

Country	**Local Names**
Gambia	Osusu
Sierra Leone	Asusu
Senegal	Tontine
Ivory Coast	Diaou moni, Wari moni
Ghana	Nanemei akpee
Nigeria	Esusu, Isusu, Dashi, Adashi, Oha, Bam
Niger	Asusu
Cameroon	Njangi, djanggi, tontine, credit rings

Financial resources of CFs come primarily through group work and member financial contributions. Of resources mobilized through work, the majority of the funds come from members performing agricultural work for pay. In some CFs additional resources are derived from interest earnings on loans extended to members.

Resources mobilized by CFs are largely spent on community projects, with a relatively smaller proportion going to finance private emergencies. Many CFs in West africa lend to their members with or without interest. Where interest rates are charged they have been known to range from 5 % to 50 % .

7.g Staff and Social Welfare Funds

Institutions engaged in resource mobilization and allocation in the rural sector of West Africa also include employers, friends, relatives and neighbors. The activities of these groups have often filled a void in financial services usually not met by formal financial institutions. The contribution of employers stems from their ability to lend out their organization's funds set aside for this purpose. In other cases, it may involve special funds contributed by employees themselves, especially senior and better paid employees. In some cases the loans are interest free, and in other cases they may command some interest, usually at rates less than the market. The loans are generally short term with average repayment time of less than twelve months.

Loans between friends, relatives and neighbors are also popular in rural areas of West Africans. The loan amounts are usually small in size and for short periods, averaging two months. Most of the loans are usually interest free. Interest-free loans are often regarded as a way of promoting and maintaining friendship, solidarity and social relationships.

No estimates are available on resource allocation by sources for the IFS as a whole. However, it is estimated that of the total amount of loans expended by the IFS is considerable. Overall the pattern is for a majority of IFS loans to be used for productive purposes.

7.h Constraints

Several constraints prevail in the IFS in West Africa. Many of these constraints limit the ability of the IFS in contributing more to the development effort. Some of the important constraints are partly as a result of Government policies (fiscal, monetary and commercial) and development strategies that have been unsupportive and passive. At times these constraints have undermined their existence and role. This passiveness maybe explained by the lack of legal recognition given to some of these IFS and their activities, for example moneylenders, a position which effectively limits their ability to grow and to compete. Despite the successes recorded by some of the IFIs, generally these institutions have been unable to meet their resource needs and consequently, the demand for their services. Inadequate resources has become a basic characteristic of almost all of the IFS institutions. The limited funds available to them have gone mostly toward meeting short term financing. Very limited term financing is available, and very few of the institutions, if any, have the resources and legal authority to introduce pertinent instruments as exists in the FFS or to take advantage of Central Bank facilities. Invariably, the ability of the IFS to mobilize additional resources is equally limited by other government policies and strategies. Noteworthy, are those policies relating to agriculture, and land ownership, and the development of MSMEs and IGAs as these are intricately tied to earnings and savings ability.

In addition to the problem of availability of funds, there is, the related problem of inaccessibility to such funds. As pointed out earlier Informal Finance comprises the activities of a host of institutions that are largely concentrated, as well as situated in the rural areas. These institutions, historically, have had very little access to formal financial services, in general, and credit from formal finance, in particular. Beyond operating savings account with some of the FFIs, there appears to be no linkage or mutual collaboration between the FFIs and IFIs. This lack of a formal and sustainable relationship has, in effect, limited the ability of IFIs to access resources needed to provide more of their services to MSMEs and the rural sector. These institutions are in effect deprived of the ability and resources to expand, and grow.

The informal financial sector is without doubt an important and integral subsector of West African economies.The size of the IFS has been shown to be considerably large. The contribution of the sector to resource mobilization and resource allocation in the economy as a whole however, is becoming evident. Similarly, its contribution toward the economic development and welfare of inhabitants in West Africa places the IFS in a position to play a much more pivotal role in the on going government initiatives to promote growth through poverty alleviation.

7.i Experience with Informal Finance Systems

Informal Finance in rural West Africa is both extensive and diverse, accounting for most of the financial services provided to the non-corporate and rural sectors. IFIs have been instrumental in mobilizing and allocating resources in rural areas especially, the latter function. Their contributions in the area of resource allocation have been, primarily, in providing mostly shortterm (cash and/or input) credit to rural households and MSMEs. In addition, they provide financing for larger, long-term investments, although to a much lesser degree. For the most part, IFIs do not have the capacity to tend long-term and, therefore, rarely provide term financing. Much of the credit provided by the majority of the IFIs does not require the traditional and formal forms of collateral, and is interest-free, or commands very low nominal rates. Of crucial importance, is the overall relatively high level of satisfaction often reported by MSMEs and rural inhabitants particularly, about the services provided by IFIs vis-a-vis FFIs. Whereas IFIs is embraced, in part, due to factors such as the speed in processing and extending credit, flexibility concerning repayments, the "non-formal" atmosphere of activities and the minimum of formal requirements and protocol, rural residents often cite the relatively high cost of dealing with the FFM as reasons for dealing with IFIs[9]. These costs include

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[9] Marvin P. Miracle, " Economic Incentives for Loan Agents", in J.D. Von Pischke, Dale W. Adams, and Gordon Donald, *Rural Financial Markets in Developing Countries: Their Use and Abuse*. Baltimore, The

inefficient administration, lengthy application procedures, untimely arrival of credit, inflexibility of repayment procedures, and necessity for proof of collateral, as well as the cost of bribes[10].

7.j Informal Finance System Constraints

Several constraints prevail in the IFS, many of which limit, not only the growth of IFIs, but their ability to expand and to contribute more to rural development. Some of the constraints are partly the result of government policies and development strategies that have been passive and unsupportive. At times these constraints have worked to their detriment, making it more difficult for them to provide more services to rural households and to small businesses. This is in spite of the potential impact of IFIs on macro-economic management and on rural development. The apparent lack of real interest in the sector perhaps explains the paucity of data and the limited number of studies on the rural financial sector in West Africa.

In addition to the lack of real recognition and strong support for the contribution of Informal Finance to rural development, most of the IFIs in West Africa face the problem of inadequate financial resources. The lack of access to formal finance and the absence of linkage and collaboration with the formal sector impede their inability to provide services, particularly, loans to needy clients. These stem in part, from those constraints which in effect prevent IFIs from borrowing from the formal sector for on-lending. Incidentally, most of the IFIs have succeeded in reaching a lot more rural households and small scale enterprises than FFIs, and have had success and experience in providing financial services to these groups. It appears prudent therefore, that efforts aimed at rural development, as well as those aimed at making financial services available to the rural sector include strategies that will include or link the activities of IFIs as well as engage their participation. Legal recognition and support particularly from the IMF and the World Bank, at least as a first stage approach to linking IFMs and IFIs to the formal system should, in the long-term have a net positive effect on rural development. It will also help in deepening the financial system. In the main time, IFIs in West Africa continue to play an important role in meeting the needs of a growing number of rural inhabitants, and continue to complement, in most cases, the activities of the formal and semi-formal financial institutions.

Johns Hopkins University Press 1983, p. 214.; J.D. Von Pischke, *Finance at the Frontier: Debt Capacity and the Role of Credit in the Private Economy*, EDI Development Studies, The World Bank, Washington D.C. 1991, p. 220.

[10] J.D. Von Pischke, Dale W. Adams, Gordon Donald, *Rural Financial Markets in Developing Countries: Their Use and Abuse*. Baltimore, The Johns Hopkins University Press 1983, p. 239.

8. Financial Sector Reform

As part of the efforts to restructure the majority of ailing West African economies and to bring discipline to their troubled economies many governments of West Africa, with the assistance of the IMF and the World Bank, continue to embark upon intervention strategies[11]. These strategies have often culminated in a series of macro-economic reforms. The reforms are particularly important as they are often aimed to provide (1) the needed foundation and ingredients to broaden and deepen the financial system, (2) propel sustainable economic growth and/or (3) support for a broader socio-economic agenda targeting rural development.

In recent years key objectives of government policies and reforms have included efforts towards: (1) maximizing deposit mobilization, while promoting an efficient resource allocation; (2) promoting market determination of interest rates, and (3) fostering efficient financial intermediation based on a competitive financial system. Ongoing changes that have taken place so far in some of the countries include the discontinued use of credit ceilings and the deregulation of interest rates. Although it is envisaged that some of these reforms will have some positive effects on rural development particularly in the areas of rural savings mobilization and on credit allocation, it is not as yet clear how long the governments of many of the presently, distressed countries will continue to support and promote such policies[12].

Not withstanding, the breadth and depth of the ongoing reform efforts in some of the West African Countries, financial markets in almost all of the countries remain small, fragile and underdeveloped and rural sector development continues to remain slow and lagging. Obviously, there now appears among several of these countries an important and urgent need, not only to develop but, also, to integrate the rural sector development into the broader framework of overall national development effort. Incidentally, any successes with this effort will depend in large part, on efforts made by the governments and policy makers to broaden, deepen and strengthen, not only the formal financial markets but also the informal rural financial markets. Only, then would access to financial services to rural households and MSMEs; a major constraint to their growth,) be increased and sustained. West African Country governments could be assisted in this process by exploring those policies and programs, among others, will enhance capacity building and minimize the risks and costs often associated with servicing the rural sector and MSMEs. They could

[11] Most recently, the french speaking (francophone) West African Countries.

[12] A few years ago, the Nigerian government, for example, effectively, reneged on its reform efforts, re-introducing instead, restrictions and controls on interest rates and foreign exchange.

also be assisted by exploring those policies and programs that will link the formal and informal markets, together with their respective institutions, instruments and participants.

Certainly, such a link will benefit the two sectors and the economy as a whole, and may effectively reduce some of the risks often attributed with providing financial services to MSMEs and the rural sector. Already some complementarities can be observed in services provided by the two financial subsectors in the areas of mobilization of savings and allocation of credit. Furthermore, the formal and informal markets are already operating in both the rural and the urban areas of West Africa. What appears to be lacking however, are a better understanding and interest in each other's market and activities, cooperation, competition and effective linkage.

Equally lacking is a cohesive and sustained government effort and support in promoting the IFS institutions and their activities. Despite the role played by the IFIs, their activities are not clearly and adequately reflected in the government's plan. Government policies do not appear to fully recognize their impact and role, let alone include them in its strategies for promoting rural development. Suffice to point out that to the extent that the government of West African countries takes a more supportive role in the IFS through appropriate policies and instruments, and without attempting to disrupt the basic structure of the Informal Financial Market, one may envision a significant growth of rural financial markets in West Africa and an increased contribution by the IFS to the overall development effort.

9. Conclusion

As West African Countries focus attention to the rural sector in particular, and to the development and integration of this sector as part of an overall national development effort, rural financial markets should play an important and pivotal role. Development of rural financial markets should be expected to become, not only an integral part, but also the foundation over which such developments will become viable and sustainable, at least in the long term. Incidentally, for the majority of West African Countries, growth of the rural financial market remains not only stifled amidst numerous constraints, but small, shallow, and poorly developed and linked. Nevertheless, the role of the market remains more alive than ever with potentials and prospects for contributing immensely to rural development.

Amid existing constraints and structural weaknesses, RFMs continue to perform credibly in several of the West African Countries. RFIs have been instrumental in mobilizing savings as well as extending credits to rural sector inhabitants and to MSMEs which ordinarily would not have obtained such credits. Undoubtedly, many of these institutions presently serving the rural sector and the rural financial markets as a whole have the potential for growth. They also have the potential to increase their activities and to contribute more to rural development. For them to do that, however, there appears to be a need (1) for more support for their activities, some of which must include the creation of an enabling economic, social, political and policy environment, (2) for linking and forging collaboration between the markets, (3) for deepening rural finance and rural financial intermediation, (4) for minimizing the risks of providing financial services to the rural sector and (5) for capacity building of-both institutions and infrastructure. These objectives could be accomplished by exploring some of the strategies and options suggested in this paper.

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