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AGRICULTURAL LENDING INTO THE RESERVES:  
SOME WORLD BANK THEORY AND SOME GROUND-LEVEL PRACTICE

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C.R. Cross

Criticisms of the market-oriented approach to rural development associated with the World Bank are well known. As Alain de Janvry sees it, the usual result of this kind of approach is to encourage rural differentiation: the community's elite is split off as a fraction of a class with interests tied to the urban bourgeoisie. While the elite's new status helps the state to suppress manifestations of resentment among the bulk of the peasantry, the social base is simultaneously subjected to "increased landlessness, proletarianization, and immiseration..." (1981: 254). Alternatively, and speaking specifically of the World Bank, Gavin Williams states flatly, "There is very little evidence that recent World Bank agricultural projects have benefited the poorest farmers, or even have been intended to do so. There is evidence that World Bank loans have accrued to the rich rather than the poor, and that some projects have excluded the poor from access to productive reserves and redistributed assets and incomes to the rich..." (1981: 25).

One of the main elements of this approach is agricultural credit. Commentators critical of the World Bank and its international allies have argued that agricultural credit here is a major mechanism for increasing not only rural differentiation but also the dependence of the rural community on the core economy. Against this populist viewpoint, some of World Bank experts are urging a sort of your're-another counter-argument: that efforts to improve the position of the poor specifically are counter-productive, and only arrive at the same point, of assisting the elites at the expense of the poor (World Bank, 1975; Adams and Vogel, 1986).

In international efforts to develop Third World agriculture generally, cheap subsidized credit has been a major feature of programs designed to mobilize rural agriculture. As Forrest remarks, "State credit is

supported by the belief that urban institutions can supply and administer flows of cheap credit to the rural sector while, it is held, shortage of capital is a major constraint on production, savings and incomes are low, and interest rates high." (1981: 238). Provision of controlled, cheap credit is often seen as necessary to:

- avoid exploitation of small farmers by money-lenders and middlemen;
- encourage innovation and adoption of new technologies;
- support technical assistance programs;
- serve as an urban-to-rural income transfer mechanism;
- reduce unequal income distribution in rural areas;
- encourage farmers to expand production in spite of adverse terms of trade relative to the urban sector (Ruttan 1986: 52-4).

Closer to home, in South Africa development's programmatic statements have also tended to focus heavily on an assumed need for credit provision as an absolute requirement for agricultural mobilization in the black rural areas. Instead of stressing cheap loans, they emphasize an assumed need for mortgage, in order to allow 'rational capitalization'. Two questions then need considering: first whether providing loans, either as subsidized credit or as mortgage finance, is necessary for the upgrading of rural agriculture; and second, if credit actually is needed, what delivery system is appropriate. The argument being made here is that there are structural problems between the developed formal economy and the rural informal economy which make it nearly impossible to provide credit directly, regardless of whether it is government lending with a populist rationale or market-oriented private finance.

The received argument specifically in business circles and frequently among agricultural developers as well, (see Buthelezi Commission, v.2 and also the Swart Report) holds out that agricultural development has been unable to get off the ground in the 'homelands' because potential

farmers do not have the money they need to mobilize modern-oriented farming. Unavailability of credit in the rural community is then assumed to be the bottleneck, preventing potential farmers from buying seed, fertilizer, equipment, and so forth. It logically follows that the potential farmer needs, depending on viewpoint, either subsidized credit or a mortgage against his land, his only substantial capital asset, to obtain this credit from the central economy.

Either way, and however widely accepted, this proposition represents a hypothetical argument from first principles, based on the presumptive requirements of developed First World agriculture. It ignores the actual on-the-ground processes involved in agricultural mobilization, and can be falsified at several points on empirical grounds. Credit is unlikely to represent a major bottleneck for 'homelands' agriculture at the moment. There is arguably a real need for credit in rural black areas, but formal-sector loans may well be more likely to contribute to the success of agriculture indirectly than directly. Because of the on-the-ground characteristics of the credit situation, a real need for either mortgage finance or subsidized credit in order to gear up crop production is hard to demonstrate.

South Africa's black agriculture is presently in a low state, being choked out by competition from wage work and from developed industrial agriculture, but it continues to contribute a valuable fraction of household income. Depending on the locality, this fraction ranges from about half down to almost nothing (Moll 1985, Cross 1985) - but across this range the agricultural input is still vitally important to survival. In addition, it backstops the household economy against the risk of losing wage income. On top of that, research results suggest that cultivation is desperately important to the poverty sector in rural black communities - that the very poor, who are usually the people without access either to formal wages or to transfer payments, rely heavily on their agriculture (cf Gandar and Bromberger, 1984, Cross 1985).

The general position of agriculture for most families as a backup option then means that as a rule it has a low household priority - most of the time, and for most families, agriculture stands fairly low among the household's various enterprises: depending on circumstances, most families seem to put intensive effort into cultivation only when something goes wrong elsewhere in their economic support structure. If this is true, then agriculture remains (a) indispensable; and (b) capable in principle of being intensified. What needs to be looked at is what prevents such an intensification from taking place, and specifically whether or not lack of credit facilities is a major factor. This paper looks first at some of the international literature on credit provision, then summarizes some findings relating to ground-level economy of credit in KwaZulu, drawing attention to some of the apparent contradictions. It is suggested that effective credit provision is likely to be harder than is usually anticipated; that the need for agricultural credit is probably very limited in most black rural districts; and finally that credit resources can probably be better used in other rural sectors.

#### THE FORMAL CREDIT SITUATION

It has been known internationally for more than twenty years that provision of agricultural credit is not necessary in the early stages of agricultural development. For instance, Anthony Bottrall, one of the most prominent writers on credit in development, asserted in 1976 of rural credit provision schemes, "Their achievements have been mixed, but it is worth noting that...nearly all were established on the assumption that the overriding need of small farmers in the early stages of development was for cheap institutional credit. However, the evidence suggests that this is rarely the case...(1976: 356), "...credit is usually unnecessary at the adoption stage...production credit is very much an ancillary factor in the early stages of agricultural development, as writers such as Schultz (1965), Mellor

(1966), and Mosher (1966) have frequently pointed out" (ibid: 360). Instead of going into debt, cultivators usually pay cultivation expenses out of savings, and draw on the normal through-flow of household income and expenditure. This point is underlined by Heyer (1981), who points out that where wage work is available to provide cash income credit programs are likely to be superfluous.

In addition, even in developed agriculture, it is not usual for South African farmers to use mortgage as a means of financing loans for seed, fertilizer and other cropping requirements - instead, loans are normally taken against the security of the crop itself, and land is not tied into the arrangement. Should other capital loans be called for, many types of credit program can be devised which are based on other security or on ability to repay, which are more appropriate and better adapted. Such programs operate now in Zimbabwe (Bratton 1986a,b) and in other African countries. The demand for credit usually arises only after agricultural mobilization is under way, and particularly when a new technology is being adopted and expanded. Credit provision efforts then have to relate quite closely to the stage of development reached in both the agricultural and credit economies. Giving credit does not mobilize agriculture.

#### Known limits of rural loans

In South Africa at the moment, indications are strong that quite a lot of money is poised to go into loans to black end-users. For instance, building societies are on record as having substantial amounts of cash ready to be lent to blacks wanting home loans. Much the same can be said of state and parastatal agencies such as the KwaZulu Finance and Development Corporation, which lends into black housing, black business, and black agriculture. Nevertheless, it seems as if relatively little of this money is actually moving to its putative destination in capitalizing black economic objectives. In addition to red tape and the acknowledged bureaucratic complications, which tie

down even loans to urban blacks, an entire standard range of problems afflicts formal-sector attempts to make loans into rural areas of the Third World.

From the standpoint of the organized financial markets, the obstacles include unacceptably high transaction costs, the technicalities involved in formal loan requirements and the difficulty of establishing credit ratings, and the fungibility of credit. In other words, the costs involved in putting through and managing very small loans are too high to allow banks and credit-granting agencies, public or private, even to break even in most cases. In addition, obtaining adequate credit checks and references on rural borrowers who are not known to the institution and who do not participate extensively in the usual workings of the formal economy further escalates the cost factor. Likewise, rural credit is always fungible - meaning that it can easily be split up or diverted to other purposes than those for which the loan was organized, subverting the entire process of credit checks. Osuntogun (1980, quoted below) found that less than 40 percent of the agricultural funds borrowed by his sample of Nigerian farmers actually went into cultivation, and perhaps the main burden of rural borrowing actually goes into household consumption needs. In this general kind of situation, defaulting on repayment - bad debts - then becomes very difficult to police or provide against. Taken together, these standard obstacles are so obstructive that lending institutions in the organized credit markets are usually unable to lend into rural areas on their usual terms, and sometimes on any economic terms.

These operational problems define the trouble with delivery systems. Adams and Vogel (1986) list the main available forms of credit agency - the possible delivery systems for credit in rural areas - as (1) cooperatives (2) government agricultural banks (3) rural private banks (4) the credit activities of development agencies. To these can perhaps be added the informal or partly informal routes through



personal loans, through informal credit groups, and through traders and storekeepers. In relation to the formal lending agencies, this second group makes up the alternative delivery systems. Most Third World governments have followed the advice of experts and put agricultural credit into the hands of development agencies or government operations set up for the purpose (SFCIs or specialized farm credit institutions, cf dell'Amore, 1972). Alternatively, in some countries, the financial markets may be obliged by law to make a certain percentage of loans to rural borrowers, to farmers, or to some other development-related target group. Neither method of tackling the rural-credit problem has proved to be easy or even effective in the majority of cases, and many are now turning to non-governmental organizations. Likewise, cooperatives have been tried very widely as a vehicle for small-scale rural agrarian lending, but coops have also been much less successful throughout many regions of the Third World than they usually are in relation to developed agriculture. These problems with delivery systems in turn trace back to the underlying dynamic of loan programs directed into economically risky areas.

#### The World Bank critique

The counter-argument mounted by some of the World Bank experts focusses on efforts to get cheap credit directly into the hands of the poor: the implications run counter to many of the ideas which are presently structuring the environment of rural credit in South Africa. The World Bank group tries to demonstrate that cheap credit programs designed to benefit the small farmer or the small borrower are counterproductive, and harmful to development. Any kind of official credit program, and subsidized ones are no different, requires borrowers to have good credit ratings. Programs aimed at the poor then wind up delivering loans to the rich. Adams and Vogel sketch the points of this approach:

"The new view of interest rate policies rejects the traditional approach of low-interest loans. These traditional policies have generally failed to achieve their

primary objectives of promoting agricultural production and assisting the rural poor, and have instead often undermined the financial viability of the lenders involved... The main recommendation of the new view is that interest rates must be high enough so that depositors can be adequately compensated and so that lenders can cover their costs" (1986: 484).

Agricultural loan programs in the Third World are frequently 'targeted' - that is, they are structured to go to the poor, as being the rural stratum most in need. The smaller these loans are, the higher, relatively speaking, become the transaction costs involved - the cost of administration and credit checks per loan, plus the costs associated with possible default. Since the target group is twice uneconomic for the organized financial markets - rural and poor - this kind of agricultural credit program is usually government-sponsored, though in some cases the commercial sector may be required by law to make a certain percentage of loans to the target group (Adams and Vogel 1986, Ruttan 1986). To be viable, these rural credit programs are usually heavily subsidized to sustain very low interest rates. Unfortunately, whether private or from government agencies formed specifically to make loans to rural small farming, the usual results from these subsidized, targeted loans are not what is intended.

In effect, when financial institutions are required to perform lending tasks which are inherently either uneconomic or unrealistic, the institutions do not necessarily accept the situation. Rather than risk their performance records in making risky loans - structured so that failure would be understandable but for which they will be held accountable all the same - loan officers and loan institutions tend to take evasive action. The kind of behaviour which results has the same effect as if the institution actually intended to fight back. When cheap loans given to small farmers have high transaction costs and a high failure rate, the institution in effect tends to exercise a fungibility of its own and divert the bulk of the loans involved to larger, more economically sound farmers and to the well-off, who are the safest risks for the lenders. (Adams and Vogel op cit, Ruttan op

cit). Bourne and Graham (1980) also note that if the performance of lending agencies is assessed on how many loans they make, then the pressure is on for them to make as many as possible, with resulting carelessness about loan quality and the risk of default. The implication appears to be that the temptation to push credit toward lowest-risk borrowers will then be greater still. This pattern appears to hold regardless of whether the credit-granting institution is publicly-funded, as in socialist Third World countries, or private, as under capitalist regimes. Graham and Cuevas (1984) argue from Honduran data that private rural banks are more effective than public institutions in rural lending. Whether or not this is generally true, the problems involved are clearly structural, common to most or all lending agencies with formal structure.

What the literature, and especially the recent research associated with the World Bank seems to suggest, is that all of the delivery routes presently available for formal credit seem to have severe drawbacks, such that credit provided along these lines is unlikely either to reach the poor or, under locally prevailing conditions, to contribute effectively to agricultural mobilization. A second danger is that subsidies can turn the lending sector toward the government as the fruitful source of funding, so that the bulk of rural savings, now uncaptured by the credit markets, therefore remain unutilized as far as the capital markets are concerned (Adams and Vogel, 1986). Dormant, they serve the household mostly as emergency insurance, doing little for development.

The upshot tends to be that rich rural operators who want large loans and who have good credit ratings capture nearly all the cheap credit, and expand their operations and take over land resources, the middle poor go to town, and the very poor are left high and dry in the rural areas: in deeper destitution, without the viable economic alternatives that the program was designed to underwrite, and often even more precariously placed in relation to whatever survival

strategies they lived by before. The income distribution therefore worsens rather than improves as rural differentiation gathers force. When this situation is arrived at, it approximates very closely to the radical critique of the bulk of World Bank-directed rural development efforts: rural differentiation is accelerated and the elite improve their position at the expense of the poor.

Unfortunately for the World Bank group's critique, it does not seem likely that the centerpiece of their proposed solution - abandoning subsidization and uncapping interest rates, so that loans to the poor become economic even though the poor wind up paying a premium - will necessarily uncork the bottleneck. Anderson and Khambata (1985) argue that interest rates are not the only problem: unless some plan is developed to spread the real risks of financing small agriculture, success is unlikely. Reasons cited include:

1. Fears of political reactions in Third World countries to interest rates that are significantly higher for small than for large borrowers make implementation unlikely;
2. Since the risk factor on rural loans is already very high and increasing interest rates makes it higher, managers are not willing to be seen with such extremely risky loans in their portfolios;
3. In such an explosively high-risk financial environment, instability is increased in that defaults by some borrowers raise the risk of defaults by others;
4. There is no guarantee that the agrarian development programs linked to the loans will ever actually succeed in raising rural incomes to the point where the borrowers would escape from the high-risk, high-rates category, and the lending institution has no control over this process (1985: 36).

Following this laid-back assessment of the market-rates argument, Anderson and Khambata tilt toward the populist side with what they

call the economist's case for publicly-backed loan programs: enforcing strictly economic loan criteria can mean that projects with good potential are rejected as too risky.

It would then appear likely that both subsidized and market-oriented approaches to rural small-farmer lending essentially share the same structural problems, which proceed from devout risk-avoidance behaviour in and by the financial institutions even "beyond the point of economic efficiency" (Anderson and Khambata, op cit).

More luckily, the other main elements of the World Bank group's proposed solution look more likely to help. These are (1) routing much of the demand for credit through local informal credit markets rather than through formal institutions, and (2) mobilizing savings. These themes will reappear later on.

Alternative approaches: traders, cooperatives, group loans, and mortgage

Other possible alternative approaches to delivering small agricultural loans from the larger economy to the village are subsumed under Adams and Vogel's (op cit, 6 above)

list of possible delivery systems: these include formal cooperatives, and possible informal vectors such as storekeepers or spontaneous self-help groups such as savings clubs or farmer associations. Aside perhaps from storekeepers, these routes all appear to have the advantage of being able to carry group liabilities. Then in addition, there is mortgage finance.

Storekeepers. The objections which might apply to channelling loans through traders and storekeepers (discussed in Barbara Harriss, 1980) are straightforward. -- Though -- Bratton's -- data -- indicates -- that storekeepers are not a common source of agricultural credit in Zimbabwe, and the Nongoma pilot study suggests the same, rural traders in the South African 'homelands' normally do keep accounts for local

customers and sometimes extend loans of agricultural supplies against the customer's account, so this route might be a procedurally viable one. In some countries, trader-moneylenders have been encouraged to start rural banks. On the other hand, it seems doubtful if this is a practice which ought to be deliberately expanded and institutionalized in a climate where it is not already widespread; the risk of creating permanent relations of debt and dependency, of the kind that already exist in India and the Far East and frighten policy-makers world-wide, could easily outweigh the benefits.

Formal cooperatives have been widely regarded throughout the Third World as a vehicle for bringing the central economy into touch with the rural grass roots. By working with groups rather than with individuals, the transaction costs of loans, and particularly the credit checks, can in principle at least be made more feasible, while the group also serves as a conduit for supplies and extension services. For instance, Kenya's Cooperative Savings Scheme has operated fairly successfully in many rural districts, providing savings, loans, and marketing services (von Pischke 1976). Unfortunately, Third World agricultural cooperatives are usually subject to chicken-and-egg syndrome: they are very difficult to organize unless some kind of successful semi-commercial agriculture - such as coffee production - already exists to create a felt need, justify a marketing system to which they can be linked, and help instigate spontaneous groups. In Kenya, the credit and savings scheme is reported to have been added as a later component to an agricultural cooperative movement already operating around coffee as a viable market crop. Bottrall's (op cit) and Hyden's (1976), discussion suggests that this is the usual pattern, and that trying to establish cooperatives in advance, in order to then establish an agriculture which will justify them, is usually unsuccessful.

Fully-fledged formal cooperatives also require a high level of management expertise difficult to find in impoverished rural

districts, especially since the interest returns to participants are relatively low. There is a large literature on the difficulties faced by cooperatives in Africa and the Third World generally, which need not be reviewed here. Particularly, coops tend to be viewed by governments as ideal vehicles for bringing bureaucratic control to the isolated village, so that their function in stimulating agriculture gets lost or becomes downgraded (King 1981). The same applies when they are captured by local elites (Hyden op cit, Claassens 1978). Either way, coops as they came to operate seem more likely to paralyze local initiative and cannibalize spontaneous self-help groups than to promote production or channel credit.

#### Group liabilities

More success may perhaps be encountered with less structured farmer groups. In KwaZulu, KFC is working with group liabilities in extending credit in smallholder schemes. In several ways the KFC scheme seems to be based on an accurate appreciation of the in-built problems of lending. KFC's new rural lending policy for Project Umbila has waived security requirements altogether, and makes loans on the understanding that the farmer pays at least 20 percent of his own costs and will not be eligible for future loans if he does not pay KFC back. The actual loans are written by agricultural officers in the field, a system found effective in Nigeria (Oludimu and Fabiyi 1984) and elsewhere. The scheme also has some drawbacks. Tied to 'betterment'-type land planning, the scheme makes special loans to "certain individuals" (qualifications unspecified) to buy tractors and "do all the tillage work in a given area" and then sets the fees and rounds up groups of clients for these tractor owners. It also appears to have a long way to go to reach a market-determined break-even point.

The figures provided by Konigkramer and van den Aardweg (1986) indicate that each agricultural officer would have to write 473 loans,

of a hefty average size of R1 100 each, to break even: the best result reported to date on the Madadeni group scheme reached 350 loans, leaving a long way to go. Mark Lyster of Development Bank reports that KFC credit costs can run to an average of 70 cents for each rand lent (1987, in press). On the World Bank group's analysis of subsidized credit, agricultural officers writing loans in the field should then be feeling substantial pressure to push loans toward their most solvent clients and away from the poor.

KFC's procedure can then be compared against the three Zimbabwean loan schemes discussed by Bratton (1986a,b). Considering much smaller agricultural loans (roughly R50 - R330), Bratton compares individual loans made by Zimbabwe's Agricultural Finance Corporation to loan schemes operating on a group-liability basis. These group loans are operated either by AFC on a mandatory joint-security basis, where group members are legally forced to pay off each other's defaults, or by an NGO operating on a basis of voluntary joint responsibility. That is, if the group defaults it loses eligibility for future loans, so paid-up members have the option to decide whether to pressure delinquent members, help them out, or eject them from the group and cover the unpaid loan share themselves if they collectively want to stay eligible (1986b).

On the basis of data such as comparative rates of repayment and number of stock owned by participating families as an index of their economic standing, Bratton concludes that the group loans performed much better than individual loans in normal years. He also argues that the non-governmental voluntary group scheme was more effective in reaching women farmers and the poor than the mandatory-liability scheme. The point about reaching women and the poor is problematic - while the voluntary-liability group did seem to have significantly more women members, so much help and guidance was apparently supplied to these groups as part of the NGO's loan package that it becomes hard to be sure that the inclusion of women was spontaneous. "Reaching the poor"



is even more doubtful on the evidence. Participants seemed to be drawn from the elite: though large gaps between rich and poor are now common in rural districts, the difference in average stock ownership between the richest group - the individual loan recipients - and the voluntary-liability group, which was supposedly poorest, was only about 11 percent.

Only in the case of the mandatory-liability group, and only in a good crop season, was the recovery rate satisfactory at 92 percent. For all other combinations of loans and weather, defaults ranged from 28 to 82 percent. Though Bratton identifies the voluntary liability group as a hopeful signpost for the future, he acknowledges that this approach lost money at about 37 percent yearly, made up from subsidies. While the mandatory-liability approach nearly broke even, farmer groups under this regime tended to fall apart due to internal strain.

Some version of this approach may ultimately turn out to be one of the most successful alternatives where rural credit is concerned. However, Adams and Vogel are dubious about the chances of getting group loan schemes to fulfil expectations: "Recent research on group lending shows results that are less positive than originally hoped. While group lending generally reduces loan transactions costs for borrowers, it has had a less positive impact on lender's transactions costs and on loan recovery." Underlining von Pischke's point, they add, "Group loans appear to work best where groups have non-credit reasons for collective actions" (1986: 482). This kind of result returns the debate to the same stumbling block as for cooperatives, that agricultural groups have to be already well-established before they can be used as a conduit for formal-sector credit - which in turn presupposes a well-established agriculture prior to credit.

### Mortgage finance

Finally, the mortgage option itself is likely to be very risky, whether or not it is either necessary or viable. Hill's comparative results from rural Nigeria and India suggest that in both cases foreclosures on land mortgaged locally by the poor to the rich accounted for a substantial percentage of all land transfers. They also appeared to contribute to landlessness and impoverishment. Rather than moving triumphantly to town, the destitute former landholders tended to join the local force of landless or near-landless labourers, ending up worse impoverished than before their venture into land-secured credit (Hill, 1982). In this context, the formal urban credit institutions were not interested in extending mortgage loans even to the relatively viable rural borrowers - the difficulties of following up the loan, or of foreclosing if necessary, were so great that Hill's discussion suggests that the urban bankers would have to be heavily bribed to try it.

Mortgage then seems likely to follow the same path as subsidized credit in increasing the differentiation of rural communities along class lines - helping the rich get richer, while the poor are left without the viable alternatives that were the ostensible point of the exercise. In the South African context, if the intense fixation on agricultural mortgage is carried through into legislation without a great deal of caution the rural poor are in fact likely to become worse off, not only in relative terms but in absolute terms as well.

### THE RURAL CREDIT ECONOMY

At the other end of the line, the situation on the ground is also not what is usually assumed to be. The conventional argument about mortgaging and rural agricultural credit ignores the fact that loans of the size needed - roughly R 25-R 300 - may already be available in many rural districts. Results of preliminary field studies in

KwaZulu, both in the peri-urban region (Cross 1986a, 1987a, N=80) and in the Nongoma area (B. Zulu and C. Cross, unpublished field data, N=34) demonstrate that a thick and thriving network of credit and lending already exists in the informal sector. Depending on individual circumstances, these informal loans can be obtained either free of charge or else for interest payments. In early 1986 the average informal peri-urban debt burden for men was over R 100. With virtually everyone in the community who was not utterly destitute both borrowing and lending regularly in this informal loan exchange, most men and a great many women had experience of informal loans in the R 100 - R 500 bracket. In Nongoma, the credit market looked somewhat less active, but still strong.

This highly active rural credit market provides various kinds of finance. The main burden of lending is carried by interpersonal debt - ad hoc loans between individuals known to each other or somehow related - but credit is also obtainable from the informal savings associations loosely grouped as 'stockfels', which make loans from their savings funds. These can be either rotating credit associations of the classical type, where members meet to pay in weekly or monthly with different people taking the entire payout in rotation, or they can be a new type of informal credit collective, which accepts irregular payments from members and makes loans from liquid funds before banking them for distribution at the end of the year. In addition to these sources, loans can also be obtained from individuals who have a sideline as local money-lenders, as well as from individual employers, and from firms. The normal situation in mobilizing areas seems to be that credit is widely available from a number of different sources, while in severely impoverished regions loans become harder to get (Bottrall, 1976, King 1981). Although the Nongoma pilot sample came from a poorer community than the peri-urban one, the credit market did not look severely constricted.

In principle, loans from the formal urban credit market - the banks

and building societies - are also within reach, but the great majority of respondents reported reactions of ranging from unease to outright fear at the prospect of dealing with a bank. Banks were regularly identified as the worst possible loan source, and there was no apparent awareness that bank rates are at least nominally far cheaper than interest-bearing informal credit. Though a few people remarked that banks were strict but fair and provided excellent privacy, for nearly the whole of this sophisticated peri-urban sample the preference for the local informal credit market was very strong (Cross 1986a, 1987a). Fragmentary data from the Nongoma pilot study also suggested that credit from KFC was not universally popular; this source was apparently not used by the peri-urban sample.

#### The exploitation issue

This general picture is in line with the usual situation in Third World rural communities. As Polly Hill observes from her extensive field experience, the informal credit market is part of the normal environment, all but universal in rural areas once they enter the cash economy (Hill 1982, 1986). This fact is not usually recognized in Third World policy planning, which has in the past often treated informal credit as pathological or inherently exploitive.

To the limited extent that they have been aware of their existence on the local scene, South African policy-makers have been reluctant to trust the black informal credit markets or build them into official planning. Peasantries in rural Asia have historically suffered and still suffer from crippling debt obligations sometimes described as 'debt slavery', although informal credit in India did and does also help the community, especially in bankrolling trade and industry (Tinberg and Aiyar, 1985). Hill argues that the world-wide official distrust of informal financial markets produced by this Far-Eastern experience is based on misunderstanding. In addition, she asserts that in Africa specifically, the local credit market is generally not

as exploitative as policy-makers fear. Local elites do carry on very extensive debt relations with poorer strata in the community, but this is often less due to profit or exploitation than to a social obligation to lend to others as a means of providing them with economic assistance when they need it (Hill 1986). In the KwaZulu peri-urban area studied, mutual observance of debt relations today to a great extent takes the place of the now-lapsed pre-industrial relations of gift exchange in knitting together individuals and groups (Cross 1986).

### Interest rates

A more convincing and immediate reason for taking a critical view of the rural informal credit market is interest rates. The new market-powered World Bank approach no longer takes high informal interest rates as a reason for excommunicating rural financial markets: it has been known at least since the early 1970s that interest rates as high as 30-40 percent may only cover the actual costs associated with rural moneylending (Bottomley 1971, quoted in Bottrall 1976: 361). But interest rates now being reported for small loans in KwaZulu are running considerably higher: rates equivalent to 60-80 percent for very short-term credit are being reported both from peri-urban and from rural districts. Though charges for larger loans seem not to run as high, comparisons with earlier data suggest that interest rates have shot up over the last five to ten years. Interest charges have also become very general - while relatives can often get interest-free loans, it is common now for even close family members to be charged interest.

To a considerable extent, these high rates reflect the fairly high real risk of partial or complete default, and also the chance of an indefinite stretching-out of repayment time: informal personal loans seem to carry a built-in presumption that they can be renegotiated and rolled over if the borrower has difficulty in meeting his obligation

(Oludimu and Fabiyi, 1984, Cross 1986 ). Even informal institutional credit from stockfells is very flexible compared to formal-sector loans. The preliminary indications from KwaZulu suggest that loans are fairly generally available, from a number of informal sources. All the same, the point remains that interest-bearing informal credit may be becoming so expensive that poorer families are priced out of the credit market altogether. At the same time, introduced institutions such as credit unions are likely to be unable to compete, in terms of returns to depositors, with the lucrative informal credit associations.

How does the informal credit market work?

With this background in mind, the peri-urban informal credit market seem to have certain general characteristics (Cross, ibid):

- Nearly the entire community is involved - even the absolutely destitute try to participate so as to be able to get credit when they need it
- Informal credit provides the regular operating capital for both small and large informal selling operations, and also finances capital investment very widely
- The largest number of informal loans are taken for minor emergencies - personal cash shortfalls for illness, transport, legal problems, family or personal needs, or entertainment
- The informal credit market is the community's new system of insuring against unforeseen emergencies.

For the peri-urban women, the most common use for informal credit was in relation to consumption - in buying food, to make up shortfalls in the household budget. But in an area where informal sector participation is common to the majority of households, the economic use of credit in capitalizing informal-commerce ranked second. For men, a tremendous demand for credit was immediately apparent in the field of construction and house building - ranked joint first, in actual reported frequency, with entertainment and social borrowing -

and credit also figured importantly in relation to informal commerce.

Sponsored loans into agriculture?

Out of all this traffic in the local financial market, not one respondent, man or woman, cited loans into cultivation as a most-frequent use for credit. In response to specific inquiries, a minority of respondents mentioned having taken loans to help with cultivation, but none cited a loan above R 50. The general picture for agricultural loans, with or without interest, was one of very sporadic and rather reluctant involvement, with local families trying to hold down their total debt and trying to minimize agricultural expenses at the same time. The pattern appeared to be that people became involved in agricultural borrowing only in a minor-emergency context - when they suddenly found themselves unable to cover their cultivation expenses out of the general household budget. The small pilot sample from Nongoma suggests that the pattern may not be basically different there, although families have more <sup>land</sup> and do more cultivation. Although the credit market is not as active generally and agriculture is more important, most respondents were still as little involved as possible in agricultural credit. Other competing uses for credit were ranked as more important.

This general pattern is in line with findings elsewhere in Africa. For instance, Osuntogun examined the use of subsidized farm credit by a sample of farmers in three Nigerian states:

"...only 39,4 percent of the total funds borrowed was used for farming...[and] contrary to widely held opinion, a very small proportion of borrowed funds is spent on ceremonial purposes. Hence one of the principal reasons [for the diversion of funds] ...is the inadequate supply of essential welfare services in the rural areas. Services like modern housing, health, and education relief rarely exist in the Nigerian rural sector. Most farmers borrow to provide these services themselves..." (1980: 269)

In effect, what seems to happen with most formal credit programs in

rural areas is that both sides exercise fungibility - the sponsoring institutions divert loans to the rich, and the rural recipients divert borrowing to the household's other, more urgent priorities. Taking all the evidence together, it is hard to believe that either subsidized agricultural credit or market-related agricultural mortgage is going to result in an upward explosion of agricultural production in KwaZulu. Credit is already widely available and widely used, but agriculture does not so far seem to be an important credit sector. On the other hand, it is very clear that the rural community needs and uses credit, and can probably make good use of credit at lower interest rates. The key is likely to be supplying credit into the rural economy in the round, rather than trying to restrict borrowing to agricultural purposes and promptly falling into the bottomless well of fungibility.

The community's view of credit risk: insurance through lending out

The credit picture is also influenced by how the community sees credit generally. First, credit is still something that is treated with great care. Nearly every peri-urban respondent insisted that modern life is impossible without credit, but older people still look askance at borrowing. In conservative thought, borrowing still indicates weakness and inability to plan properly. Economic transactions are supposed to be carried out only with money in hand (Cross 1986). The general moral view was that it is wrong to borrow money casually, though casual borrowing is in fact very common. Interest-bearing loans especially should only be considered for serious purposes - or when the chance of profit looks high enough to justify the risk. People felt satisfaction at being in the position of helping others by extending loans when they could afford to, but usually seemed to feel resigned over ever being able to avoid debt themselves. This basic ambivalence toward borrowing - though not toward lending - has implications for credit programs.



Despite popular ambivalence, involvement in local credit transactions is economically necessary in itself: it provides the rural black community's new approach to do-it-yourself universal risk insurance in an unstable, wage-based economy still touching the poverty line (Cross 1986a, 1987a). Bratton reports that his Zimbabwean respondents used stockfel savings when necessary to backstop possible defaults on their agricultural loans (1986b). But lending rather than borrowing may be the more significant credit activity, because of its role in savings and insurance. Results indicate that for the lender, informal lending serves a vital purpose in putting disposable money into safe-keeping, in the form of inter-personal debt obligations. Debts, as a secure intangible asset, then serve as savings, and risk of default is reduced by spreading smaller loans widely. A still more important economic function of these debts is that they can be used as an asset to secure a line of informal credit to raise money quickly on the point of need. The chief way that stockfel savings support the saver's economic position is probably in serving as security for establishing a personal line of credit. A stockfel's cyclic payout is not liquid most of the time, and rarely arrives at the moment it is most needed. The practice of borrowing against stockfel savings as surety makes interpersonal lending, rather than credit clubs, the main informal savings mechanism of the modern rural black community (Cross 1985c, 1986a). Formal credit programs cannot match the multiplex functions of the informal credit market in this regard. Nor does official credit address the uses which are seen as most important or most moral at the grass roots.

The community's view of credit: what people want from a loan

In this economic climate, social approval for different credit uses seems to be pushed up by the project's economic importance or urgency (illness, informal business) - but driven down by risk (buying a car) or any kind of morality loading: either by frivolousness (gambling, fancy clothing), or by such solemn purpose that the undertaking should

not be trusted to credit (paying ilobolo or school fees). Table 1 gives a short breakdown of the community's relative approval of different possible uses for interest-bearing informal credit.

TABLE 1: COMMUNITY APPROVAL FOR POSSIBLE CREDIT USES

Percent of sample approving in principle, men and women, N = 64

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	sickness in family	100%
	something you are expected to do	91%
	IMPROVE INFORMAL ENTERPRISE	89%
	close relative in jail	88%
	BUY STOCK FOR INFORMAL ENTERPRISE	86%
	pay H/P at local store	83%
	START AN INFORMAL ENTERPRISE	80%
	PAY INFORMAL DEBTS	80%
	money for a friend in trouble	73%
	BUILD A HOUSE	69%
	PAY STOCKFEL CONTRIBUTION	69%
	PAY SCHOOL FEES	69%
pay informal account with neighbour selling		61%
	being completely broke	61%
	help with cultivation	49%
	entertain socially	42%
		49%
	PAY ILOBOLO	27%
	fancy clothing	27%
BUY CAR		6%
gamble		6%

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The data indicate that economic, money-making ventures have a consistently high priority, ranking with what are seen as serious family emergencies. Informal credit is normally the only source of working credit for these informal business ventures. These then stand as accepted, 'normal' uses for informal credit. But for other economic uses (building a house, investing in transport) approval seems to depend on whether or not the risk factor can be broken up into smaller, practical loans. While a house can be built informally with low risk by using successive small loans over a long period, the deposit on even a second-hand car is a substantial one-off payment with a high risk of failure. Divisibility is a major decision factor in relation to credit in rural financial markets. Anything that can

be done in successive increments can be broken into a series of small loans, available from the informal credit market if enough disposable income is circulating around. Agricultural borrowing can qualify in this respect, but its risk factor is high and uninsurable. The low household priority of agriculture under prevailing economic conditions seems to mean a low borrowing priority as well: though the data are not complete, agriculture apparently ranked low for community credit approval. If so, there would seem to be a high probability of funging if agricultural credit should be the only kind available. Houses are very important, and a secure investment; cropping is relatively less important, and a classic source of uncontrolled risk. A question then arises as to what groups in the community might be able to sustain agricultural commitment.

#### Target groups in the modern community

Other field results for the peri-urban community studied pointed to two groups showing enough embryonic commitment to their cultivation to make them potential targets for agricultural loans: the well-off or "rich", and the very poor. Middle-income families, smaller and younger on average than the well-off, tended to let their agriculture slide down their ladder of priorities. For the large complex households of the well-off, not only total income but also agricultural commitment varied directly with the number of cash incomes entering the family, drawing attention to the importance of savings and self-capitalization in financing cultivation. For the poor, destitution is the occasion for commitment, and intensified commitment of labour seems to substitute for capital and credit. This result is in line with Sahlins' (1972) proposition that any production system can in a pinch be intensified by adding additional labour time alone, without recourse to any other form of input.

A retrodiction exercise in correlating the factors associated with past agricultural success indicates that families with a 1981 cash

income of R 700 a month or more (translating to something like R1600 in 1987), plus a sound household structure, advanced developmental cycle, an older man as head, and at least one wage earner, were associated with successful commitment to agriculture and with semi-commercial cultivation (Cross 1985). The single variable that best served as a surrogate for all the separate factors involved seemed to be the total number of earners per household. In other words, the greater the total cash income entering the household economy, and the greater the total number of potential workers and the greater the consumption demand, the higher the chances of a strong agricultural commitment. For these large households with control of substantial cash resources, committing effort to crop production makes sense as a contribution to food resources, with the unneeded yield being sold in good years into the local market as a sideline enterprise.

But even these families with high agricultural involvement seem to follow the strategy of holding down total cash expenditure on cultivation, and count on funding their agricultural enterprise from the regular through-flow of the household budget. While these families had the resources and the commitment to expand their agricultural operation, few of them appeared to be interested in increasing their exposure to risk by bringing credit into the picture. Preliminary results suggest that these households were more involved in lending than in borrowing.

The alternate target group would then be the very poor. As mentioned, the destitute rely heavily on their agriculture, putting in extra work to make up for lack of money to spend on inputs. The peri-urban survey revealed a determined group of elderly women coming from weak-structured households, whose commitment to cultivation was relatively high, but never likely to build into a stable entrepreneurial operation. The possibility of actually getting credit to this group looks very dubious in the light of the usual pattern of

diverting formal loans to the rich described by the World Bank experts. In addition, the chances of credit given for agriculture being diverted to more immediate needs would a priori appear to be prohibitively high for women already in a desperate situation. If the pattern by which these two groups are the main active proponents of rural cultivation holds outside of the peri-urban region, then a viable target group for either agricultural mortgage loans or subsidized agricultural credit may be hard to define.

#### CONCLUSIONS

The World Bank group and its critics both present data that suggest that with the best will in the world, there is probably no plan reliably able to channel loans from the central economy to the rural poor, and particularly not to the rural destitute. The contradictions are structural, in the nature of formal lending and informal borrowing, and they appear to be too great. Whatever is done, and whoever does it, the typical outcome appears to be to help the elite and further marginalize the poor. In addition, the formal credit institutions and the rural community probably have diametrically opposed views of what they want in regard to credit. The financial markets need to build up to bigger loans with clear-cut terms for repayment and security, while the rural community wants to stick with small loans that are easily managed and easily renegotiated. Both sides are probably accurate in their vision of what they need. Small loans may have a positive value in themselves from the standpoint of the community - in other words, small loans are more moral because they do not put household finances and the family good name in danger by risking the borrower getting in over his head. If the loan is big enough to interest a formal credit institution, then it is probably too big for most rural people to try without getting into the risk zone that individuals fear and that draws community disapproval.

If this is true, and if it is also true that the community's ideal

approval and actual use of agricultural credit are both far below the priority given to emergencies and to informal income-generating enterprise, then further contradictions emerge, and constraints are established.

It may be necessary to rethink trying to structure the rural credit context so as to come closer to the desiderata of government lending agencies or of the organized financial markets. Instead, it may work better to redefine the programmatic need for credit, and to look closely at the chances for promoting higher agricultural production in other ways.

#### Credit needs in rural communities

What black rural agriculture then needs first is incentive - on Zimbabwe's example, specifically pricing policy, and a market. Failing these, it is not economic for rural families to commit risk money to inputs, let alone borrowed capital. Credit comes later, as advanced technology spreads and informal farmer organizations take form spontaneously. In the meantime, capitalization can be taken care of through informal small loans and/or through loans from employers or rural-bank loans, whether parastatal, private, or cooperative. These are accessible and cover the amounts needed at present for the vast majority. The informal financial market, as Heyer and others have argued, can probably cover agricultural finance up to the point when agriculture takes on a much higher household priority than it has now. In view of the weak record of formal agricultural coops, both in terms of performance criteria and of hidden agendas of control for exploitation, it is more than possible that the reserves are not in a position to use them effectively other than in the few areas where cash-cropping is established and viable.

For this kind of rural development, other aspects of the rural economy are at least as important as agriculture and seem to need credit more urgently at present: these are housing construction and informal

commerce. These activities also appear to have a higher priority for the average rural family than does agriculture. As the situation is configured now, these are probably the expansion areas most vital in priming the rural economy. The credit demand for these areas is therefore urgent.

In a cash economy dependent on wage work, agriculture suffers from high risk aversion generally: in peri-urban areas loan money is available now, but agriculture is not seen as important enough for the household to risk becoming involved in substantial amounts of debt. Those households with the structural capabilities needed to move into semi-commercial agriculture prefer to organize their production expenses within the general cash flow of the household's operating budget, as Bottrall's discussion might suggest. In rural Nongoma, the level of general interest in agriculture is higher, and a possible need for relatively small cultivation loans could be present. Whether or not such loans may be provided through the organized urban financial markets is another question.

What is needed is to increase the capacity of the rural community to produce its own loan funds, particularly for housing and commerce, but also for consumption and other legitimate needs. In the present environment of high risk and uneconomic prices, the main bottlenecks to expansion are still the distribution system and low rural cash flow. This can partly be done by working at the urban end to increase potential cash flow into rural areas by improving wages. But increasing rural cash flow by increasing disposable income is only part of the problem.

Behind the overall problem of black agricultural production is the semi-proletarian issue, the question of whether South Africa's rural black communities, whose people do not qualify as peasant producers, can be persuaded by policy initiatives to invest more effort in agriculture. No less an authority than de Janvry (1981) argues that

semi-proletarian communities generally are beyond the reach of rural development programs. In KwaZulu specifically, it looks as if government-determined producer prices are not high enough to draw much interest. Prices paid locally for agricultural produce regularly run higher, but the local market gluts quickly, and in the present context of uninsured risk and strong competition from wage work even the relatively good returns available do not seem to generate any wide-scale commitment to semi-commercial production. The most usual pattern may be the one where a few families in each locality take up crop production as a sideline. To change this pattern and reach the level of commitment and success achieved by Zimbabwe and Kenya could require a very large direct transfer of resources from the urban-industrial sector - or, alternatively, taking steps to expand the rural black economy to provide its own market for agrarian producers.

The World Bank strategy of mobilizing savings is therefore critical. Instead of insisting on mortgage under conditions favourable to formal lending, which can only help the rich and increase the risk to the rest of the community, a preferable approach would be to work to improve the local credit ratings of the groups most at risk now. One way to do this is to set up rotating rural bank facilities to appear in rural communities on pension days, fully equipped to transact savings and lending, and allowed to pay a small advantage over presently accessible savings facilities. With a bank account to backstop borrowing, there is a chance that the access of the rural poor to local informal loans could be improved. In addition, there is a need for savings and lending facilities that compete against the high interest charges on informal lending. What appears to be the most healthy credit pattern for a developing rural area is one where a number of alternative credit outlets, formal and informal, are available and able to compete against each other. To achieve this sort of pattern, the introduction of viable credit from the central economy can only help.,



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