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INDIGENOUS SAVINGS AND CREDIT SOCIETIES IN THE THIRD WORLD -- ANY MESSAGE?

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1. A Universal Phenomenon

1.1 During the past two decades an increasing number of reports have called attention to the existence of indigenous savings and credit societies in the Less Developed Countries (LDCs). The material varies from almost casual references to well documented case histories. Most deal with rotating credit associations that clearly have struck the imagination of Western observers. Comparative analyses by Geertz (1962), Ardener (1964) and more recently by Bonnett (1976) reveal the rotating credit association as a worldwide phenomenon, appearing in many parts of Africa, Asia, both Americas, the Caribbean area, the Middle East and even in early Europe (see Annex I for a list of countries and terms culled from the literature). The extent of membership, however, is seldom explicity mentioned. A few cases, cited below, serve to illustrate the substance of the phenomenon.

Among the Bamilike in East Cameroon, each adult is a member of at least one saving association (Dan Soen and de Comarmond, 1972). The popularity of the rotating credit association amongst this tribe is confirmed by ter Weyde (1976). In the Grassfields of West Cameroon, at least three-quarters of Babanki village belong to one or more djanggi (Harteveld, 1972). Brokensha (quoted by Ardener), in 1959 arrives at a similar estimate for the "60,000 Africans in employment in Bulawayo", Southern Rhodesia. In Illako Igboroko and in Toffo, two near-by

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villages in southeast Benin (Dahomey) and of different tribal origin, almost every man and woman above 18 years join a tontine (Verhagen, personal communication, 1977)[1]. In Addis Ababa, Ethiopia, ekub membership is estimated at 60% of the urban population, while among craftsmen, especially weavers, it may go as high as 90% (Tschakert, 1976). In urban Indonesia "almost every woman belongs to several arisan" (Geertz, 1962). Recently (1976) I could verify that arisan were still highly popular with rice farmers in Central Java. I also noted that in one district, newly established KUDs[2] contributed 5% of profits to an arisan, with the explicit aim to build, each in turn, a KUD office by rotating the arisan fund among the 12 participating cooperatives.

Other reports, though less precise on the extent of membership, confirm that rotating credit associations are popular with men and women, even children (Bonnett, 1976); in rural as well as urban environments; among rich and poor, white and blue collar workers (Levin, 1976) and different social and occupational groups (Jellicoe, 1968). Even when enjoying regular employment, or using modern banking and saving facilities, people retain their links with this traditional institution.

1.2 The rotating credit association has been defined as a group of participants who make regular contributions to a fund which is given, in whole or in part, to each member in turn (Ardener, 1964). Ten participants, each contributing ten dollars monthly, will thus eventually pocket 100 dollars each. After ten months the cycle is closed. This is the simplest form, where no deductions are made to compensate the organizer for his responsibilities, no competitive bidding for the fund takes place, and no other agreement interferes with the fund's distribution or

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1) Verhagen learned of only one man who did not participate. Unreliability in former tontines had made him an outcast.
2) KUD = Korporasi Unit Desa, i.e., village level cooperative.

volume. The first collector receives an interest-free loan from all others. While the last in line is only saving money as he extends credit to his fellow members. The others alternate between debtor and creditor positions.

Precisely because of these alternating positions, the term rotating credit association appears inaccurate. A member saves until he receives the fund, after which he starts to repay a loan in instalments. In other words, the fund received by members at intermediate points in the life of the cycle includes a portion equal to the sum of their past contributions, their contribution to the fund at the occasion of their turn to take the fund, and a final portion which is a loan to be repaid out of their future contributions. Thus, not only the credit rotates, the saving positions rotate too. Therefore, I prefer the term rotating savings and credit associations (RoSCA, for short). The term is especially apt because most participants find the saving discipline imposed by RoSCA membership an attractive part of the scheme.

2. Ingredients of RoSCA Success

What accounts for the popularity of RoSCAs among cultures as diverse as Ethiopia and Indonesia, Benin and India? The literature offers the basis for formulating some hypotheses concerning common ingredients of RoSCA success among the diversity. These may be classified as features relating to accessibility, procedures, flexibility, adaptability and multi-functional aspects.

2.1 Accessibility. Every village, hamlet, or farm family compound can form its own association, bringing saving and credit facilities right down to the most basic level. This contrasts with formal finance, to which large segments of the rural population have no ready access. Geographical isolation is one reason: a walk to the nearest post office, credit union office or rural bank can be equivalent to a half day's work. Still more important is the psychological barrier. The impersonal approach, institutionalised suspicion and red tape that normally accompany the procedure of formal agencies scare away many prospective clients. Some cooperative officials like to lord it over timid fellow members - loan application forms, particularly when not in the vernacular, may provide a vehicle for such intimidation.

But also where institutional facilities are within easy reach and the hesitant farmer has long since shed his fear of revolving glass doors and barred windows, he may still have to cope with an uninterested management. Dealing with the small saver and borrower is hardly lucrative at interest rates and fee structures found in formal finance: it means expensive overheads, relatively high risks and close supervision. Some commercial banks as in Cameroon and Kenya demand minimum deposits to stave off the small saver. The administrative machinery of the formal banking system in LDCs usually is not attuned to the requirements of the small farmer (Roberts, 1972). Traditional savings and credit associations, on the other hand, are open to even the poorest segments of society.

2.2 Procedures of rotating savings and credit associations, although simple, flexible and rather informal [1], nevertheless contain effective mechanisms which regulate membership eligibility, credit rating and repayment. The ingenious djanggi system of variable contributions (Bouman and Harteveld, 1976) is a case of everyman a banker, regulating his contributions according to his own financial situation and his opinion of the others as credit risks.

The smallness of the group (participants generally number between 10 and 30) ensures members' knowledge of each other's characters. Coupled with forceful social control, this is a formidable barrier against fraud and defaulting.

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1) There are exceptions as with the institutionalised chitties in India (Nayar, 1973)

Almost all observers agree that obligations are taken very seriously. In Benin members who had already collected the fund and withheld further contributions were brought into line by the kidnapping of a cow or a threat to set fire to a granary (Verhagen, personal communication). Ardener (1964) even reports extreme cases of suicide and resort to prostitution.

There are other mechanisms to counter default. Unlike some Asian RoSCAs run by professional organizers, most African groups collect contributions in public at meetings of the full membership. Hence, failure to contribute is immediately noticed and met with expressions of collective disapproval. In contrast to default on institutional loans, the party or parties injured by default are personally known, which makes the offence a more private affair.

Admittedly, the most effective component and the foremost reason for joining a RoSCA is the "forced" saving element. Through the regularity of small deposits, which otherwise might be spent on trivialities, one is able to accumulate more sizable sums for a worthwhile cause. Levin (1973) found that <u>susu</u> participants in Trinidad had a definite preference for late hands (i.e., distributions of the fund), thus maximizing savings potential. In other associations, where competitive bidding is customary, credit candidates desiring early hands pay a premium that is, as a rule, distributed as interest to reward late collectors. The interest paid for RoSCA credit is well below the going rate for loans to individuals in the informal market.

The fact that loan repayments are also in instalments appeals to participants. This contrasts favorably with short-term institutional loans that have to be repaid in one lump sum at maturity, which may cause inconvenience to borrowers.

2.3 <u>Flexibility</u> is the hallmark of RoSCAs. Although the principle remains the same, there are innumerable variations to the basic pattern outlined above. Participants may range from a handful to a few hundred, they can have one or more shares in one association, while two members may agree to share a turn. Some participate in up to five clubs at the same time. The order of rotation may be decided by lot, consensus, seniority, auction, negotiation, bribery or by decision of the president (this mostly in Africa).

Different criteria are in vogue for membership eligibility, credit rating, payment obligations and sanctions. Contributions may be in kind, but are generally in cash, ranging from a few pennies to more than US$100 equivalent per meeting. Regular wage earners can pay through the check-off system. Interest may or may not be charged. Contributions may be fixed or variable. When in need, a participant may even borrow his contribution from the organizer or from a special fund. The combination of a RoSCA with a special savings fund for recurring expenses, such as tax and education fees, is rather common in West Africa. While this special fund accumulates, members may borrow from it, but in that case have to pay interest (ter Weyde, 1976, Bouman and Harteveld, 1976).

Payments may be daily, as with shoeshine boys in Addis Ababa or the market traders and street vendors in India (Nayar, 1973) and Santiago (Norvell and Wehrly, 1969); it may also be weekly, monthly or any other agreed period. The lifetime of a RoSCA and, concomitantly, the duration of a loan or savings period, depends on the number of players and the length of intervals. Players themselves decide what type of association to form, according to their opportunities to use credit and their savings potential. Daily laborers have different cash flow patterns than farmers, for example. In rural India, chitties with 3- and 6-months intervals coincide with harvest times, and monthly chitties of 30 members (lifecycle ergo 30 months) are considered short term. Those running for 60 months are considered medium-term associations (Nayar, 1973). The longer the duration, the greater the risk of default by members who migrate out of the region. The types most frequently encountered run from one to two years.

RoSCAs of longer duration may have to find solutions to cope with inflation. In Illako Igboroko, Benin, a half-yearly tontine of 26 members started in 1966. Meetings coincide with the harvest season when money comes in. With a contribution of CFA 2000, each player collects CFA 52,000 ($210). While the first collector claimed to have built a complete house from his tontine proceeds in 1966, the money distributed at the society's 22nd drawing in December 1976 was hardly sufficient to buy a zinc roof (personal communication by Verhagen). Participants had become familiar with inflation, but did not know how to cope. Others, however, have devised mechanisms to counter inflation. The Bamilike in East Cameroon have reduced membership to a handful, thus shortening the life-cycle of the society, and participants also change positions in subsequent cycles (ter Weyde, 1976). The keyes in South Korea have resorted to different interest rate structures (Campbell and Ahn, 1962). Some Indian chitties pay out durable consumption goods in kind (Nayar, 1973).

Variations in forms, functions and procedures, observed by region and over time, mark the potential of adaptation and survival of the RoSCA and explain its popularity.

2.4 Adaptability is the great strength of the RoSCA. Adaptation to inflation is part of the process of accommodation to the changing environment. Before the introduction of western currency and monetization of the economy, the djanggi in Cameroon operated on brass bracelets, livestock, food and other commodities; Liberian RoSCAs substituted money for rice in the 1920's after the Firestone plantation started paying employees in cash (Seibel, quoted by Roberts, 1972). The substitution of cash for kind seems to have come off smoothly enough. Ekubs in Ethiopia are said to have proliferated with the growth of the market economy (Pankhurst and Eshete, 1958).

While RoSCAs originally appeared instrumental in meeting traditional expenses of religious and social ceremonies, such as funerals and weddings, and assisted in the collection of dowry, members now save for modern necessities, such as education fees, brick and zinc houses and sophisticated furniture, and for yearly taxes.

Whereas saving, specifically "forced" saving, appears the prime mover of these societies, the credit element may have been added only later as and when promising economic opportunities demanded an immediate layout of capital (in whatever form). The lottery system (apparently the most original form) is then inadequate, not allowing players a say in the rotation of the fund. I believe it is particularly in growing economies that the system of competitive bidding for the fund has been introduced to accommodate players' credit demands. The RoSCA obliged, changing from a strictly savings into a savings and credit institution. From the modest primary group in a village quarter, the traditional chitty in parts of India has blossomed into a modern banking enterprise; based on written rules and a constitution, keeping regular books and accounts, accepting title deeds, promissory notes, but also the right to a future chit fund as collateral (Nayar, 1973).

In Africa, developments have been less spectacular. Ceremonies during djanggi meetings at Babanki, although slightly changed, still follow traditional patterns, mixing business with pleasure. Being president of a society still is a matter of trust and prestige rather than of business acumen and economic gain. This does not imply that djanggi have been static in technical procedures. The variable contribution in particular is a novel solution to such problems as credit rating and irregular patterns of savings potential. And in nearby Nkongsamba, tontines have already introduced the auction system and its corollary, the distribution of premiums among the membership. In both areas the combination of special savings funds and RoSCAs permits flexibility and adaptation. Recently, a new type, the fertilizer fund, has been introduced in Nkongsamba (ter Weyde, 1977, personal communication).

Indigenous savings and credit societies flourish not only in a traditional rural setting, but abound in towns and cities of all sizes as a focal point for ethnic enclaves, new occupational groups, recent settlers and migrants. They also form a link between the old and new, rural and urban worlds, and increasingly take on new dimensions.

2.5 The multi-functional dimension of indigenous savings and credit societies has been commented upon by many observers and offers members a variety of reasons for faithful participation. These dimensions include the financial, the social and the economic.

Savings and investment

Through a rather simple formula, RoSCAs give small-income groups access to the informal capital market at the grass roots level. The method of planned, periodic savings permits small-scale capital formation and gives lenders the opportunity to repay a debt in small instalments. Social control and sanctions, collectively sustained, reduce fraud and embezzlement. The method of competitive bidding for funds permits eager investors to utilize economic opportunities and awards to lenders a premium. Where necessary, the interests of compassionate cases are respected, e.g., by changing the order of rotation. The savings and investment dimension will be discussed in more detail shortly.

Maintenance of cohesion and facilitation of socio-economic transition

Meetings of RoSCAs like the djanggi and arisan are both festive and business occasions, and foster community solidarity and group interaction. These associations keep alive tradition and yet accommodate the necessity of change, placating both the more conservative older and the impatient younger generation (Bouman and Harteveld, 1976, Geertz, 1962). They have the potential mechanism to maneuver a community through a period of socio-economic transition.

This is particularly important for migratory groups of urban workers. It is sometimes suggested that urbanization causes the collapse of the internal social structure of rural migrant groups But Jellicoe's case material from East Africa illustrates that mutual aid societies and RoSCAs flourish in urban environments and are instrumental in the maintenance of group cohesion. Kinship networks find expression in these societies and cover both the urban enclave and rural area of origin (Jellicoe, 1968, p. 8). Local branches of the Luo and Kikuyu Unions occur in all major Kenyan towns and have spread to neighboring countries. In Kampala, in 1962, at least 17 different ethnic associations existed, among which four of Kenyan and one of Tanzanian origin. Dar es Salaam similarly harbors several tribal unions of native and foreign groups. In Mombasa alone, over 500 voluntary associations have been recorded (Jellicoe, 1968, p. 27/31). In Ethiopia, idir and mahaber nuclei in different sections of towns and cities ease the transition to new structures and the urban way of life (Pankhurst and Eshete, 1958).

Like their rural counterparts, urban mutual aid societies and RoSCAs assist in the collection of funds to help members meet sudden calamities and to cover the expenses of events of social significance. In this, the societies are also a vehicle to further the status and prestige of donors and recipients. Through the allocation of turns in chairmanship and committees, education and business acumen are cultivated (Norvell and Wehrly, 1969).

Meetings are used for the exchange of news from the countryside, to assist newcomers in finding employment and lodgings, to celebrate members' successes, to solve quarrels among the group or advise in cases of dispute between a member and outsiders (Dan Soen and de Comarmond, 1972).

Development dimensions

Ardener (1964) cites a Nigerian experience where RoSCAs have been instrumental in the transition from a mainly agricultural to a predominantly trading economy. Bonnett, citing Messerschmidt, suggests that dhikur may account for the historic rise of Thakali entrepreneurs to economic and political prominence in Nepal (Bonnett, 1976, p. 37). There are many examples that RoSCAs have provided entrepreneurs with the necessary capital to start a business, to replace trading stock and machinery, to buy, or repair a fishing boat and equipment or to open a restaurant or retail shop (Levin, Ardener, Nayar and others). I have been told of a Chinese businessman in Surinam who many years ago started a bakery via a 30-year RoSCA.[1] It is quite common for women in Cameroon to pool their savings for the purchase of a cornmill to relieve themselves of the tedious task of grinding maize. The time gained is often devoted to agriculture or petty trade. Peace Corps volunteers utilised meetings of these so-called cornmill societies to lecture on home economics.

A similar story comes from Benin where men, farmers or traders put their tontine savings into a mill. From the proceeds they invest in agriculture by hiring extra labor for the cultivation of tomatoes and chilli that fetch attractive prices in nearby markets (Verhagen, personal communication, 1977).

Investment in the education of one's children is a common enough story in all LDCs. The creation of human capital within the household via participation in a RoSCA may be seen as part of its development function.

Mutual aid societies and RoSCAs also link rural and urban economies. Jellicoe (1968) has asserted that through these associations capital is transferred from cities to villages. Members of urban societies not only privately invest in the purchase of land and housing, but ethnic groups also collectively put money into self-help schemes and development projects in their native hinterland.

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1) This is an exceptional case of a long-term association, and confirms the impression that both rights and obligations to a fund are not only transferable but also inheritable.

3. Savings, Credit and Investment - Determinants of Behavior.

3.1 The evidence on savings. Most development economists no longer uphold the once popular stereotype that peasants in LDCs cannot and do not save. Yet, empirical data on actual savings performance is still hard to find, although recent studies in Asia have turned up fresh evidence.

Farming households in Taiwan in the early 1960's were saving roughly 20% of their income (on- and off-farm). Saving rates increased to 25% in 1964/68, to decrease sharply thereafter, probably due to a combination of adverse weather lower returns to on-farm investment and the fact that attractive consumer goods began to enter rural markets. Although large farmholders on the average saved more than smallholders, the marginal propensity to save appeared not to differ much between the two groups (Ong, Adams and Singh, 1974).

A study of data from the annual South Korean Farm Household Economy Survey revealed an average savings rate of 12% in 1963, increasing to 33% by 1974. A similar study of savings deposits in three agricultural cooperatives (with a combined membership of over 5000) during 1961-1975 arrived at equally startling conclusions, that marked a much larger potential savings capacity of low-income rural people than hitherto recognised (Lee, Kim and Adams, 1976). Through a survey of 50 selected rural families in the irrigated Chao Phya rice delta of Chainat, Thailand, van Helden calculated an average savings rate of roughly 22% of farm income in 1975, with no significant differences between small and large farmers (personal communication, 1977).

Admittedly, all three examples are cases of growth economies.[1] Moreover, the agricultural cooperatives in South Korea, through an aggressive savings policy.

1) E.g., average per capita income of record-keeping farm households in the Taiwan survey increased in real terms by almost 50% over 1960/70 (Ong, Adams and Singh, 1974).

that offered depositors interest rates of up to 30%, succeeded in making saving a highly attractive proposition.

On the African scene, Jellicoe (1968) reported a 12% saving on cash income in the rural areas of the Central Province of Kenya. A most detailed analysis, however, comes from Zambia where Roberts (1972) systematically kept records of 239 rural households for two consecutive years and found that sample farmers, on the average, saved more than 30% of their income. He also reported identical saving rates in a sample of villagers with other occupations. Elsewhere, central banks in African countries were taken by surprise by the large amounts of cash that turned up in rural areas when old currency had to be exchanged for new issues.

The role that indigenous savings and credit associations play in this amazing savings performance is still harder to assess. It is known that in Taiwan the farmers organizations coexist with huis - lively and expanding rotating credit societies (Donald, 1976, p. 176). This South Korean study almost incidentally mentions that the traditional ke system - a mixture of mutual aid and RoSCA - has become, over the past few years, an important part of the cooperatives' financial activities. This proves that the traditional "forced" savings system is still appreciated by farmers, even as a means of profiting from the high rates of interest offered by the cooperative.

Ethiopa's 1968-1973 Development Plan estimates the annual savings volume in ekubs between E$200-250 million (equivalent to US$120-150 million), representing 8 to 10 per cent of GDP. This is a formidable performance for an indigenous RoSCA in an economy commonly recognised as stagnant. Here, the ekub is also popular with urban craftsmen, who are said to save more than one third of their monthly income, the weavers holding the banner with 40 per cent (Tschakert, 1976). In

Babanki village in Cameroon, hardly an area typifying rapid economic growth, Harteveld calculated that 740 djanggi members together accounted for a turnover of CFA 11 million in 1971, or US$90 per member (Harteveld, 1972). In Kerala State in India chit funds form 20% of all bank deposits (Nayar, 1973).

Extraordinarily large amounts of cash are involved in typical merchants' RoSCAs in both urban and rural environments. Dan Soen and de Comarmond (1972) compare these merchants associations to genuine banks. To this can be added Jellicoe's (1968) numerous examples of rich urban mutual aid societies of the ethnically-based unions in East Africa which apart from providing a substitute for former kinship/village bonds among migrant groups, have taken up functions of saving and credit.

By and large, the available evidence suggests that the savings capacity and potential savings capacity of rural people in LDCs are easily underestimated and that indigenous societies probably play a crucial role in generating rural and urban savings in many countries. From where do these savings originate? Information on this issue is neither very specific nor conclusive. The most commonly cited sources of savings are crop and livestock receipts, non-farm or wage income and frugal living. Such generalisations, however, provide no answers to such questions as how rural people with irregular farm revenues make continuous contributions to a RoSCA. Are various RoSCA started at particular times to coincide with expected harvest revenues? Do participants borrow or dissave in order to honour their obligations? If so, from where and to what extent?

Frugal living may be practised to such extremes as to be detrimental to health (Nayar, 1973; Tschakert, 1976). The obligations incurred by participation in a RoSCA may, however, stimulate extra activities, e.g. rubber tapping (Swift, 1964), the tapping of palm oil and palm wine trees or the cultivation of a fresh fruit garden (Harteveld, 1972; Verhagen, 1976). The more entrepreneurial minded may embark on new adventures, women may increase trading activities (compare the cornmill society and its corollary in Bouman and Harteveld, 1976). Women's pottery enterprises in Benin, reported by Verhagen (1976), may be related to tontines.

Contrary to the experience of "compulsory" savings in a RoSCA to which members commit themselves voluntarily, forced savings-plans devised by administrators in LDCs as a condition of farmer's participation in government sponsored credit programs have not been very successful. The attractiveness of "forced" RoSCA savings to a small farmer have been summed up by Donald: "1) to have his money go to an organization of his fellow farmers, people he knows and can keep an eye on; 2) to ensure that the farmer has some say in the running of his organization; 3) to require that all its members must contribute, so that the unfamiliar risk can be shared and become customary" (Donald, 1976, p. 167). The RoSCA combines all these elements and the many extras detailed above.

3.2 Determinants of savings and investment behavior. Savings and investment behavior is conditioned by time preferences for production and consumption; these, in turn, are governed by the current ideas and values about capital accumulation and spending in the particular society. Investment for private gain may meet with general disapproval in one[1], and be loudly applauded in another. The attitude of peasants in LDCs towards debt conforms, in general, to the universally

1) The search for private gain may imply that the investor is trying to disentangle himself from the web of mutual obligations within the extended family. This has prompted Hunter's remark that "the model farmer may be a dangerous conception" (Hunter, 1968). Roberts (personal communication) has explained the apparent reluctance of some Zambian farmers to invest in technological innovation as a fear of awakening villagers' jealousy. A study of farmers who do not expand operating capital to invest in profitable and accessible innovations might be just as revealing as a study of those who do.

popular ideal of being debt-free (Penny, 1968; Smith, 1964)[2]. Yet, heavy borrowing may be considered imperative to meet the expenses of funerals or weddings that seem wastefully exorbitant to the outsider.

Savings imply deferred consumption. The willingness to save depends, in part, on the availability of investment opportunities (on- and off-farm) that promise sufficiently high returns to justify deferment. Not all families in a community have identical time preferences. This is explained by variances in household composition and age structure, in levels and regularity of income, in liquidity preferences and acquired security levels, and in the consumption alternatives that face the family at any given period.

Adams and Singh (1972) have argued convincingly that the production and consumption decision-making process should be analysed at the rural firm-household level. Detailed case studies of RoSCAs could be very helpful here, too. Most RoSCAs appear as self-selected micro units that form the ideal setting for analysis of members' true needs and aspirations. Level of contribution, duration and starting time of cycles, order of rotation, extent of competitive bidding, purposes for which funds are used, all may contain clues to production and consumption preferences of the participants. Unfortunately, few RoSCAs have been explicitly studied from this angle.

Harteveld (1972), analysing 69 <u>djanggi</u> cases, summarizes the uses to which funds are put as follows (in percentage of totals).

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1) Of course there are agricultural systems characterized by perpetual indebtedness, particularly on the Indian subcontinent. This does not, however, necessarily refute the debt-free ideal.

family consumption	28
education fees	17
tax	14
medical care	8
dowries, obligation to in-laws	8
trade and investment	7
zinc proof	4
debts(djanggi 7, others 6)	13

There is not much here to indicate the time preferences for consumption and investment of the different participant groups. Harteveld, however, makes an interesting observation. He notes that 15 per cent of members explain that participation in a djanggi enables them "to deposit money". This might confirm Walden's (1974) theory of illiquidity preference. Money in the till can be claimed by blood relatives. By shedding liquidity through circulation in a RoSCA, one is (temporarily) safe from demands of support from the extended family[1]. This contrasts with Roberts' conclusion that the volume of cash reserves held by many of his sample farmers in Zambia was greater than could be productively applied to on-farm investments (Roberts, 1972). These farmers showed a liquidity preference as protection against sudden calamities. Roberts' analysis, however, leaves the impression that RoSCAs are not prevalent in his research area. If they were, they might have been used exactly for the purpose to temporarily shed liquidity.

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1) Walden also comments on the widespread practice among medium and high-income African civil servants in Kenya and Tanzania to purchase a month's supply of food and related items immediately after cashing the pay check. "By ensuring that the needs of his family are met first, he avoids a possible traumatic value conflict later on" (p. 10). The extended family is expected to concoct ever new rationalizations to prey on acquired wealth (Walden, 1974).

Chit funds in India are definitively utilised for the transfer of savings to increase economic activities. Prospective investors preferring the first rounds in chitties are prepared to pay a substantial premium (up to 30%) for credit extended by late drawers. Nayar's (1973) data for India[1] distinguishes between (1) big chitties of contributions above Rs5000; (2) medium ones, contritubions Rs1000-5000 and (3) small chitties, contributions less than Rs1000. In big chitties, 90%, and in medium chitties 60% of funds are used for productive purposes. In small chitties, 33% of the money is spent in legitimate trade and commerce (restaurants, retail and repair shops, bakeries). Without elaborating further, he concludes that the smaller the chitty, the greater the proportion of the fund which is devoted to consumption (Nayar, 1973).

From his social survey of two villages in Benin, Verhagen (personal communication) deduces that people attach high value to matters that enhance status and prestige. He lists the use of tontine proceeds, in order of priority as the purchase of (1) a house (2) a wife[2] (3) a bicycle (4) a watch or radio (5) a zinc roof[3]. He believes that special-purpose tontines are rare[4] and are used only for the collection of drinks to add spice to home-improvement ceremonies.

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1) These data could be urban-biased, because registration of rural chitties is presumably not routine.

2) Dowry-settlements vary between CFA 40,000-120,000 or US$160-500.

3) As in Babanki, Cameroon, zinc sheets are purchased collectively at a discount.

4) Personally, I believe that the typical combination of a special savings fund and RoSCA has eluded many observers in Africa.

4. <u>Traditional and Modern Institutions - a Case for a Merger?</u>

Governments, bankers and students of development still have reservations about traditional savings and credit systems, in spite of the volume of evidence demonstrating the ingenuity and improvisation with which villagers successfully manage to organize savings and credit facilities for the satisfaction of basic local needs.

4.1 <u>The attitude of governments</u>. Few countries have enacted RoSCA legislation. Jellicoe (1968) reports a widespread lack of knowledge at the higher levels of the civil service in East Africa about indigenous savings and mutual aid societies of all kinds; a lack of knowledge that is liable to lead to misapprehension. According to Ardener (1964) government circles in Ghana regard the RoSCA as a social evil, dangerous and primitive; the same applies to Nigeria (Adeyeye, 1970)[1] and Cameroon (Harteveld, 1972; ter Weyde, 1976). Rumor has it that RoSCA meetings are occasions for drunkenness and the display of conspicuous consumption, that fraud and emblezzlement of funds are the rule, and that defaulting is apt to become widespread once improved communications facilitate migration. Traditional village ties would have a restraining effect on rural development. No wonder that in some instances participation in a RoSCA is believed to be illegal (Kurtz, 1973).

This negative outlook is supposedly fed from several sources:

a) a firm belief in the dominancy of Western economic institutions and theories of development (Levin, 1975)

b) a preoccupation with nation building involving different ethnic groups, giving local associations the stigma of tribalism (Jellicoe, 1968)

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1) Adeyeye recalls the case of a Cooperative official, who despite his belief in the potential value of <u>susu</u>, was sent to his area "to kill the susu and not to uphold or improve it" (Adeyeye, 1970).

c) a certain measure of opportunism. Those who stand to gain employment and power by bureaucratizing the function of financial intermediation are liable to find the RoSCA suspect (cf London, 1976).

To read in a Credit Union Manual that djanggi are out to exploit the people (Harteveld, 1972) has the suspicious ring of an oratio pro domo; but to find Credit Union officials who participate in a RoSCA and yet preach this gospel is utter hypocrisy.

4.2 The attitude of students of development is somewhat ambiguous. Surprisingly, the monumental 20-volume AID Sring Review of small farmer credit contains only three specific case studies of indigenous savings and credit societies (Vol. XV, 1973). All three are reprints, starting with Geertz classic work of ..... 1962! Systematic research on the subject by the World Bank and similar development organizations has, to my knowledge, never been undertaken. There is only one comprehensive study of the institutionalization of RoSCA, that of chit funds, in India, which are integrated into the commercial banking system (Nayar, 1973).

Apparently, development theory remains sceptical[1] about the potential contribution of traditional society to development (Firth, 1964; Penny and Singarimbun, 1973), despite the evidence to the contrary in the comparative analyses of Geertz, Ardener and Jellicoe. The manifold functions, the flexibility and adaptive potential of indigenous savings and credit societies cited here cannot fail but to provide attractive alternatives to the rigid formulas of institutions like cooperatives, credit unions, commercial banks and government sponsored credit agencies. The cornmill societies, the digging of fishponds on a voluntary rotation basis, the application of economics of scale in the collective purchase of zinc sheets and fertilizer suggest the range amenable to

1) A likely basis for this scepsis is that much information about RoSCAs appears sketchy and inaccurate, with little effort at detailed analysis.

organizations along djanggi lines and the potential role that traditional groups might play in the design of development projects (Bouman and Harteveld, 1976).

Some of the arguments raised against RoSCAs are:

a) Traditional societies are apt to maintain the present balance of power. But do modern institutions fare any better when we compare the cases of African and Latin American cooperatives in Worsley (1971) and Falls Borda (1971)? RoSCAs offer the opportunity to enhance one's status. Although undoubtedly they have their own strata, promotion through the ranks is always possible (Bouman and Harteveld, 1976).

b) Improved communications and increased migration will weaken internal social control and encourage defaulting. But empirical evidence from the most critical environment, the urban one, does not support the assertion (Jellicoe, ter Weyde). Peculiarly, this argument appears to weaken the former one.

c) The individual participant has no influence over the size of his fund. This is only partly so. The system of variable contributions as practised in the djanggi does allow some measure of control. Besides, one can take more than one share or participate in several groups at once.

d) In the lottery and some other schemes the individual cannot decide the exact time he will receive his money. But this is precisely why competitive bidding has been introduced. In other cases, one may take a loan from a special reserve fund. Both systems accommodate borrowers, but at the "penalty" of an interest or discount rate.

e) Savers do not receive interest on their deposits. In many systems they certainly do - compare above. As for other schemes, this applies only to the last few rounds. First drawers can always deposit their funds in the rural capital market or establish themselves in the lending business. Then again, relative positions may alternate in subsequent cycles.

f) "Forced" savings may embarrass a participant who suddenly finds himself without income. But, there are devices to counter such inconvenience. One may withdraw from the group and receive his savings at the end of the cycle; appoint a substitute; borrow from the organizer or a fellow participant (sharing turns in the cycle) or from a special emergency fund.

g) Indigenous credit sources can only rarely offer special expertise in the field of farm credit _per se_ (Roberts, 1973). The extent of such expertise can only fully be appreciated in the proper context. To the extent local knowledge (of borrowers as well as farming conditions) constitutes part of this expertise, indigenous societies are far better equiped than many outside agencies that now operate in the field of small farmer credit. Much also depends on the type of farm requirements. When demand for fertilizer arose in Cameroon, villagers successfully organized special fertilizer _tontines_ (ter Weyde, 1976).

h) Once participants have drawn the fund and see no immediate use for it, RoSCAs offer no place to deposit the money. True enough, this is one reason why some _djanggi_ members appreciate the presence of a credit union in Babanki (Harteveld, 1972). Mission posts in Africa have served the same function. In East Africa, Asian shopkeepers, too, used to act as custodians (Jellicoe, 1968). The safekeeping function of modern financial institutions forms part of the basis of the plea for integration of the traditional and modern capital markets.

4.3 _Pros and cons of integration_. There has been some speculation on the future prospects of indigenous savings and credit associations and the possibility of their integration with the modern financial sector.

Roberts (1973) ponders the merits of a credit union in Zambia that negotiated loans from a public credit institution on behalf of its members. This example might be followed by a traditional association, whose experienced office-bearers could relieve peasant farmers of the worries of dealing with an institution whose methods bewilder them. Roberts himself remains sceptical about the issue, mainly because of an assumed lack of local expertise.

Levin remarks that the RoSCA is inadequate for people who have a proclivity for productive investment and need to have large sums of money (long term loans) at their disposal. Admittedly, larger funds could be created by having more participants in one cycle. But the greater the number of participants and the longer the duration of the cycle, the higher the possibility of default. He therefore argues for a kind of hybrid mechanism that combines the best of two institutions. Members of a RoSCA could borrow from a bank by using as collateral their continued participation in a respectable <u>susu</u> (Levin, 1975).

The very fact that in parts of Africa and Asia claims to a RoSCA fund are accepted as negotiable instruments supports Levin's argument. One may borrow, either from outsiders or from a special group fund, against a future RoSCA fund as collateral (Ardener, Bouman and Harteveld, ter Weyde, Nayar). Indian banks[1] that organize <u>chitties</u> of the competitive bidding type accept such collateral (Nayar, 1973).

Institutional organization of RoSCAs has advantages for both parties. For the bank, a RoSCA mobilizes savings[2] and attracts a new type of clientele, normally too shy to cross its threshold. Commissions and fees from running a

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1) In Kerala State even the Government has entered the field of <u>chitties</u>.

2) The bank, as the organizer, draws the first hand. There are also time lags between collection of contributions, drawing of funds and paying out to the winning bidders. Some members, particularly those drawing the last few rounds, will prefer to leave their savings with the bank.

chitty can be quite handsome[1]. Participants, on the other hand, will have the benefit of the organizational expertise[2], efficiency and financial reserves of the bank. Experience shows that the failure rate of chit funds caused by a lack of reserves to cover defaults is lower for chit funds organized by banks than for those established by individual promotors (Nayar, 1973). Banks also charge lower commissions than individual organizers. Finally, once in contact with a bank, RoSCA members can profit from its full range of services.

Tschakert also uses the latter argument when discussing the possibilities of a merger of several Ethiopian craft _ekubs_ into an industrial cooperative enterprise. Besides participating in the initial capital, the bank could exercise control, budget and audit functions and meanwhile familiarize members with its services (Tschakert, 1976).

Because credit agencies can hardly afford to spread local branches all over the countryside, the use of traditional associations to channel public funds into the village economy is one of the central elements of the integration question. The argument put by advocates of village cooperatives also apply to the case for an expanded role for RoSCAs: i.e., local knowledge, supervision and control; accessibility to and familiarity with the local institution; lower overheads (more valid here than in the case of institutionalised cooperatives); and the lack of administrative capacity to deal profitably with individual small scale borrowers by modern credit agencies, which promotes the utility of alternative or downstream channels of financial intermediation.

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1) The Travancore Banking Enquiry Commission 1951 revealed that 85 banks, or 68% of total banks within the State, organized _chitties_. Of these, 75 operated at a profit. _Chitty_ profits accounted for 48% of net profits (Nayar, 1973).

2) Promotors of the complex fund auctioning type of RoSCA must find the proper balance between prospective borrowers and savers to make the scheme attractive to both groups.

To this is added the 'intermediate function', the socialising mechanism of a RoSCA that facilitates adaptation in a period of rapid socio-economic transition. Evidently, RoSCAs and analogous associations are capable of performing this function in both urban and rural settings.

A massive influx of large monetized outside resources has potentially dangerous repercussions on the broader social framework if not carefully related to the absorptive capacity of the community. The more one moves away from what is traditionally acceptable, the greater the chance of disrupting the fabric of affinity and of social control in face-to-face relations. Deformity starts when members loose control over their own institutions. Liberal financial assistance can easily provoke fraud, jealousy, corruption and evasion of obligations and thus destroy the potential for the development of a new "commercial ethic".

To a certain extent this has already been the fate of some State-sponsored agricultural credit programs. Agricultural growth has proved less a matter of persuading people to change their ways of life through the carrot of cheap financial assistance than one of creating the necessary conditions that make growth feasible and attractive. Provision of credit has still to be kept within the context of the socio-economic environment of the borrower and here there is much to learn from traditional credit suppliers, especially in terms of what criteria to apply and what policy and procedures to follow.

If the channeling of public funds via traditional circuits requires handling with great care, what about the reverse, the channeling of rural savings into the formal capital market? Governments and banks have repeatedly voiced concern over the mobilisation of rural savings as if this fundamental service is nowhere yet performed very effectively. Typically, the formal capital market has largely choosen to ignore the existence of traditional savings and credit associations. As catalysts of rural savings, these associations could link the informal and formal monetary markets.

But is such link desirable? It would not necessarily increase the amount of savings - the rural savings habit is already there. It could merely imply a transfer of resources from the informal to the formal capital market. This, in itself, is not a guarantee of optimum use of resources. Moreover, financial intermediation by banks in LDCs, avoiding risks and insisting on good collateral, is normally not performed in the interests of small scale entrepreneurs, farmers, traders or craftsmen. In the absence of bankable entrepreneurs and/or projects, banks may prefer to keep their funds idle rather than to channel them to second-best customers (IMF Staff Papers, 1975).

In contrast, RoSCAs are the little man's bank. Here, money is not idle for long but changes hands rapidly, satisfying both consumption and production needs. Where banks, cooperatives or credit unions have tried to serve people at this level, low repayment rates and substantial losses have often resulted. Under the triple shelter of local knowledge, collective support and social control, traditional institutions usually have managed to avoid disaster.

There are examples that rural people preserve liquid assets as insurance against future eventualities (cf the Zambian experience). The need for 'instant' capital may keep these assets out of traditional channels of savings and credit. Here the institutional market can provide a convenient alternative by offering a safe place to deposit money where it earns interest. The examples of India (Nayar, 1973) and South Korea (Lee, Kim and Adams, 1976) demonstrate the possibility to attract savings that are accumulated via the RoSCA mechanism. Recently, a similar experiment has started in Cameroon (ter Weyde, 1976).

The formal and informal capital markets in LDCs are serving the interests of different types of clientele. Integration of both under present circumstances will not greatly benefit the weaker section of the economy, a section for which the formal market has not shown much concern in the past. The remarkable survival of the RoSCA over the years and its persistence even in more sophisticated economies, suggests that there still is a need and a place for this institution alongside other, more modern financial intermediaries.

There is a vital lesson here for the advocates of building stronger institutions upon traditional forms of savings and credit. If a case can be made for modernising traditional institutions, surely an even stronger plea can be made for traditionalising modern institutions. Perhaps the urgency of the latter is the greater.

ROTATING SAVINGS AND CREDIT ASSOCIATIONS IN THE THIRD WORLD
(provisional list, derived from divers literature sources)

COUNTRY	NAME	SOURCE
AFRICA		
Cameroon	djanggi	Ardener,1964,quoting Kaberry(1952)
	jangi, ujangi, djana	Dan Soen & de Comarmond, 1972 , quoting Guilbot (1947) and Warmington (1958) and Pauvert (1955)
Cameroon-West	djanggi, njangeh	Harteveld, 1972; Bouman & Harteveld, 1976: Meyer (1940) quoted by B. & H.
Cameroon-East	tontine	ter Weyde, 1976
Congo (Zaire)	osassa, ikelemba	Dan Soen & de C., quoting Baeck(1961
	bandoi	id., quoting Comhaire-Sylvain (1950)
Congo Central	kitemo	id., quoting Baeck (1961)
Dahomey	ndjonu	Ardener, quoting Guilbot (1956)
	tontine	Verhagen, 1976 Dan Soen & de C.,quoting Tardits(1958
Egypt	gameya	Ardener, quoting Ebeid (personal communication 1962)
Ethiopia	ekub	Pankhurst & Eshete, 1958 Jellicoe, 1968; Tschakert, 1976
Ghana	susu	Ardener, quoting Little (1957)
	nanamei akpee	Dan Soen & de C.
Kenya	? ?	Jellicoe
Nigeria	esusu, osusu	Bascom, 192; Adeyeye, 1970; Ardener, quoting Jeffreys (1951)
	oha	Ardener, 1953; Dan Soen & de C., quoting Banton (1960)
	(a)dashi	Nadel, 1942; Ardener, quoting Bohannan (1953); Smith, 1957
	bam (amongst the Tiv)	Bohannan, 1953; Kriesel (Spring Review) 1973
Rhodesia	chilemba	Ardener, quoting Mupansha (1962)
Senegal	tontine	Roberts, 1973, quoting Soroung
Sierra Leone	asusu, esusu	Ardener, quoting Fyffe (1962); Dan Soen & de C., quoting Banton (1960)

COUNTRY	NAME	SOURCE
AFRICA (continued)		
South Africa	chita, chitu	Ardener, quoting Kuper (1960)
	stokfel, stockfair	id., quoting Kuper & Kaplan (1944)
	mahodisana	id. id.
Sudan	khatta, sanduk	Ardener, quoting divers sources
Tanzania	? ?	Jellicoe
Tunesia	? ?	personal communic. to Bouman
Uganda	chilemba	Ardener, quoting Sofer (1951), Gutkind & Southall (1956)
	? ?	Jellicoe
Zambia	? ?	Ardener, quoting Brokensha (pers. communication)
ASIA		
China	hui	Geertz, 1962, quoting Fei (1939) and Kulp (1925) and Gamble (1954)
India	kameti, kuri	Ardener, quoting Mayer (1952)
	kuri, chitty, chitfund	Anderson, 1966 Nayar, 1973
Indonesia (Java, Sumatra, Timor)	arisan	Geertz, 1962 Penny & Singarimbun, 1972
	paketan daging paketan kawinan	Geertz, quoting Stanley (1960)
Japan	ko tanomoshi miyin	Geertz, quoting Embree (1946) Kurtz, 1973, quoting Embree (1939) Ardener, 1964; Campbell et al.1962
Korea	keyes, mujin	Campbell et al., 1962
	ke	Kang (Spring Review) 1973
Malaysia (Malaya)	kutu	Swift in Firth & Yamey, 1964
	[illegible] hui	[illegible] Burridge (pers.com.)
Nepal	dhikur	Bonnett, 1976, quoting Messerschmidt (1973)
Philippines	? ?	Ardener
Taiwan	hui	Adams et al., Spring Review 1973
Vietnam	ho, hui	Geertz, quoting Nguyen Van Vinh (1949) Barton, Spring Review 1973

COUNTRY	NAME	SOURCE
LATIN AMERICA & CARIBBEAN		
Bahamas	esu	Bonnett, quoting Crowley (1953)
Barbados	meetings	Ardener, quoting Herskovits (1947)
Brazil	consorcio	Norvell & Wehrly, 1969
Curacao	sam	pers.communic. to Bouman (de Bekker)'77
Dominican Repub.	san	Norvell & Wehrly
Guatemala	? ?	Nash in Firth & Yamey, 1964
Guyana	throw a box	Smith in Firth & Yamey, 1964
	boxi money	Ardener, quoting Herskovits (1947)
Jamaica	partners	Ardener, quoting Katzin (1959) and Smith & Kruyer (1957)
Mexico	cundina	Kurtz, 1973
Peru	? ?	Norvell & W., quoting Crowley
Surinam	kasmonies	Oud, 1974
West Indies	susus, boxes	Bonnett, quoting Lowenthal
Trinidad	susu, hui, chitty	Levin, 1975

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