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INFORMAL CREDIT - OR,
HOW DOES A RURAL COMMUNITY
CAPITALIZE ITSELF?

C R Cross

Community Services
Training Program
Centre for Applied
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ABSTRACT

INFORMAL CREDIT - OR, HOW DOES A RURAL COMMUNITY CAPITALIZE ITSELF?

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Moves are now in train to make land in rural black areas mortgageable in order to let prospective farmers borrow agricultural capital. Some of the assumptions involved should be questioned - evidence from other Third World countries suggests that mortgaging can lead to peasants losing their inherited land, only to remain in the community, worse impoverished than before. In addition, even where formal credit is legally available, providers of formal loans appear rarely willing and/or effective in lending to rural peasants. At the root of this situation lies the isolation of rural areas and the prevailing poverty of their economy, which creates massive distribution problems. The difficulty of getting goods and services from the urban core into rural communities is likely to apply as much to credit as to any other formal-sector commodity wanted in rural areas.

In addition, further difficulties may develop if formal credit institutions succeed in reaching rural communities: in terms of development credit planning, hard-won rural savings which are desperately needed to bankroll development should not be drained off to the developed urban sector. Future rural credit initiatives therefore should probably be based on the borrower's ability to repay rather than on pledging land as security; in addition, they should give attention to the issue of savings.

These and other development objectives cannot be undertaken unless the present situation on the ground is fully understood. This paper reports some preliminary results of an on-going study into **informal credit**, the loan-granting arm of the informal sector. This study is being carried out in a relatively better-off peri-urban area of KwaZulu, which has a very strong, widely diffused informal sector supplying roughly one-third of the average household income. Areas of inquiry include the demand for credit, the debt burden, how informal credit now works, and whether formal credit can be expected to do it better.

Results suggest that credit - lending between individuals and through semi-institutional credit associations - is the economic lifeblood of rural

communities, helping them to survive in the cash economy. For credit to work in the rural context, it has to be available from within the community, on very short notice; informal lending is therefore usually the only viable form of credit available. In KwaZulu, preliminary inquiries suggest that a thick, thriving, dense and resilient network of informal lending and borrowing connections is common in rural areas.

Results indicate that the average personal debt burden for informal lending is quite substantial, and higher for men than for women. Loans appear to be fairly easily available up to about R 100, but become harder to get above that level unless the individual is well placed in the credit network. Regardless, most men and many women have experience with informal loans in the R100-500 bracket. Informal credit is also very important in capitalizing the informal sector. In addition, one of most common uses cited for informal borrowing is in the important area of house-building. A substantial amount of credit also goes to consumption - cash shortfalls due to low wages - rather than to capitalization.

While informal-credit is well-adapted to capitalizing small-to-medium selling and distribution activity, its quick rate of turnover is not ideal in relation to agriculture. However, the usual level of demand for credit to help with agriculture appears to be usually very small in peri-urban areas - results so far suggest scattered loans of less than R 20 which are considered unimportant, with a relatively low household priority. Formal credit would then be very uneconomic, and therefore not likely to be an improvement. It is suggested that the best way to help capitalize peri-urban agriculture is to attack bottlenecks in the provision of inputs, so as to improve returns and make it more worthwhile for families to borrow small informal loans when credit is needed.

As the informal economy works, the role of informal savings seems to be to put disposable money into **debt obligations which can be used to establish a line of informal credit** and secure loans quickly in case of need.

Inquiries about acceptable credit sources indicate that most people think of their own family first, in addition to local credit societies, friends from work, and employers. Banks seem to have a very unfavorable image; they appear remote and strict, and respondents seemed unaware that bank credit may be cheaper.

The single major problem with informal loans now available is their high cost - interest rates have risen rapidly and now run between 25 and 50 %. However, these rates seem to be regarded as normal and legitimate by the community. Results therefore suggest that trying to make mortgages available in rural communities in the belief that agriculture can be substantially assisted is not likely to be effective. Efforts can perhaps better be directed to increasing economic activity generally.

Recommendations for bringing formal credit into a position where it can help development in areas of this type include:

1. making formal sector loans in the R 300 - 1000 bracket available through employers, on a readily transferable basis, to help capitalize home construction and larger informal operations;
2. using formal savings facilities, to be made available at pension points on a bi-monthly basis, to enable rural people to establish an informal line of credit in their home community able to help with immediate consumption needs and smaller informal operations.

INFORMAL CREDIT - OR, HOW DOES A RURAL COMMUNITY CAPITALIZE ITSELF?

1. Introduction: some issues in rural credit

Credit, it is generally agreed, is one of the most basic ingredients in any successful recipe for development - and in Southern Africa, the development debate seems now to be beginning to work out alternatives. Moves are already well advanced toward making rural land and property mortgageable, so that they can be negotiated in the formal-sector credit market. Underlying these moves there seems to be an unquestioned assumption that formal credit is the best way to capitalize rural enterprise, either business or agriculture, and therefore formal credit institutions ought to enter into the rural areas as quickly as possible.

At some level, this must hold true - but on the basis of some of the literature, and also from the standpoint of some fairly extended fieldwork in KwaZulu/Natal, some of the implications of this point of view may be open to question. On this critical point of rural credit mortgaging specifically, here is the respected rural economist Polly Hill discussing Nigeria and India:

"Mortgaging is all too often the prelude to (reluctant) selling - the debtor usually getting much less than the market price...Several Harijans related in heart-broken fashion how their farms had been 'seized' by their creditors...It is possible that in both regions a great proportion of all land transfers, other than those involving fathers and sons, result from the failure of mortgagors to redeem their land..." (1982, 122, 215)

Hill, who has consistently made the issue of credit and capital in the rural village context one of the cardinal points of her inquiry, drives home her point by remarking that formal lending does not operate particularly efficiently in the rural context: to quote further,

"Since official agencies are primarily interested in good-quality land as security for loans, and are uninterested in small holdings of dry land, the great bulk of the village population is unable to borrow on any sort of commercial basis outside their own community."

and finally:

"Nor do richer potential borrowers...necessarily find it at all easy to borrow the sums they might require...They are likely to find it difficult to raise the large obligatory bribes that are the concomitant of all official transactions, as well as to overcome the resistance of potential creditors...[not only because their land is unproductive but] because, when it comes to the crunch and the land is auctioned by the creditor owing to default on the loan, the villagers are likely to gang up against him to ensure that he gets a low price."

Hill stops short of condemning the idea of mortgaging outright, but her general view seems to fall in line with that of authorities who have advocated using the principle of the borrower's ability to repay, rather than any particular form of pledged collateral, to decide whether or not the prospective borrower should get the loan. Dell'Amore states this viewpoint:

"Loan repayment depends of the borrower's present or future earnings capacity, and this is the best security for a loan, even when it cannot be backed by real assets or personal guarantees..." (1973, 14)

In another forum, (1975, 23-27) he makes the further important point that preventing the drain of rural savings into the urban credit market is of cardinal importance in mobilizing the necessary resources for agricultural development - and the same can be said with greater force for rural development in general.

More locally and more recently, Nattrass and Glass (1986) among others, take a similar approach to the question of repayment in the urban context*. This kind of approach, however, still relies on the borrower making contact with the formal credit market. The single main problem with development-related credit for rural areas is probably the same as it is for nearly any other development-related operation - formal-sector credit, like the rest of the formal economy, has a massive distribution problem relative to rural areas. Just the same as the commerce and industry they serve, formal lending institutions are likely to have great physical and economic difficulty in getting their services into rural communities.

The point which Hill wants to emphasize is that credit is absolutely essential to life in a rural community, but that in the nature of the situation rural lending usually if not invariably needs to take place at the extreme micro-local level, in face-to-face, day-to-day interaction - a principle she refers to as the 'localization of credit-granting'. Hill does not reject the idea of making formal credit available to rural villagers, but she takes a relatively forboding view of the chances of doing it effectively. In particular, she warns that it is almost impossible to formulate workable alternatives without first obtaining a thorough understanding of the situation on the ground.

*Citing, for instance the practice in Mexico City of commercial banks providing capital to street sellers on a one-day basis at a rate of 1% .

For development in South Africa, it may be important then that not much attention seems to have gone so far to the way credit works in the black rural regions*. Specifically, to fill in the background before mounting an attempt to bring formal credit to outlying areas, it would seem that there ought to be some investigation of the actual on-the-ground situation in regard to credit at present. The means which these communities are now using to fill shortfalls and mobilize capital is **informal credit**: the personal loans and semi-institutional transactions which form the loan-granting arm of the informal sector.

The question I therefore want to address in this paper is, what form does rural credit take at present? And along with this, what form does the credit demand take in a sample community, what is the credit market like, and how do people see the credit environment?

These are pretty ambitious objectives. Measured against them, this paper is really a very unfinished and preliminary effort, written in a hurry, from an incomplete data base. Interviews are still coming in and the results presented here are drawn from a hand tabulation of 68 schedules drawn from a peri-urban sample in KwaZulu. More important, the large literature that deals with topics such as rotating credit associations and the role of loan credit in underpinning development has only been scratched. What follows is therefore being offered in the spirit of helping to increase the information now available on rural credit.

2. Rural credit in a migrant labor economy

Looking at loan transactions inside KwaZulu indicates that the situation is not essentially different from other Third World regions. A thick, thriving, dense and resilient network of personal loan transactions seems to be characteristic of vast areas outside the cities. What is

*The importance of the informal sector is now generally recognized, and a number of studies are now appearing (Maasdorp, 1983, McCarthy 1981, Preston-Whyte 1984, 1986 forthcoming) many of which discuss the question of credit. Nattrass and Glass (1986) specifically recommend the creation of new types of credit with lower admin costs, and emphasize the point that credit for informal enterprises has to be immediately available, preferably on an over-the-counter basis. On the other hand, credit in itself is a topic which urgently needs to be studied fully.

significant for development is that this network of credit transactions seems to be the source from which the informal sector draws much if not most of its capital. The next question then has to be, whether informal credit is a harmful system as it now operates, or, to look at it another way, whether the formal credit market can expect to take over and do it better. The important issues are usually seen as the capitalization of agriculture and the informal sector; but they might better be seen as meeting rural needs and encouraging the circulation of money in the rural community.

This informal credit system in the black areas of rural South Africa appears to have much milder consequences for development than some of the informal credit systems encountered in other parts of the Third World, and particularly in southern and eastern Asia, where moneylenders and landlords often hold the peasant villages in a kind of tenacious debt enslavement .

Instead, it seems to be an ill wind that blows exclusively bad luck; even under the prevailing migrant labor system, with its crippling inequities, enough money is coming in from the formal sector to provide even very poor communities with some degree of economic alternative. In addition, the massive economic competition from large-scale industrial farming which saps the viability of home agricultural production also makes the problem of capitalizing agriculture less desperately urgent than it would otherwise become. One of the consequences is that rural families seem to avoid the kind of hopelessly under-capitalized exclusive reliance on the land which leads directly into debt, even if the system also conspicuously fails to help them escape poverty. Consequently, money-lenders don't seem to get the kind of lock on the local economy that frequently develops in genuinely agrarian societies.

In addition, the cash economy seems to be enabling small nuclear families to become the norm. Perhaps as a consequence, it would also seem as if in many places locally the extended family doesn't dominate the capitalization of business as much as in other parts of Africa - nuclear families here show a strong tendency to take up their social and economic independence as soon as they can control a source of cash (Reader, 1966).

Wage work in the cities also means that some small quantity of money does flow directly to rural families on a more or less monthly basis, without having to wait for the harvest. Once inside the community, informal sector activities have the potential for, and in at least some areas actually succeed in (Cross & Preston-Whyte, 1983, Ardington, 1984b), circulating this outside money around the local economy until a genuine multiplier effect may begin to be felt. The seminal problem with the rural economy is then likely to be that not enough money is coming into it.

If this is the case, then the deepest and most harmful inequity of the migrant labor system may be the unfair terms of trade on which rural communities sell their labor in the cities: the great majority of rural families are still on the edge of poverty and most are probably below, continually falling short of the basic commodities they need. To cite Polly Hill again, a high percentage of rural debt transactions actually cover consumption rather than capitalization (1982, 115) - and this situation is a legitimate child of necessity, which has to be taken into account in formulating credit policy.

3. Credit in a semi-rural community, KwaZulu

This paper then represents a preliminary exploration of some of the early results from a study of informal credit which is still in progress. The study is being built onto a peri-urban data base which was originally established, dating from about 1972, in order to study land tenure and land-based organization. The field study for this paper has been done starting from February of this year, in an area of the peri-urban district of KwaZulu which we have been referring to as KwaNgele in order to carry out promises to respondents of complete and total anonymity.

3.1 Poverty and wealth: the local economy at KwaNgele

KwaNgele is a semi-rural district over thirty kilometers from Durban. Within it there are both rapidly modernizing, suburban-like localities with very dense settlement occupying the high ground along the main line of transport, and remaining areas of more traditional settlement located in the remoter hlanzeni districts in the hot thornbush climate

of the lower-lying river valleys. The area where the credit survey is going on includes some of the most modern localities, but also stretches across the plateau to include the outlying fringes of a region under traditional occupation.

As settlement modernizes, the economy modernizes too. Since the land system and the local economy are inextricably wound up together, the base study included a compilation of the necessary data to estimate total household income. These results have been used, updated where necessary, to support further investigations done together with Eleanor Preston-Whyte, into the informal sector and the local economy (Preston-Whyte and Cross 1982, Cross and Preston-Whyte, 1983, 1984) This present study is therefore an outgrowth of our earlier work with income distribution and the household economy.

On the evidence of our 1981 data, the average income of the KwaNgele families in this same sample was above the Household Effective Level, as adjusted for local family size. The baseline data reflected not only higher average incomes, but also much more reliance on informal sector activities and much more economic participation by women occurring in the regions of modern-type settlement.

The proportion of families caught in what was locally evaluated as severe poverty - translating as an income level below R 100 a month - was 12%. In comparison, roughly a third of the community's households were estimated to be taking in more than R 500 a month, and were considered well off or rich. As black communities outside the cities went at the time, KwaNgele was comparatively prosperous, with a thriving informal sector which was able to generate employment for a fair number of local residents. Income from informal economic activities made up roughly a third of the total income of an average household in the sample we studied, and we have no reason to believe that it is any less significant now - if anything, the trend may be the other way.

3.2 Studying credit at KwaNgele - objectives, methods and shortfalls

3.2.1: Formulating the goals

The object of the inquiry as originally framed was to look at the total environment of credit in this quasi-rural community, with the

particular aim of modelling the ways in which people think about lending and borrowing as part of economic and social life. The main focus has been on personal lending and indebtedness, as it forms a system with institutional credit; although it sometimes seems to be taken for granted that the rotating credit associations locally called stockfels are the chief form of informal credit, this is probably not the case in most places any more than it is at KwaNgele. Stockfels are an important and integral part of the rural (and urban) credit environment, and there has been considerable debate over how much they can actually contribute towards capitalizing development*, but the data from KwaNgele suggests that they are only part of the total credit network. On the assumption that most informal credit is not of the rotating variety, the present study has taken personal debts rather than rotating credit as its main focus.

The specific topics which have been investigated include where loans come from and go to, the preference given to specific credit sources, and what uses for credit are acceptable and unacceptable. Some attempt has also been made to estimate the actual size of the credit burden, as well as the rates of interest which are characteristically involved. In addition, there are questions relating to how the community and the individual creditor can hope to enforce the repayment of loans, and to how people think about credit generally.

Finally, there has also been additional interviewing on the side about the demand for and use of credit in relation to informal businesses and agricultural production - these issues didn't make it onto the main schedule, it was simply getting too long and exhausting. Accordingly, the results on these important points are in particularly scrappy form.

3.2.2: Believing the results?

The overall design of the study was originally supposed to include

* Hill is of the opinion that rotating credit groups may make people feel good, but do not really provide significant capital to enterprises in the local economy (1982, 217). On the other hand, the black American economist Thomas Sowell, who has studied the comparative economic success of different ethnic communities arriving in the United States, feels that the Japanese immigrant community used rotating credit groups as one of their main instruments for capitalizing their spectacular economic success (1981).

more or less 80 cases, drawn from the same households which participated in the 1980-82 study. Here, trying to arrange for a representative sample may possibly have hindered rather than helped in obtaining accurate results for some of the questions. In collecting credit texts to go along with the survey interviewing, respondents tended to get chosen who were likely to be willing to provide truthful and reasonably full accounts. Obviously, this could not be guaranteed for the survey respondents; consequently, the usual problem in persuading people to part with details of their financial position complicates evaluation of the data.

In the Third World even more than in the First World, a very decorous veil of privacy characteristically covers the whole subject of personal indebtedness. What people do with their lending and borrowing reflects on how they acknowledge their complicated and conflicting obligations to relatives, friends and neighbors. In particular, people tend to be very nervous of being found out spending money on themselves while the claims of others hover around the situation. Hill refers to this reluctance to be questioned about credit dealings as "bashfulness" and remarks on how characteristic it is in the village context. In her view, the results of any interview study of personal indebtedness are extremely suspect.

It would be very difficult to disagree with this authoritative view. More than on any other interview survey we have done at KwaNgele, all the people who have worked on the credit and debt study have been aware that respondents were not reporting as fully and accurately as they usually have in the past - and the past, in this case, includes a study of household income which asked a large number of pointed questions about personal income. For the questions relating to the total debt burden, we tried to get around this as much as possible by not asking exactly how much money is owed to whom exactly, and by requesting amounts by intervals if the respondent didn't care to itemize precise amounts. This seems to have worked reasonably well, but it is still likely that there is a systematic error factor involved.

What can be said in favor of reporting the results anyway is that the distortion in the replies coming in seems to run to a pattern, which can then be allowed for in constructing interpretations. There has been

very little indication that people are actually fabricating their replies - instead, what seems to be going on is that respondents are not reporting all their actual credit transactions. Return visits made by annoyed interviewers in cases where we got wind of some credit transfer that had conveniently been forgotten also suggested that people were frequently interpreting the question about the largest loan they had ever taken by assuming we meant the largest loan they had currently.

But further cross-checking also suggests that while loans in the medium-sized bracket, between about ten rand and a hundred, were being reported fairly accurately, the larger loans - of the kind it is most stressful to report on - were still being under-enumerated by an unknown factor. At the same time, the very small loans, where people are likely to have a number owing in both directions at the same time, were being shunted aside as unimportant and likewise under-reported, not least because it is genuinely difficult to work out how many and how large exactly these small loans add up to be. Likewise, the interviewers are of the opinion that the younger respondents have been more consistently truthful than some of the older people, and the poor - who have little money anyway - more than the rich, who have more to conceal.

Proceeding on the principle that in a situation where accurate data is very hard to come by, even somewhat shaky information is better than none at all, the results can then be evaluated in the light of the known direction of error. Perhaps more reassuring, it seems tentatively sound to conclude that the KwaNgele debt burden is **at least as high** what the data indicate.

Finally, with schedules continuing to come in, nothing as yet has been formally coded for computer analysis, and the results given here are taken from 68 schedules which have been rather hastily tabulated by hand. This lets out any real depth of analysis, so we will really be looking only at some basic factors such as age, sex, and estimated household income, in relation to some aspects of the informal credit market.

4. Results: perspectives on informal credit in a peri-urban area

KwaNgele is a community in the process of changing over from the ethic of generalized reciprocity - the moral imperative to provide others with

what they ask for or need without any expectation of direct repayment, which is the basis of traditional society - to a more modern system. In the cash economy, economic and social relations are based on balanced reciprocity, the principle that requests and needs should be honored on a fairly strict basis of exchange, or otherwise ignored.

The changeover is a prototypical agonizing reappraisal for everyone involved, which is generating acute strain. It is also causing a great deal of social steam to rise; these days, it is not unusual for family members to charge each other interest. And in this new morality, the solidarity and community spirit that were earlier provided by exchanges of gifts and services between relatives and neighbors are now provided by honoring the obligations of borrowing and loaning.

To introduce the practical environment of informal credit, here are some short statements written by people in the sample about their experience with informal and formal credit. Respondents' comments have been slightly condensed, but not edited otherwise.

Case 1: a married man working as an artisan's assistant

About stockfels:

I don't now play any stockfels, either here or at work. I did play one stockfel here with my neighbors - that was a fortnight stockfel paying R50 a head. I didn't borrow money from that stockfel, I just wanted to save with it. What I did was this - I only asked that I could have the number one [when the credit rotation came around to pay]. That stockfel failed with the first round because the members lost jobs. So I lost my payout.

About loaning with friends and family:

I do lend money to my friends and close relatives, but not big amounts. Five rand, or ten or twenty. I don't charge any interest. I do borrow money from my friends without interest too, from two rand to five or ten rand - that's if I am short of bus fare, or credit for beers. A person not related to you won't tolerate you at all.

Before my brother-in-law died my father-in-law was usually coming to borrow money for them. Sometimes a hundred rand, or fifty rand. They never paid back that money, they said I was still owing them some cattle for ilobolo. Even now as they are both dead I do give my mother-in-law money and buy them things without asking them to pay me back.

About banks:

I never tried the bank. I don't know what interest they charge.

Case 2: a young woman doing domestic work

About stockfels:

For me, to borrow from my stockfel club is all right - but this one that I belong to doesn't lend out more than a thousand rand. It's one that pays out yearly. The club doesn't give me any trouble if I fail to pay the interest on time.

About borrowing from friends and family:

For myself, I borrow from friends, but not so much. To borrow big money from a relative is too hard. If you are working, most relatives think of coming to you to ask for money. I can borrow from my family, but only small money without interest. But one thing is sure, at the month end I've got to pay that money back, otherwise there's just too much hard words.

About banks:

I can try all those different places, but I don't think of going to banks.

Case 3: a young man recently married

About stockfels:

Credit is something that no one can live without today. Those people who lend money to others for interest are doing a good thing - they help a lot by doing so. I am a member of a lending one myself.

About borrowing from family and friends:

I have been borrowing money with interest, but not big money. The only big loan I took was from my family with no interest - in fact it was to pay for my wedding expenses. I borrowed two hundred rand and promised to pay it back from my bonus payout at the year end, and they gave me this money. At the end of the year I failed to pay all of it, I only paid back R 120 with some excuses for failing. I had to buy myself, my wife and my children some clothes for Christmas and some groceries.

About banks:

Banks don't just loan, if you've got nothing on your savings they want to know what you've got.

4.1 Availability of loans in the community: smaller borrowing

People borrow and lend simultaneously and deal with a number of other people at the same time; they also deal with the semi-formalized credit associations called stockfels, as depositors and as borrowers, sometimes at the same time with the same group. Most people have a fairly complex pattern of debt and credit transactions at any given time.

Many if not most of these transactions appear to be small: these often represent minor cash shortfalls, but they sometimes make up the working capital of the small informal selling enterprises, where five rand a day can cover supplies and expenses and a major capital loan can be under R 20. These small credit transactions are under-represented in the data; most people seem to have a number of these debts and credits for a couple of rand.

In a community like KwaNgele where fairly substantial amounts of money do float around, people whose general financial position is reasonably sound usually seem to be able to get small and medium-sized loans locally when they want them; relatively few people indicated that they

had problems finding credit, though as many writers have stressed, the poor have great difficulty in finding credit even when they are desperate. One old widow who is now almost the last of her family and trying to make a living by selling traditional herbal remedies remarked, "Who can give me a loan - me in my rags, as they see I'm a louse-ridden person with no one to support me." And, when she was asked about borrowing for interest, she observed, "Since no one can loan me without interest, how can I ask an interest-bearing one?" Polly Hill sums up the position when she comments, "The condition of being 'too poor to borrow' is often worse than net indebtedness" (1982, 220). KwaNgele people clearly deal out their loans on a basis of ability to repay, combined with the prospective borrower's reputation and known probity.

4.2 Availability of loans in the community: larger borrowing

On the other hand, the survey results, taken together with texts collected from local people about their experience with larger loans, suggest that people often do run into trouble at the level of R100-200 and upwards. Only people with substantial resources, or with understanding friends or family who have faith in their prospects, are regularly able to get loans in this bracket. One young man whose local reputation for industriousness was nothing very impressive gave a graphic account of how he searched frantically for someone to advance him R 600 when he had the chance to buy a van in good condition at a very reasonable price and enter the taxi business. By the second week, when he had had his third disappointment, he was in despair, "running back and forth like an insane person, I did not speak to any person, I did not want to see them since they had all refused me - the world seemed black to me, and only my girlfriend tried to comfort me." He failed to raise his capital, and lost the van and his commercial opportunity.

On the other side of the picture, a prosperous and very well-organized young shack-shop owner reported in 1982 to us that he had raised the capital he needed to start his operation when a friend at work, a driver with substantial financial resources, simply agreed to "shock" him - lend the money (R 300) with no interest and no particular agreement about the time of repayment. This event seemed so interesting at the time that it ultimately launched the present study.

While friends and distant relatives do sometimes provide large loans, the more usual source seems to be family, as described by the respondent in Case 3 above. Family members may also refuse - loans to relatives are far from automatic. When family members charge interest, it commonly leads to resentment, friction, and distance within the household. In addition, people can borrow large loans from some of the local credit associations, as described in Case 2 above. These loans are probably the ones that were most difficult to research, and which are most under-reported in the data.

4.3 Availability of loans in the community: credit societies

The organizations called "stockfels" include two different types. The first kind is the genuine rotating credit association, which is adapted to providing a means of saving in a credit environment which has no effective contact with the formal credit market. All members pay in a fixed amount - roughly five to a hundred rand or more - at fixed intervals. Each time the stockfel meets, one of the members takes all the money paid in that week as his or her payout, going around the whole group in rotation.

This basic type has a number of variations, but all the rotating types of credit society are probably losing ground these days, and are more popular with women than with men. This may be unfortunate: from the standpoint of development one significant benefit is that their money is lent out into the community, where it can encourage a multiplier effect, instead of being funnelled into the urban-based formal-sector credit market, which doesn't need it. In this respect, they are an effective means of mobilizing rural savings for the expansion of the local economy.

In contrast, the other competing form of stockfel is a new adaptation, which connects the local informal credit market firmly to organized formal-sector credit. Although it is also a kind of savings association, it is a much more sophisticated operation which requires modern skills to operate. What is more, it appears to be widespread in the developing world: here is William Davis describing a similar type of credit cooperative in the context of a Phillippine market:

"Unlike the rotating association, in none of the Baguio market cooperatives are regular contributions to the fund a stipulation, and the amounts contributed are fixed only in the sense that there is a

minimum acceptable amount...Moreover, none of them permits the borrowing of money without interest...Loans were not limited to members of the association, but when non-members borrowed money much more interest was charged..." (1973, 178-79)

At KwaNgele, members likewise pay in variable amounts at different times, which are recorded by the secretary and officers in the books. These amounts are then either lent out or taken straight to Pinetown and deposited in the bank. But unlike the Phillippine market cooperative, the KwaNgele type is not as purely a loan association - it distributes the accumulated principal in proportionate shares to all the members at the end of the year. In one case, the bank manager asked the officers of the association to give him a day's notice next time the withdrawal was wanted, since R 16 000 was quite a lot for the bank to produce on short notice.

The chief limitation on the success of this type of operation seems to be the heavy bookkeeping needed - the group mentioned above has not been able to work out a good system for sharing out the bank interest, so rather than going through the contortions of trying to work it out they hold a massive year-end party on which they spend all of it.

The members of this type of stockfel tend to be men, and are drawn from the prosperous end of the community. And in addition to the heavy interest they charge, which tends to keep them out of the venture capital market (see also Natrass and Glass, 1986), their rise means that the rural community has discovered a new way to encourage the organized financial markets to exploit its savings, to the detriment of the local economy.

5. Results: the debt burden and the uses of debt

In this kind of social and economic context, the average debt burden is not insignificant - the more so if it is true that the debt load reported may only represent a glimpse of the bottom of the iceberg, with a considerable percentage of the larger loans still going unreported. Likewise, it did not include hire-purchase obligations, which are endemic in the area and may run very high relative to individual monthly income. Against this background, the average reported debt burden for men was R 170, and that for women was R 81. The figures for reported individual indebtedness are then distributed as follows:

Table 1

THE DEBT BURDEN: SIZE DISTRIBUTION OF REPORTED PERSONAL DEBT
AND CREDIT LOADS

percentage distribution

| | <u>Borrowing</u> | | <u>Lending</u> | | |
|-----------|------------------|-------|----------------|-------|--------|
| | MEN | WOMEN | MEN | WOMEN | |
| R 0-5 | 10% | 16% | 23% | 19% | |
| R 6-20 | 7 | 6 | 17 | 16 | |
| R 21-50 | 20 | 38 | 20 | 48 | |
| R 51-100 | 13 | 13 | 20 | 9 | |
| R 101-200 | 37 | 28 | 7 | 9 | |
| R 201 + | 13 | - | 13 | 3 | |
| | 30 | 32 | 30 | 32 | N = 62 |

Although it is likely, for the reasons suggested above, that the total distribution of reported debt and credit burdens has been compressed downwards by under-reporting, the trend still appears to be that men both lend and borrow more than women do - which is a priori very probable. But in addition, there seems to be a bimodal distribution for both men's and women's lending, with peaks between 21 and 50 rand, and also between 100 and 200 rand. If this is accurate, then the sample appears to show two characteristic levels of borrowing. If the peak at R 21-50 reflects a cautious attitude or a low level of credit demand, the one at R 100 - 200 would seem to indicate a relatively confident attitude and perhaps more involvement in enterprises that need credit. A look at the distribution by income classes suggests that there are some substantial differences.

The distribution of results here is probably fairly accurate in suggesting that younger women whose families are not poor are likely to have a rough balance between credits and debits - many women in this group report that they are wholly supported by their families, and do not actually carry financial responsibility. Their lending and borrowing then becomes partly social. Women in this situation usually avoid interest-bearing loans, and their low level of involvement in the credit market pulls down the mean for this group, which does include married women involved in informal enterprises who do use credit actively and regularly. Women in this group made remarks like these: "My husband doesn't like that loan business"

Table 2

THE DEBT BURDEN: MEAN REPORTED DEBTS AND LOANS BY ESTIMATED INCOME

| | TOTAL DEBTS | TOTAL LOANS | |
|--|-------------|-------------|-----------------|
| YOUNGER MEN, HIGHER INCOME (age less than 35, HH income estimated above R 300 a month) | R 120 | R 149 | N = 6 |
| OLDER MEN, HIGHER INCOME (age over 35, HH income estimated above R 300 a month) | R 233 | R 72 | 16 |
| MEN ANY AGE, LOWER INCOME (HH income estimated under R 299 a month) | R 82 | R 31 | <u>8</u> 30 |
| YOUNGER WOMEN, HIGHER INCOME (age less than 35, HH income estimated above R 300 a month) | R 58 | R 51 | 9 |
| OLDER WOMEN, HIGHER INCOME (age over 36, HH income estimated above R 300) | R 121 | R 52 | 12 |
| WOMEN ANY AGE, LOWER INCOME (HH income estimated under R 299 a month) | R 51 | R 50 | <u>11</u> 32 |
| | | | N = 62 |

"It's a disgrace for women to go looking for interest-bearing loans"
 "No, I am afraid of paying interest, and my husband can't be pleased,
 as people think he is a rich man."
 "The thing is, I am still schooling, so I don't do anything with credits
 - only small money with school friends"
 "Well, I am still a kid staying at home, so I don't need to do anything.
 If I need money, my brothers can just shock me"

but also:

"Yes, I use credits every day to buy my stock, but I try not to take
 that interest-bearing money."

Women in the poverty category are likely to show a similar credit
 pattern, but for different reasons. The same elderly traditional widow
 quoted above also remarked:

"Yes, I do lend money - even me. I am compelled to do it if I can, so
 that others can help me when I need it."

On the same principle, older, poorer men's reported debts and credits
 may be a reasonable representation of their situation, though it is not
 easy to believe that they lend less than women in a similar income
 bracket. One reason is likely to be that these men are often elderly
 and retired - few younger men or women in this area are found in the
 lower income bracket. Like the younger women, these older men are often
 supported by their families if not on their pensions, where the older

Low-income women are often widows or deserted wives whose children have left home. For the men, family support often takes the form of borrowing "loans" they have no intention on repaying:

"As my kids have money, I can just borrow from them, and then when the time comes I just don't pay back."
 "I don't make important loans now, my kids are working and my wife also gets pension"
 "I don't like credits because it can be a great mistake for an old man like me to go to court."
 "No credits, not at any time, sorry there - I am getting two pensions."

Similarly, the recorded result for younger men with adequate family incomes is probably near the mark. Most of the men in this category are earning, but even if married may still be at a stage in their lives when they are not expected to shoulder much responsibility. As a result, they are often in a better position to be frank about their credit position than older men. It is probably significant that this group was the only one which reported that their lending was well above their borrowing, reflecting a comfortable level of disposable income.

"Although I'm married now, for most of these needs I'm supported by my parents, I pay very few of the household expenses."
 "As I've got too many friends I'm used to borrowing and making credits"
 "Well, I can help my friends, as they are used to helping me, so about these credits it depends"

The point where the results may be seriously understating the true situation is likely to be for older men (and women) in the social bracket which carries the heaviest financial responsibility. Both older men and older women of higher income report that their borrowing well exceeds their lending. To a great extent this may be accurate, as loans can be obtained from local money-lenders and very importantly from stockfells, but it is also in this social category that respondents may be most reluctant to admit to credit transactions, and particularly to making loans.

Although nearly everyone insists that credit is essential to survival, it is still viewed as a very dubious activity in some quarters. An substratum of the older attitude structure still survives and colors contemporary thinking about credit: in this view, resorting to credit is underhanded, irresponsible, and not respectable, as economic transactions should be carried on with money which has been fairly earned and is already in hand:

"When I was not old we never did this thing, people could say it was a disgrace"
 "I don't think my ancestors could be pleased if I killed them a goat bought on credit, they can think I'm weak or mad"
 "I can't just go and start trouble buying furniture and expensive things on credit, knowing that my pocket is not full enough to buy them."

Because of the relatively strong pressures on both men and women in the older, better-off category, it is not unlikely that borrowing and particularly lending in these groups are under-reported by an unknown percentage.

Finally, these figures can be related to people's reported experience with what are locally considered to be large debts. Respondents were asked the amount of the largest loan they had ever borrowed, and whether they felt afterwards that it had been all right, within their means, or otherwise that it had been too much.

Table 3

| | EXPERIENCE WITH CREDIT: percentage distribution | | SIZE OF LARGEST REPORTED LOAN | | |
|------------|--|--------|-------------------------------|--------|--------|
| | <u>Men</u> | | <u>Women</u> | | |
| | OK | NOT OK | OK | NOT OK | |
| R 1-10 | - | - | - | - | 0 |
| R 11-30 | - | 7 | - | 3 | 10 |
| R 31-50 | - | 1 | 4 | 8 | 13 |
| R 51-100 | 3 | 4 | 1 | 7 | 15 |
| R 101-500 | 10 | 6 | 5 | 2 | 23 |
| R 500-1000 | 1 | 1 | - | - | 2 |
| R 1000 + | 1 | - | - | - | 1 |
| | 15 | 19 | 10 | 20 | N = 64 |

The reported figures suggest that most men, but relatively fewer women, have experience with loans in the R 101-500 range. In addition, people who have loaned in the higher brackets are much more likely to consider the loan within their capacities. As might be expected, people who have remained at lower credit levels (and also have lower income levels) are more inclined to be fearful or dissatisfied with the credit they have used, while the relatively well off enter the credit market on better terms and seem to meet what is perceived as greater success.

6. Results: the purposes of borrowing a loan

Results here suggest that various informal enterprises are in fact major users of informal credit: 47% of the women in the sample reported that they have used informal credit for either a large or a small informal enterprise, as against 21% of men. The difference is not surprising in view of our earlier figures on participation by men and women in different types of informal operation. Women dominated in the selling

Table 4

USES OF CREDIT: PURPOSES REPORTED FOR HAVING EVER TAKEN A LOAN
percentage distribution of 'yes' replies

| | MEN | WOMEN | |
|-------------------------------------|-----|-------|----|
| For a small business at home | 15% | 38% | 18 |
| For a larger kind of business | 6 | 9 | 5 |
| Store account in town | 36 | 26 | 21 |
| Local store account | 18 | 29 | 16 |
| Other hire-purchase | 36 | 23 | 20 |
| Personal emergency | 76 | 76 | 52 |
| Family need (school fees, etc) | 18 | 23 | 14 |
| Help family member with problem | 36 | 38 | 32 |
| Entertainment (party, dinner, etc.) | 44 | 26 | 24 |

N = 68

and distribution sector, which uses credit arrangements to supply working capital as well bankrolling its initial start-up or later expansion. By comparison, a much larger proportion of informally active men were in the service sector, employed as workers in informal businesses, or serving as local officials.

Both men and women also used credit frequently to help with store accounts or hire-purchase contracts, thereby using informal credit to translate the inelastic terms of formal credit into a more easily handled state, even if this also put them onto a higher interest rate. Both men and women also frequently took loans on behalf of close relatives who found themselves in need, and also very often used informal credit to pay for entertaining - either small-scale, in the form of buying drinks, or on a larger level, on important social occasions. But the single most frequent credit demand was in the category of personal emergencies - any kind of occasion where the

respondent found himself caught short and had to borrow. To oversimplify, the use of credit then seems to fall into two major categories: the first is economic, in the form of capital or bridging credit, and the second is personal and social, in paying for various cash shortfalls.

Asking respondents what their own most frequent use of credit was produced additional clarification about where loan money goes to. For men respondents, the categories most frequently reported were buying drinks and housebuilding, both at 42%. This was followed by paying for food at 38%, paying stockfel contributions at 25%, paying for transport at 21%, and covering expenses relating to sickness at 17%. For women, the equivalent sequence began with buying food at 64%, providing capital to an informal business at 44%, paying stockfel contributions, transport, and accounts at 28% each, paying school fees and buying clothing at 24% each, covering costs related to illness at 16%, and buying drinks at 12%. Informal credit then covers some important functions in the community as well as in the economy of the household. Particularly, informal credit is closely involved in capitalizing the production sector, in the form of housebuilding and construction, as well as in bankrolling the informal distribution sector.

Informal credit is effectively adapted to small selling operations. These have a low, rapid turnover, and frequently leave the operator in the position of being short of working capital and unable to pay suppliers. Informal credit also does produce initial venture capital, though people normally try to find someplace where they can borrow their initial capital without having to pay the steep rates characteristic of interest-bearing loans in the informal credit market. Starting an informal business is an area where the community gives very high approval (80%) to the use of informal interest-bearing loans - though approval here is not quite as high as for buying your stock for an existing informal enterprise (86%), or for putting into the expansion of an existing informal business (89%), which rate very high indeed.

Lastly, informal credit does play a role in household agriculture, though it seems to be much less salient here in the thinking of local people than it is in relation to business and construction. No one spontaneously put forward loans for cultivation as one of their main

uses for credit. On investigating this point specifically, it turned out to be not uncommon; but peri-urban households generally try to hold a tight lid on their agricultural expenditure, and the amounts of agricultural capital actually provided locally out of the informal credit market seem to run mostly in the R5 - R 25 bracket. This type of borrowing tends to be very sporadic to boot, with a high percentage of the respondents who stated that they had at some time borrowed money to help in cultivation remarking that they had only done it once or twice, when money was needed more or less immediately and the family's resources would not quite cover it.

This need not mean that being able to borrow money for family agriculture is or has to be an insignificant aspect of the informal credit market. Since the peri-urban capital demand for agriculture is probably characteristically fairly low, it is possible that loans here may turn out to make up an important fraction of the total expenditure on household cultivation. At present, lacking a complete return on the agricultural credit survey, it is not really possible to say more about how much of KwaNgele's small agricultural production sector is drawing support from informal loans.

Since people put their informal loans to uses that are clearly significant both in development terms and in social terms, it may not be surprising that 76% of women and 90 percent of men reported that the interest rates currently normal in the community (25-50% on a small loan for a week, and 25-30% on a larger loan for 1-3 months) were the same as the rates they regarded as 'reasonable'.

But at the same time, attitudes toward credit in general were ambivalent. The general moral view of the credit environment is that money should never be borrowed casually and interest-bearing loans especially should only be undertaken for some serious purpose; but replies to the questions about the immediate reasons why people borrow money suggest that a fair amount of loan money does go into what the community frowns on as frivolous purposes. In addition, most men appear to enjoy making loans to others (87%), and feel a solidary relationship established or confirmed, but nearly everyone disliked having debts though they often express a despairing resignation about ever being able

to operate their normal economic life without them.

KwaNgele people now see indebtedness as a permanent condition of modern life. Even the elderly man with two pensions quoted above characterized debt as inevitable: "I don't like to keep credits myself, but it's nature; even whites, who are money-makers, they still have credits."

7. Credit loops in the informal economy - or, how to stay capitalized

Although informal credit is now tightly interlinked with the formal economy at a number of points, it still appears to behave in general as a functional aspect of a subsistence or peasant-type economy - that is, instead of being primarily structured to provide various forms of market-related capital, it is adapted to reducing the risk of **subsistence failure**. In the classical subsistence context, this is the limiting disaster case where all the household's means of support fail simultaneously, exposing the family to an effective siege of starvation, an unexpected stretch of time in which they have no way of obtaining food and basic necessities. In the modern context, this means running completely out of money.

Informal credit therefore develops various methods of ensuring that this kind of disaster can be avoided. In doing this, the household's main objective is to maintain a reliable **and steady** flow of income, enough to cover running expenses at all times. Since people working in the formal job market are often monthly paid, the household which depends entirely on wage work is subject to spells of cash shortfall, usually between the middle and the end of the month.

One of the major objectives of the informal sector itself frequently seems to be this alone - to bring another enterprise into the household's economy which will bring in cash on a different and independent cycle from that of wage work, regardless of whether or not it actually makes a profit over its costs. Informal credit contributes toward the same function. Although it also capitalizes economic enterprises, its basic purpose is to provide the household's working capital, if the household is seen as an enterprise with an internal economy of its own. In doing this in areas like KwaNgele, it works very closely with the household's various informal enterprises. Consequently, the end goal of the whole credit

cycle in the informal economy is to transform sporadic earning, informal or formal, into a predictable and reliable alternate income stream.

Looked at in this way, both the informal sector and informal credit act as a counterweight or balance wheel to offset the timing of income flow from the dominant formal sector. Informal borrowing appears to peak at times when the flow of formal income leaves the household exposed to its chronic cyclic risk. In addition, the informal credit network also insures the household against unexpected contingencies and provides for relatively large fixed expenditures. This means the household has to be able to tap an additional reserve at the point of need, a capacity which would be severely curtailed if it were not for another credit loop which provides a functional form of loan collateral.

Instead of investing their income above daily requirements in formal savings institutions, urban and peri-urban black communities tend to save against unpredictable risks by investing in credit obligations. These include both personal indebtedness and the local credit institutions, whether rotating credit groups or the larger credit coops. Saving money in debt form transforms a small fluctuating daily cash surplus in income into the form of an intangible obligation, which is safe both physically and socially, and which can be tapped at a known future date.

For the household, this means that a major objective of informal earning is to establish a debt network **which can be used as loan collateral** to establish the family's security properly by getting control over the unexpected. Since the scheduled payout from an informal credit association is also keyed to a cyclical delay, it does not help directly with immediate need, and relative safety in relation to emergencies comes from being able to borrow on short notice.

This borrowing requires security; and instead of banks' types of collateral, the informal credit system assesses creditworthiness on ability to repay. **Individuals who belong to credit associations then use their investment as security to borrow against.** Credit then becomes available on very short notice, from anyone in the area who may have cash on hand, and who will be willing to lend on the security of a scheduled payout from a known credit association; Case 3, in 2.1 above,

is a good illustration. Looked at from this angle, informal credit provides capital, credit, and loan security as part of the same cycle, in much the same way as the formal banking system.

8. The cognitive map of the credit environment: how people perceive potential sources of credit

Perceptions of possible credit sources offer an easy way onto the cognitive map of the credit environment. Respondents were asked which of a list of possible lenders were all right to get an interest-bearing loan from; the list itself was derived from a pilot investigation, and fairly effectively covered the field, as only three respondents said there was any other source of credit they would think of using. Results indicate that KwaNgele respondents approved in a general way of a considerable range of possible loan sources, most of which were located in their own local community and fall under the heading of informal credit. But if these possible sources are lined up in order of their approval rating, the basic shape of cognitive credit begins to appear.

Table 5

POTENTIAL SOURCES OF CREDIT: MEN RESPONDENTS' RANK ORDER OF PREFERENCE

frequency distribution of replies by percent

| | | |
|----|--|-----|
| 1 | Close relative staying at another house | 91% |
| 2 | Someone related but not closely | 89% |
| 2 | Neighbor | 89% |
| 2 | Friend around home | 89% |
| 3 | Close relative staying with you | 85% |
| 4 | Respondent's own stockfel | 82% |
| 5 | Friend from work | 79% |
| 6 | Person near home lending money as a business | 74% |
| 7 | Person near home not related or close to you | 68% |
| 8 | Another local stockfel | 62% |
| 9 | Employer | 59% |
| 10 | Bank or lending institution | 26% |

N = 34

Looking at the trend of the results here suggests that approval and confidence in the credit environment flows outward from its cognitive center in a concentric wave form, like ripples in a pool. Although the exact sequencing of their results are not the same, both men and

Table 6.

POTENTIAL SOURCES OF CREDIT: WOMEN RESPONDENTS' RANK ORDER OF PREFERENCE

frequency distribution of replies by percent

| | | |
|---|--|-----|
| 1 | Friend near home | 97% |
| 2 | Someone related to you but not closely | 94% |
| 2 | Close relative at staying at another house | 94% |
| 3 | Close relative staying with you | 91% |
| 3 | Neighbor | 91% |
| 4 | Friend from work | 76% |
| 5 | Person near home not related or close to you | 68% |
| 6 | Your own stockfel | 59% |
| 6 | Another local stockfel | 59% |
| 7 | Person near home lends money as a business | 53% |
| 8 | Employer | 40% |
| 9 | Bank or lending institution | 26% |

N = 34

women give the most consistent approval to people they are most intimately and confidently associated with in their local environment, and show progressively less confidence in more distant, less intimate, and more impersonal credit sources. Though borrowers are also attracted to discretion and privacy, mutual confidence based on long-standing personal relationship seems to outweigh privacy by a large margin where privacy is the only inducement.

Women, who have on the average less experience in dealing with the urban environment, handling wages, and coping with the outside world generally, and who also tend to have significantly lower personal incomes, tend to be more distinctly localite in their thinking than men; but a similar decline of confidence as potential loan sources move away from the face-to-face social contact of the locality is evident in both cases. Men are more likely than women to approve of borrowing from employers, but the relatively massive lack of confidence in approaching formal lending institutions is roughly the same for both at 26% approval.

The relatively sophisticated citizens of KwaNgele live ten minutes away from Pinetown and are normally quite familiar with urban life; both men and women sometimes seem to spend a large part of their lives riding back and forth to and from town on public transport. If modernization is

in the old sense of Lerner and Rogers the process of moving away from localism and becoming a citizen of the world, then it may be significant that the KwaNgele sample does not show more willingness to approach formal lending institutions in the urban environment. This is more noticeable since as rural black communities go financially, KwaNgele also stands better than most.

However, only three people in the sample admitted to ever having taken bank loans - an elderly traditional man, a young well-educated woman, and a less-educated young man who smugly described himself as a bank employee. Nor did anyone, among all the suspicious and fearful comments about banks, ever make the point that bank loans are cheaper than interest-bearing informal credit. If banks managed to put this point across, their acceptability might rapidly increase; but comments still suggest that their image is one of authoritarian remoteness which enforces an abject discomfort on the borrower.

Particularly, respondents associate banks with hard loan terms which do not take account of circumstances, and with the danger of losing your property or being put in jail. Among those who did approve, remarks suggested that it takes a person with a cool nerve and ready assets to deal successfully with a bank.

Table 7

"BEST" PERCEIVED SOURCE OF CREDIT
percentage distribution

| | MEN | WOMEN | |
|------------------------------|-----|-------|--------|
| close relative at home | 29 | 35 | 22 |
| close relative another house | 3 | 12 | 5 |
| neighbor | - | 6 | 2 |
| local friend | 3 | 9 | 4 |
| own stockfel | 21 | 6 | 9 |
| other stockfel | 3 | - | 1 |
| distant relative | - | 3 | 1 |
| local unrelated person | 6 | - | 2 |
| local lender | 6 | 3 | 3 |
| work friend | 9 | 9 | 6 |
| employer | 12 | 12 | 8 |
| bank | 9 | 6 | 5 |
| | 34 | 34 | N = 68 |

Asking respondents to sort out from the list of possible loan sources the "best" and "worst" ones shows a different aspect of the credit map.

Instead of the very wide spread of sources that meet with approval in principle, a few categories stand out and seem to account for most of the cognitive workspace involved in thinking about lending.

Table 8

"WORST" PERCEIVED SOURCE OF CREDIT
percentage distribution

| | MEN | WOMEN | |
|------------------------------|-----|-------|--------|
| close relative at home | 21 | 12 | 11 |
| close relative another house | 3 | - | 1 |
| neighbor | 6 | 12 | 6 |
| local friend | - | 6 | 2 |
| own stockfel | 18 | 21 | 13 |
| other stockfel | 6 | 3 | 3 |
| distant relative | - | - | 0 |
| local unrelated person | 3 | 6 | 3 |
| local lender | 6 | 6 | 4 |
| work friend | 6 | 6 | 4 |
| employer | - | - | 0 |
| bank | 32 | 27 | 20 |
| | 34 | 34 | N = 68 |

The cognitive point of departure is the category "close relative in home", which concentrates by far the most attention of any category of possible lender. About a third of the sample, both men and women, put forward the members of their own household as their preferred loan source, and relatively high percentages also cited the same people as the worst possibility. Clearly, the people in the KwaNgele sample look first to their own co-resident family when they think about borrowing, and form their evaluation on the basis of the treatment they individually get.

Working outward, it looks as if people vaguely and generally approve of the idea of borrowing from other relatives and people around home, but need not actually focus much attention on the possibility of doing so. For men, no loan source within their personal network other than their own household seems to have real significance. Once outside the home, the next stop in their cognitive map of loan sources appears to be their own stockfel.

In contrast, women in the sample appear still to feel themselves more embedded in the kinship network and less comfortable with semi-impersonal groups like credit associations - or, less able to cope

financially with the demands of repaying a fairly delimited and bounded type of credit.

Once the people of their own home have been taken into consideration, a mosaic of other individual connections on the local scene seem to retain their significance as back-up loan sources in preference to any stockfels. More women (21%) pointed out their own stockfel as their worst credit source than indicated any other category within their regular orbit. The men in the sample seem to see their credit environment differently. For them, this function of alternate loan source within easy reach of home seems to have been taken over by the less personal agency of the prospective borrower's own stockfel.

Once outside the local context, a second credit focus appears, less strong than the ones in the home area: 12% of men and women respondents alike chose their employer as best-liked source of credit, and 9% each way selected friend from work. And at the same time, while another 6% each of men and women also identified a friend at work as their least-liked credit source, no one identified the employer category as least-liked.

Finally, at the extreme outer margin of the cognitive map, and frightening as the forest in Grimm's Fairy Tales, can be found the formal credit market, in the person of the final impersonal outside agency, the bank. Unlike employers, banks as lenders seem to draw the lightning of anxiety and disapproval from this semi-rural population. They form the strongest single focus of dislike for both men and women, at 32% and 27% respectively. In cognitive terms they seem to exert the reverse polarity of the close though anxious attention drawn around the concept of the family or close, in-dwelling relative as credit source - with the exception that for the family members negative feelings are apparently balanced or outweighed by positive aspects, 29 - 21% for men and 35 - 12% for women. In the case of the big urban lending institutions, any positive attraction seems to be pretty well swamped by negative associations: the difference was 9 - 32% for men, and 6 - 27% for women.

It is also worth noting here that education is not clearly the main factor involved here: of the men who were willing to consider banks as

a credit source, 55% were completely uneducated men of semi-traditional outlook. Only two, or 22%, were younger educated men of modern outlook.

The factors involved form a clear pattern. The main dimensions on which the community evaluates the acceptability of potential lenders are fivefold: **cost**, the question of whether the borrower will have to pay interest or not; **discretion**, whether or not the lender will respect the borrower's desire for privacy at all times; **patience**, the quality of being willing or unwilling to be flexible about repayment; **sympathy**, or ubuntu, human warmth and the quality of responding to the borrower's need; and **reliability**, dependability in observing the (usually verbal) loan agreement. To these can be added the usually less important factors of access, or convenience; timing, the quick availability of credit; profit, or making money on the deal; and standing, the effect on the borrower's reputation.

From these, the ones that figure most largely in choosing a 'best' loan source are discretion and sympathy (23% each), followed by patience (18%). Profit ranks well down, joint third at 11%. For designating a 'worst' selection, lack of sympathy ranks first (26%), followed closely by impatience (24%). Banks ran up a higher score on impatience (54% of mentions in the category) than any other category for any other negative or positive factor. They also made 100% of the scoring in the negative category of inaccessibility. They made noticeable positive scoring only for discretion, with 14% of mentions in that category.

By comparison, close relatives scored well for discretion, sympathy, and giving loans for no interest, and badly again for lack of sympathy, indicating that people expect sympathy from their families and don't always get it. Employers were worth noticing for having no negative score whatever, (probably due to other candidates for 'worst' status seeming more urgent and deserving) plus modest positive scores for patience, sympathy and foregoing interest. Unlike banks at the present moment, a human relationship of some sort exists between KwaNgele respondents and their employers. This may be unfortunate, if it is true that the rates of interest for informal credit are rising so rapidly (from 12% to 25-50% in two years) partly partly because the traffic will bear the increase and there is no formal-sector competition to slow

it down.

9. Assessment: development policy in relation to credit

The foregoing may then suggest that the problem in relation to credit should not be seen primarily as one of capitalizing agriculture. Agriculture is of tremendous importance in alleviating actual want; and as perhaps the major activity in the production sector, it retains great economic significance. It is also more important to the local economy in the poorest outlying districts than in the relatively better-off peri-urban zone. At the same time, what is likely to be of equal or perhaps even greater urgency is the question of getting the maximum possible benefit from the circulation of urban wage earnings by capitalizing the informal sector more generally, while avoiding the loss of local savings into large urban institutions as much as possible. In both of these objectives, informal credit seems to be not just the main means at present, but possibly in some respects the most effective.

In a number of other respects, formal credit might be able to do better. The chief limitation of informal credit is its very high cost. This kind of cost factor is the main reason which Polly Hill notes as having caused colonial authorities and present-day development planners to dislike informal credit and try to stamp it out. Hill's position seems to be the correct one when she argues that it is a great mistake to try to suppress informal credit: it is normally an essential part of rural life, and in addition it is likely to be all there is - **the only viable form of credit available outside of the cities.** It tends to be an unfortunate fact that official lending programs may be enormously cheaper, but they characteristically don't seem to reach the poverty section of the community (Hill, 1982, 217).

Questions relating to the potential role of credit in rural development within greater South Africa are then likely to be shaped by what will hopefully emerge as a debate over the possible role of formal credit. The limitations of informal credit tend to be assumed, if it is taken into account at all; but it is also necessary to consider the very serious limitations of formal credit in impoverished rural areas.

The initiatives relating to mortgaging which are already going forward are to get land freed to be used as an asset in the credit market, so it can be pledged as security to capitalize rural agriculture. Results from this study among others suggest that it ought to be questioned whether this is really necessary, or if it is, then under what conditions it is necessary and under what conditions it is likely to succeed. Formal loans are not only cumbersome, impersonal, and inaccessible - they are also a good way for rural people to lose their only assets. How to get formal credit into the rural economy on a viable basis needs debate before it needs inadequately considered policy.

What needs to be established then is the real need for development-related credit - either for agricultural or other types of informal economic activity - in the present and probable future context. Evidence collected so far in the peri-urban zone suggests that the interaction of saving, capital, informal lending, and formal-sector credit is fairly complex, and different positions appear in the literature as to the value for development purposes of different types of formal and informal credit. But the known situation does have implications for the capitalization of agriculture.

As has been reported elsewhere for this same sample (Cross 1985), agriculture has a relatively low priority among household enterprises in regions of this type. It is also a very risky enterprise, and difficult to manage in terms of its labor demand. In addition, it doesn't fit well into the turnover cycle of informal credit.

Because of the long time gap between any cash return from one season's crop and the demand for capital at the next planting, agriculture as an informal activity is atypical. The informal credit market tends to provide loan credit on a very short-terms basis in most cases, and at comparatively high rates of interest. This kind of credit structure is an acceptable backup for the selling operations in the small-scale informal sector to which it is adapted, where the amounts of capital needed are relatively small and turnover is rapid and continuous; however, it doesn't suit agriculture. Unfortunately, the same is probably true of formal credit. Peri-urban agriculture is small-scale,

informally run, and subsidiary to wage work in the household economy. All indications are that it will stay that way.

Getting an informal loan of any size to capitalize cultivation is an expensive proposition if the rates for loans over a month to six months reach 25% or more, as they seem to. Likewise, neither the interest nor the principle is likely to be recouped directly from the profits of selling the product. But the same applies to formal sector credit from the opposite side: loans of the size needed are too small to be economic, let alone justify a mortgage.

What may turn out to be most successful in helping peri-urban families to intensify their agriculture successfully might be to attack the constraint structure from a different direction. The principle of making the inputs themselves (seed, fertilizer, insecticide, sometimes implements) directly available (just before planting, at pension payout points) in a cheap standard package form has been successfully used in Indonesia (*Newsweek*, 31 March, 1986) as well as in other places.

Together with assistance in marketing and/or a guaranteed floor price for produce (made available later in the season at same place), and possibly cheap crop insurance, this kind of assistance in overcoming the bottleneck in obtaining inputs might make agriculture a more attractive investment. In these conditions, peri-urban families might even be tempted to put the necessary money and labor into plowing and weeding.

Should it be needed, informal credit for agriculture-related shortfalls might then also become a more attractive proposition if a good return were made more probable and the opportunity cost reduced. In this kind of formulation, the need for formal credit would not be very great, and mortgaging as a policy measure to capitalize agriculture would probably be not only unnecessary but also counter-productive - and probably dangerous. Informal credit, while not ideal, could probably fill the gaps as they occur.

This is not to say that credit should not be made available from the formal sector - only, that this will not be easy. If it is expected that formal credit will take over the burden of development-related rural lending as soon as possible, then this conclusion can only be

reached by ignoring what has now been conceded for the rest of the rural economy: that distribution problems lie at the heart of rural poverty. In other words, that rural poverty is not a question of how much is produced or how much is available, but where in the space economy its production and distribution makes it available. In rural areas, very few formal-sector products are available on an over-the-counter basis.

Formal urban credit to some extent follows von Thunen's model of the ideal space economy - certain kinds of credit are available and economic only at certain locations. Formal urban types of credit, which are usually highly bureaucratic and expensive to administer, are likely to be economic chiefly in urban and developed areas where the shape and turnover of the credit market can sustain them. It appears that there is going to be a lot of scope for the new forms of credit which Nattrass and Glass have called for.

10. Analysis: providing for the future demand for rural credit

Whatever is done in regard to supplying effective credit to rural communities will have to take account of the existing structures defined by informal credit. Here is Schaefer-Kehnert and von Pischke, writing in the journal Savings and Development on the issue of informal credit in a modern agricultural lending program for Third World countries:

"In most developing countries noninstitutional credit will remain an important element of rural financial markets and at the least should be regarded as a supplementary source of financing in agricultural credit policy...However, noninstitutional credit exhibits shortcomings that cannot be overlooked. It is hardly adequate for large investment plans, and it cannot easily provide medium- and long-term loans for such plans. For small farmers it may not be more costly than conventional bank credit, but institutional credit could potentially be more efficiently organized..." (1986, 9)

In relation to the chances for banks, they add:

"Private banks in most developing countries have little interest in agricultural credit and seldom participate in credit programs for small farmers...on the other hand, many state credit institutions are not in a position to attract savings deposits...agricultural credit programs thus rely largely on government funds...these interventions by the state may very well be two-edged..." (1986, 19, 22)

Results from the KwaNgele credit study suggest that capitalizing agriculture is not the only issue in this type of area. Instead, the main issue for credit is likely to be the possibilities for making credit effectively available in relation to two main forms of demand:

1. capital loans into the production and distribution sectors in the R 200-1000 bracket, where informal loans are often not

available, or if obtained may need very high interest;

2. backstop credit for the day-to-day needs of consumption, and particularly for the poor, where cash shortfalls are not always made up by informal credit.

In this context, the most serious problem with informal credit is probably the high interest rates for interest-bearing loans, coupled with the uncertain availability of interest-free credit. It is likely that not very much can be done about prevailing interest rates, which respond to what the traffic will bear; but it is at least possible that providing some competition, in the form of larger loans available at somewhat lower interest rates, might help to slow their rise.

In the light of this kind of analysis of the actual demand for development-related credit, two possibilities occur for bringing in the formal sector to help. One concerns making formal-sector loan money available in the R 300 or higher category, and the other relates to the chances for formal-sector savings entering directly into the rural community.

10.1 Recommendations: employers as a vehicle of formal loaning

One possibility which has been drawing attention lately is the idea of routing loans through the urban employers of rural-based workers. The preliminary results of the KwaNgele credit survey suggest that this idea may have some unanticipated potential. Employers now appear to figure in the local credit environment as a significant source of larger loans. As potential lenders, they have a moderately good percentage of 'best' ratings, interestingly balanced against a total absence of 'worst' attributions. Although there seems to be suspicion and reserve associated with the idea of borrowing from employers, a lot of this may be due to the inja nekati factor, the perception that workers and bosses are natural enemies, and to not wanting to be in a position of asking for favors from the dominant side in a tense and charged relationship.

Lending programs through employers would at least put formal credit on the normal trip route of rural workers; and it would also have the

very significant advantage of placing the loan transaction in one of the acceptable zones of the cognitive credit map. If prospective borrowers dislike the idea of entering unknown country in order to look for something as important and intimate as a loan, then putting the immediate transaction into a relationship which is known and tested, familiar and to some degree acceptable, make be an important step in making it acceptable as well as accessible.

In this light, it might then be worked by enabling the formal lending institutions of the urban credit market to lend funds through firms or through private employers. Alternately, firms willing to try it might borrow money from the government at subsidized rates to serve as loan capital. Interest rates charged to workers would clearly have to be very low, to avoid suspicion of profiteering at the expense of the workers. But in addition, it is extremely important that these low-interest loans **must be portable**. That is, they must be designed so that the worker doesn't get into the position of finding himself tied to one firm and unable to change jobs because of his credit obligation to his present firm; this is the type of practice which has deservedly given capitalism such a bad name in the past (see Cunnison, 1973, for a contemporary example).

Instead, the worker would have to be able to transfer his loan to another workplace very easily, more or less just by signing for his (standardized, computerized) loan passbook and taking it across to his new firm. In addition, it would probably need to have a ceiling attached - something like a month's salary, or an average month's salary for the industry - to make sure that workers don't get in too deep. On these conditions an easily available loan between R 300 and R 1000 might go a long way towards filling the credit gap left by informal lending; and might even, if administered cheaply enough and/or subsidized as a way for firms to improve their images, break even financially.

Lastly, it would have to be made crystal clear at all stops that the process is entirely voluntary. Enough distrust has been aroused already by the misunderstandings over pension funds to make it clear this kind of system could not be based on any kind of intra-firm levy. The potential for false steps to go wrong is very evident in the fairly

negative general attitude associated with employer credit in the early replies to the KwaNgele credit survey.

10.2 recommendations: formal savings to secure informal loans

The second problem, that of providing money out of the formal sector directly into the rural community itself, requires a point of contact to be established where the community and the outside credit market can come together. As Hill and Schaefer-Kehnert and von Pischke have commented, efforts by the formal sector - private banks and government - are not easily likely to succeed as they are usually set up. But **if it is conceded at the outset that day-to-day credit will have to be informal**, then it may be possible to link the formal and informal credit cycles in a way that may serve the purpose. That way, the problem can be resolved into **how to allow people with low incomes to secure a line of informal credit**. In this respect, **formal savings** may be more useful than formal loans.

What might work is to encourage the organized credit market - alternatively the government - to oversee the establishment of a rural savings bank, to be run on a cooperative basis if possible. The necessary contact point might then be provided at rural pension payouts, which take place on a rotating basis every second month. If representatives of the new bank were to appear in rural communities on pension days, fully equipped with stamps, quadruplicate forms and all the usual equipment to register transactions, they might be made the next stop in the queue after the paying out of rural pensions. With money in hand and the need for cash not yet overwhelming, the chances that people in the low-income pension category could be persuaded to start a savings account are probably as high as they ever could be. In addition, local markets tend to form around pension payouts, drawing local informal-sector operators (Cross, 1981, 1985; Preston-Whyte, 1985). These people would then also get the most convenient access to a savings facility.

Chances for savings formation might be further improved if a kind of lottery were added in, where a certain number of depositors each month could win a triple pension (or the actuarial cash equivalent for younger

people) for life. In this type of set-up contact between the savings bank operation and the community would then be possible only once in two months; but this could be enough to fulfill its objectives.

Money from these accounts could then be re-lent to rural people wanting small or medium-sized capital loans, whether for construction, informal enterprise, or any reasonable purpose. However, any enabling legislation to set up such a bank would have to include the provision that rural savings could not be used in the developed core economy, but would have to be used to cover development needs in rural areas. On this basis, government or the Development Bank might conceivably be convinced to provide matching funding.

But the main purpose of this kind of savings exercise would not be primarily the mobilizing of development capital. Instead, the goal would be to enable holders of savings books **to establish a line of informal credit within their own home community**, which they can then tap, in between actual contact with the savings bank on pension days, to obtain credit against both daily expenditures and emergency needs. A plan of this kind might not work as anticipated; careful pilot research and experimentation would be needed to establish its real-world chances. But doing it like this might enable a new savings and credit resource to come into being, which would work along lines which are known and understood in the community. By arranging this kind of a link between formal credit and the informal credit cycle, it may be possible to create more benefits than might be supplied by either alone.

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