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The informal financial sector and macroeconomic adjustment in Malawi

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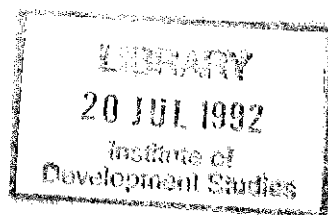M.L.C. Mkandawire

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The informal financial sector and macroeconomic adjustment in Malawi

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The above shortcomings of the formal and semi-formal banking system are being felt more and more as SMEs involved in trading, service and manufacturing industries expand, and as the licensing of new SMEs to market and export primary products creates new demand for credit. According to a recent study (Malawi/USAID, 1987), SME investment in trading, service and manufacturing activities is projected to rise from MK16 million in 1987 to MK35 million in 1991. Internally generated funds and INDEFUND/SEDOM credit will not be able to finance all the projected investment. The study projects a financing gap of MK1 million in 1989, rising to MK9 million in 1991. If we add the financing needs of the marketing and export SMEs to that figure, the gap becomes even larger.

To address this problem, Malawi has partly relied on increasing the lending base of semi-formal financial institutions through donor finance, thus making this sector more dependent on uncertain foreign-aid flows. It has also relied partly on upward interest adjustments. Indeed, in order to increase financial savings, promote efficient allocation of bank credit and the extent of financial intermediation against the background of high rates of inflation (Tables 1, 2, and 3), Malawi has adjusted short-term rates of interest fairly frequently since the mid-1970s and especially after 1979 (Table 4).

Table 1   Consumer price index* and inflation rates
(1980=100)

Year	Index	Inflation rate
1968	36.9	
1969	37.8	1.08
1970	40.8	9.38
1971	44.1	8.09
1972	45.7	3.68
1973	48.1	5.25
1974	55.5	15.38
1975	64.1	15.5
1976	66.9	4.37
1977	69.7	4.19
1978	75.7	8.61
1979	84	10.96
1980	100	19.05

Source: International Financial Statistics Yearbook, 1986.

*   Consumer price index for Blantyre low-income group.

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I. Introduction

Objectives of the study

The aim of this study is to improve our understanding of the nature, size and role of the informal financial sector in Malawi. More specifically, the study pursues the following interrelated objectives:

1. To determine the origin and underlying reasons for the development of the informal financial sector side by side with the formal and semi-formal financial sector;

2. To ascertain the behavioural traits of the participants in the informal financial sector in terms of the characteristics of savers, lenders and borrowers; the nature, terms and conditions of credit; and the purpose for which resources are saved or borrowed, etc.; and

3. To ascertain the size of the informal financial sector, and, if possible, the size of individual sub-sectors within it, as well as future prospects for the informal financial sector.

For the purpose of this study, the informal financial sector consists of those economic entities and their financial transactions which are not directly amenable to control by key monetary and financial policy instruments. The term "informal" is used here for lack of a better word.[1] In no way does it imply that this sector operates without internal rules and established procedures. By its nature, the informal financial sector is heterogeneous, made up of all types of individuals and intermediaries. A convenient classification might be into (i) proprietary informal financial entities, such as money lenders (*katapila*), traders, estate owners, grain millers, smallholder farmers, and other businessmen; (ii) mutual aid entities, such as savings and credit associations (SCAs), co-operatiye savings associations (CSAs) and community funds; and (iii) staff and social welfare schemes, such as those run by employers, friends, relatives and neighbours. The terms "proprietary" and "mutual aid" have been used before (Chandavarkar, 1985).

Excluded from the definition of the informal financial sector are institutions whose establishment is the subject of statute law and whose operation is in one

way or another subject to official regulation and control. These institutions, which constitute the formal financial sector, consist of a central bank, two commercial banks, a Post Office Savings Bank (POSB), a building society, eight insurance and assurance companies, two hire purchase and lease finance companies, and one development bank. Also excluded are a number of semi-formal financial institutions that are subject to nominal regulation and control even though their establishment may be subject to statute law. These are the credit unions that operate under the umbrella of the Malawi Union of Savings and Credit Cooperatives (MUSCCO), two small development finance companies that serve the small-scale and medium-scale business community, a smallholder agricultural credit fund and a newly established village banking institution catering for the needs of low-income rural households who have no alternative sources of credit.

Hypotheses

In pursuit of the objectives stated above, this study attempts to answer the following questions:

1. Whether the informal financial sector plays a significant role in mobilizing financial resources in general, and in financial intermediation, i.e. in the mobilization and allocation of savings, in particular;

2. Whether the informal financial sector plays a significant role in extending credit to priority sectors;

3. Whether real rates of interest are higher in the informal financial sector than in the formal and semi-formal financial sector;

4. Whether the informal financial sector complements the formal and semi-formal financial sector;

3. Whether the informal financial sector is a significant source of income and employment;

6. Whether the size of the informal financial sector is significantly larger than the size of the formal and semi-formal financial sector.

Scope

For almost all analytical purposes this study covers the entire country. For some purposes, however, it is divided into (i) the rural sector (smallholder sub-sector and estate sub-sector), and (ii) the urban sector. The former accounts for 89 percent of the country's population, while the latter has the remaining 11 percent.

II. Background and justification

The formal and semi-formal financial sector

As in many other less developed countries, the formal and semi-formal banking system in Malawi is fragmented and repressed. All financial institutions except commercial banks, the POSB and credit unions exist only in urban areas. Most of them offer a narrow range of financial services. The commercial banks concentrate on providing working capital, mainly to large-scale business enterprises. The development banks rely on foreign resources more than domestic resource mobilization to finance their operation. In addition, the Investment and Development Fund (INDEFUND), the Small-scale Enteiprise Development Organisation of Malawi (SEDOM) and MUSCCO, are the only organizations which lend money to small- and medium-scale enterprises (SMEs) in the fields of retail and wholesale trade, service industries (e.g. repair of shoes, radios, watches and motor vehicles, restaurants, rest houses and bars), and manufacturing activities (clothing manufacture, carpentry, food processing, sheet metal products, etc.) (Malawi/USAID, 1987). Neither do small- and medium-scale export enterprises and consumers receive much financial support.

The estate agricultural sector obtains short-term (seasonal) finance from commercial banks. In the absence of a land bank, commercial banks were directed to provide medium-term loans to this sector for opening new estates in the mid-1970s. From March 1980 to July 1989, all credit for estate tobacco and maize was provided at subsidized interest rates. The Government extends credit, mainly seasonal, to the smallholder agricultural sector, but the coverage of this credit scheme is limited to only 23 percent of smallholder farmers (Malawi Government, 1988a).

The insufficient delivery of loans to SMEs is partly due to the limited legal mandate that most of the formal financial institutions have and, with the exception of commercial banks and insurance companies at present, lack of adequate resources. Although the commercial banks and insurance companies have sufficient resources to lend to SMEs, they do not extend much credit to them because it is costly to deal with a large number of SME borrowers, SMEs are considered risky borrowers, and because historically and intentionally, their target group has excluded SMEs (Malawi/USAID, 1987).

Table 2   Composite retail price index*

Year	Index	Inflation rate
* 1980	100.0	
1981	110.4	10.40
1982	120.0	8.79
1983	136.2	13.41
1984	151.2	11.01
1985	173.8	14.95
1986	199.7	14.90
1987	252.9	26.70
1988	332.2	31.50
198_9	N/A	15.70

Source: National Statistical Office, *Monthly Statistical Bulletin,* July 1987.
*   Composite retail price index for the cities of Blantyre and Lilongwe only.

Table 3 Changes in prices as measured by
the GDP deflator

Year	GDP deflator
1964	23.7
1965	15.1
1966	3.3
1967	-0.3
1968	4.8
1969	2.0
1970	7.4
1971	9.7
1972	7.2
1973	-0.2
1974	17.9
1975	8.8
1976	8.7
1977	14.0
1978	1.5
1979	3.7
1980	17.6
1981	16.3
1982	9.4
1983	11.5
1984	18.8
1985	7.1
1986	12.5
1987	25.1
1988	26.3
1989	16.8

Source: IMF, *International Financial Statistics 1986* and Malawi
Government, *Economic Report* (various issues).

Table 4 Nominal interest rates, 1966-1990

End of year	Rank rate	Commercial Banks				Building Society		
		Treasury bills (91 days)	Savings deposits	Time[1]	Bank overdraft prime rate	Savings	Fixed deposits[2]	Minimum mortgage rates[3]
1966	4.50	4.01	3.00	3.75	7.00	3.00	6.25	7.50
1967	4.50	3.00	3.00	3.75	7.00	3.00	6.25	7.50
1968	5.50	5.08	4.00	4.50	7.50	4.00	6.50	7.50
1969	5.50	5.08	4.00	4.50	7.50	4.00	6.50	7.50
1970	6.00	5.59	4.00	5.50	8.50	4.00	7.00	8.00
1971	6.00	5.59	4.00	5.50	8.50	4.00	7.00	8.00
1972	6.00	5.59	4.00	5.50	8.50	4.00	7.00	8.00
1973	6.00	5.59	4.00	5.50	8.50	4.00	7.00	8.00
1974	6.00	5.59	4.00	5.50	8.50	4.00	7.00	8.00
1975	6.00	5.59	4.00	5.50	8.50	4.00	7.00	8.00
1976	7.00	6.00	5.50	7.50	10.00	5.00	8.50	8.50
1977	7.00	6.00	5.50	7.50	10.00	5.50	8.50	8.50
1978	7.00	6.00	5.50	7.50	10.00	5.50	8.50	8.50
1979	8.00	7.25	6.75	8.75	11.50	6.75	9.75	9.75
1980	10.00	9.00	8.75	10.75	13.50	8.75	11.75	11.75
1981	10.00	9.00	8.75	10.75	13.50	8.75	11.75	11.75
1982	10.00	9.00	8.75	10.75	13.50	8.75	11.75	11.75
1983	10.00	11.00	10.75	12.75	13.50	10.75	13.75	13.75
1984	10.00	11.00	10.75	12.75	13.50	10.75	13.75	13.75
1985	11.00	12.75	10.75	14.25	16.00	10.75	15.75	13.75
1986	11.00	12.75	10.75	14.25	16.00	10.75	15.75	13.75
1987	14.00	15.75	13.75	17.25	20.00	13.73	18.75	17.75
1988	11.00	12.75	10.75	13.25	17.00	10.75	13.75	13.75
1989	11.00	15.75	10.75	M'A	18.00	10.75	13.75	13.75
1990	14.00	N/A	12.00	N/A	15.00	12.00	N/A	N/A

1. Twelve months and over.

2. Thirty-six months and over.

3. Minimum mortgage rate for owner occupation.

All the interest-rate adjustments, except the ones which were carried out in August 1970 and April 1988, have been upwards. The strategy has implicitly assumed that what matters most in financial savings decisions is the interest rate or opportunity cost of consumption, which in turn determines willingness to save. The level of income which determines ability to save has only recently been given prominence in the strategy. The foreign capital inflows which may complement or compete with domestic savings are not given consideration. Expected inflation, as a proxy for future price expectations, is now receiving due attention, but not returns on physical capital goods or institutional factors.

The upward adjustments in short-term interest rates reached their peak in July 1987, when, for example, the prime overdraft rate was raised to 20 percent, the savings deposit rate to 13.75 percent, the interest rate on long-term deposits to 17.25 percent, and the bank rate to 14 percent per annum (Table 4). This exercise was accompanied by a measure that gave commercial banks a say in the setting of the prime overdraft rate. These high rates of interest discouraged borrowing and raised the cost of funds to all financial institutions. Consequently, they were reduced by three percentage points in April 1988 (Table 4). This adjustment was accompanied by a measure that gave non-bank financial institutions some power to determine their own deposit rates. Potentially, this gives non-banks the opportunity to raise deposit rates above their level at commercial banks to attract savings away from commercial banks. In fact, the Post Office Savings Bank took advantage of this to keep its savings deposit rate at 13.75 percent until October, 1988, while all other financial institutions decreased theirs to 10.75 percent in April, 1988. But from 1 May 1990, all deposit and lending interest rates were liberalized with appropriate signals for change to be given by changes in the bank rate whenever necessary.

Another development that has probably affected the competitiveness of various financial institutions is the introduction of a 10 percent withholding tax on interest income in 1988 (*Daily Times,* 6 October 1988, p. 6). This tax applies to individuals who pay income tax and is payable on interest income exceeding K100.00 per annum. Previously, tax on interest income was payable only by depositors at the New Building Society and by companies depositing funds at commercial banks and the New Building Society whose accounts are audited. Interest income from the Post Office Savings Bank was arid still is exempt from income tax. The introduction of the withholding tax implies that the net return to large depositors is now lower at the commercial banks than at the Post Office Savings Bank, whereas before it had been the same. However, owing to the comparative inefficiency of the Post Office Savings Bank, the reduction in the return on deposits at commercial banks has made the Post Office hardly more competitive.

More recently, Government has made a number of proposals to expand the provision of resources for smallholder farmers and SME credit. One of these aims at improving the services offered by the POSB to enable it to mobilize more resources. In addition, a review is under way to determine whether the POSB should extend credit to rural traders and manufacturing enterprises. At

present, the POSB lends money to Government only. Extending credit to SMEs will need considerable modification to buildings and retraining of employees. As such, the benefits from this project, if implemented, will only be felt in the long-term. Among other things, Government is encouraging the commercial banking sector to become involved in financing SMEs by introducing a loan-guarantee facility at SEDOM and may, through legislation, direct a specific volume of lending resources to this sector (Malawi Government, 1988a). Whether government will be able to adopt the latter course of action will depend on the attitude of the commercial banking sector. Yet another proposal is to let the Malawi Union of Savings and Credit Cooperatives (MUSCCO) play an active role in funding investment and working capital needs of SMEs and get involved in the possible mobilisation of financial savings (Malawi Government, 1988a).

Investment in housing, both for rental and owner-occupiers, has declined sharply in recent years, partly as a result of lack of funds. A new investment facility was introduced in 1988 at the New Building Society allowing tax-free interest payments—up to a given maximum—on special deposits by companies and individuals. The interest rate, which initially was 9.25 percent, now stands at 10.75 percent per annum for individual savers. For corporate savers the rate of interest of 9.25 percent still applies. The Society will be encouraged to use this facility to design relatively attractive mortgate arrangements for first-time buyers (Malawi Government, 1988a).

Generally, the trend in savings and investment in the country is also downward. Gross domestic savings fell from 14.9 percent of GDP in 1979 to 11.4 percent in 1980 and 8.4 percent in 1986. Although the savings rate increased subsequently, to 12.5 percent in 1987, it was still below the rate achieved earlier. Subsequently, the rate of domestic saving declined to 8.9 percent in 1988 and 4.0 percent in 1989 (Malawi Government, 1990). The share of gross fixed investment declined from 30.9 percent of GDP in 1978 to 12.9 percent in 1987, again below the rate achieved in the earlier period (Malawi Government, 1988b), but subsequently increased to 15.5 percent in 1989 (Malawi Government, 1990).

The growth of domestic savings in relation to investment is expected to remain low in the medium term. This implies that the economy will continue to rely heavily on external sources of finance. Considering the adverse repercusions of foreign commercial borrowing, likely limitations to the availability of foreign concessionary funding, as well as limitations on foreign borrowing imposed by the Paris Club, the country must take measures to increase the level of domestic savings.

The existence and development of the informal financial sector

Savings and financing of investment and consumption are known to be carried on in Malawi by moneylenders (*katapila* or *chimbazo)* and other informal lenders, such as traders, shopkeepers, farmers, relatives, neighbours, friends, co-

operative savings associations (*chiperegani* or *chilimba*) and savings and credit associations. Not much is known about these informal savers and lenders. Available literature suggests that the role of some of them in financing the start-up and expansion of SME activity is large relative to that of formal lenders. For example, in a Malawi/USAID sample survey of 1,383 SMEs (of which 576 were involved in trading) carried out in 1986, moneylenders were reported to have financed the start-up of three SMEs, but played no role in financing the expansion of these enterprises. Relatives and friends financed the start-up of 68 SMEs (6 percent) and the expansion of 7 (1 percent). Others (who probably included traders) financed the start-up of 74 SMEs (7 percent) and the expansion of 17 (2 percent). Eight hundred and forty-four SMEs (79 percent) financed their own start-ups and 696 (61 percent) financed their own expansion (Malawi/USAID, 1987). Thus, informal lenders seem to fulfil the role of formal and semi-formal lenders or to complement the activities of the latter. But as the survey was concerned only with business financing, it tells us nothing about whether these institutions finance consumption as well. Details of business financing, although collected, are imprecise, as the focus of the survey was on formal and semi-formal rather than informal financing.

Because of lack of sufficient knowledge concerning informal financial institutions, these institutions do not appear in the country's plans to promote SMEs through the provision of start-up and working capital. For the same reason, although informal financial institutions may be playing an important financial intermediation role, they do not feature in policies for promoting savings, efficient allocation of loanable funds and the degree of financial intermediation. Nor is it ever thought that the existence of informal financial institutions might impair the effectiveness of monetary control if borrowers are able to switch from the controlled formal and semi-formal market to the uncontrolled informal market and that integrating the two financial markets might be to their mutual advantage.

Another pertinent question to ask may be whether formal financial institutions have a larger impact on savings mobilization that informal financial institutions. It has been hypothesized that currency holding by informal financial institutions denies commercial banks the cash base for money creation through the bank deposit multiplier (Lelart, 1984). On the other hand, the mutual-aid type of informal financial institutions force members who would normally not save anything to save some of their income regularly. Besides, they are able to lend limited financial resources repeatedly.

The economic entities that make up the informal financial sector owe their existence and development to the same set of factors that accounts for their origin elsewhere, as described by various writers (Lelart, 1984; Mauri, 1987; and Miracle, *et al.,* 1980). These factors may be classified into four groups: the functioning and organization of the indigenous economy (autonomous factors); the characteristics of informal financial markets; repression of formal and semi-formal financial markets; and macroeconomic conditions and policies. It is possible to find examples from proprietary informal financial entities, mutual

aid entities and welfare schemes that owe their origin to one or more of these four groups of factors.

Money lending *{katapila)*, for example, grew out of the indigenous practice of lending and borrowing commodities. The term *katapila* is derived from the Chichewa verb *kutapa,* meaning to take something from a larger quantity or heap. The popular example of *katapila* in oral literature is one of a female debtor borrowing a plateful of millet for the purpose of brewing beer. Customarily, she would be expected to return a larger plateful of millet to ensure that the contents returned are substantially more than the original borrowed. Alternatively, the borrower can use the same type of dish as that employed at the time of borrowing but with the contents overflowing. Sometimes the debtor fills two dishes of the original size in return on the grounds that the profits obtained on the sale of beer are partly attributable to the millet loan. In Malawi custom, "every pound makes another pound" (Chimango, 1977). The practice of using indigenous credit standards under *katapila* has been extended to the granting of cash loans. In rural areas in the past, most of the demand for these loans came from migrant workers. Now the loans are mainly granted for other urgent needs, such as the payment of school fees. In urban areas, *katapila* loans are largely demanded by wage earners who cannot meet all their expenses out of their incomes (Chimango, 1977; Mwalwanda, 1986; Matewere, 1988).

In the past, the people from whom one obtained commodity loans under *katapila* were friends, relatives or neighbours. The granting of *katapila* loans in cash has now become impersonal, but friends, relatives and neighbours are still a source of loans, other than *katapila*, in cash and in kind.

Co-operative savings associations (CSAs) owe their origin to indigenous co-operative behaviour which encompasses the mobilization of labour, capital, land, food and other resources. This has been the subject of numerous studies in economic anthropology and indigenous economics. As with *katapila,* CSAs have extended indigenous savings behaviour in which commodities are used to co-operative savings situations in which "modern" money is used. The native terms for this practice are *chiryelano, chiperegani* and *chilimba. Chiryelano* is co-operation in consumption. The other terms have similar meanings. This means that it is not entirely correct to apply the term "savings" to this practice. It is even more objectionable to add the terms "credit" and "rotating" (which were popularized by Bouman, 1977), for although receiving creates an obligation to give, strictly speaking it is not lending and borrowing that this practice entails.

With regard to the characteristics of informal financial markets, the main reasons behind the spread of these markets and their popularity are the following.

For co-operative savings associations (CSAs) and savings and credit associations (SCAs), the reasons seem to be:

(a) The close association between the financial services that they offer and the promotion of ties of solidarity and friendship in the groups; and

(b) The fact that members are "forced" to save what they would not otherwise be able to put aside but would spend on consumption.

For SCAs, moneylenders (*katapila*), traders, grain millers, other businessmen, friends, relatives, neighbours, smallholder farmers and landlords, the reasons seem to be:

(a) The provision of credit services that suit the needs of borrowers, such as the simplicity of the procedure for obtaining credit; personal guarantees required which are consistent with the ability of borrowers; the absence of controls and restrictions on the use to which the loans can be put; the fact that the loans can be granted at any time; and (other than in the case of SCAs and *katapila*) the non-payment of interest; and

(b) Flexibility in terms of payment and repayment.

For employers, the reasons seem to be:

(a) The low rates of interest charged on loans to their staff as part of a package of staff benefits; and

(b) The relative ease with which loans can be obtained; the relative simplicity of the procedure; and personal guarantees which are consistent with the ability of borrowers.

For all informal financial institutions, the other main reasons seem to be:

(a) The secrecy surrounding the financial dealings with clients since formal records are rarely kept. It is therefore difficult for relatives to know where one saves and for taxes to be paid on interest income;

(b) The low or virtually nil costs of administration;

(c) The relatively low costs of transactions borne by participants, such as the costs of transport, and loss of time; and

(d) The avoidance of the costs of inflation because of the high nominal rates of return on deposits and loans that apply in some informal financial institutions.

None of these advantages are enjoyed by formal and semi-formal financial markets. Furthermore, the latter oganizations are transplanted from abroad and have little sympathy for the needs and means of the average depositor or borrower. The average borrower has no acceptable collateral to offer, and the average depositor would like to be allowed to withdraw as much money as he wishes in any given time period without restrictions or having to wait for approval.

With regard to the repression of formal and semi-formal financial markets, to start with there are only a handful of them in the country, and the bulk of the population makes little or no use of these formal financial institutions. About 89 percent of the population lives in rural areas, and although commercial banks, the smallholder agricultural credit fund, credit unions and the Post Office Savings Bank do operate in rural areas, their branch network is not extensive (Tables 5 and 6). The other financial institutions have no presence whatsoever in the rural areas. However, to the extent that only a small portion of the urban population makes use of the formal financial institutions, location is not the only problem.

Table 5   Number of branches of deposit-taking institutions

Year	Commercial banks[1]	POSB[2]	Total	Annual % change of the total
1967	39	146	185	
1968	43	152	195	5.4
1969	44	159	203	4.1
1970	46	164	210	3.4
971	36	171	207	-1.4
972	38	187	225	8.7
973	39	192	231	2.7
974	40	212	252	9.1
975	41	**212**	253	0.4
976	40	223	263	3.9
977	40	231	271	3.0
978	41	235	276	1.8
979	41	237	278	0.7
980	41	248	289	4.0
981	41	253	294	1.7
982	55	255	310	5.4
983	54	257	311	0.3
984	54	257	311	
985	52	269	321	3.2
986	56	276	332	3.4
987	51	279	330	−0.6
988	48	283	331	0.3
989		286		

Source: Chipeta and Mkandawire, 1987.

1. Branches plus static agencies but excluding mobile agencies.

2. POSB facilities are provided at Post Offices, Postal Agencies and Savings Bank market agencies.

Table 6   Number of people per bank branch[1]

Year	Employees
1967	22,270
1968	21,692
1969	21,330
1970	21,143
1971	21,981
1972	20,755
1973	20,736
1974	20,238
1975	20,711
1976	20,418
1977	20,443
1978	20,580
1979	21,079
1980	20,934
1981	21,190
1982	20,677
1983	21,286
1984	21,994
1985	21,994
1986	21,928
1987	24,182
1988	24,894

1. Branches and static agencies of commercial
   banks and POSB.

For savers, the other problem is that formal and semi-formal institutions offer much lower returns on their deposits than SCAs. In the past, deposit rates applicable to formal financial institutions were determined by the central bank with a view to encouraging financial savings. More recently, the determination of interest rates has been liberatized. This move may have made matters worse as the major financial institutions would like to minimize the cost of resources. In the current period of high inflation, several deposit rates are negative (even if only mildly negative compared to those in other countries), (Table 7). This also applies to semi-formal financial institutions which relate their interest rates to those of formal financial institutions. Low lending rates create excess demand for loans at some of the formal and semi-formal financial institutions. Credit is allocated according to administrative criteria that favour upper- and, to sortie extend, middle-income groups. Few formal and semi-formal financial institutions extend credit to finance consumption. When commercial banks extend such credit, it is mainly to the upper-income class. Investment credit is rarely extended by commercial banks to formal and informal small- and medium-scale enterprises. The same applies to the other formal financial institutions.

Table 7 Real interest rates

| Year | Bank rate | Commercial banks | | | | New building society | | |
		Treasury bills (90 days)	Savings deposits	Time deposits	Bank overdraft minimum rate	Savings deposits	Fixed deposits	Minimum mortgage rate
1966	1.16	0.77	-0.29	0.44	3.58	-0.29	2.86	4.06
1967	4.93	4.71	4.71	4.82	5.29	4.71	5.18	5.37
1968	0.67	0.27	-0.76	-0.29	2.58	-0.76	1.62	2.58
1969	4.37	3.96	2.89	3.38	6.35	2.89	5.36	6.35
1970	-3.09	-3.46	^1.92	-3.55	-0.80	—4.92	-2.18	-1.26
1971	-1.93	-2.31	-3.78	-2.40	0.38	-3.78	-1.01	-0.8
1972	2.88	2.49	0.94	2.40	5.31	0.94	3.85	4.82
1973	0.73	0.34	-1.17	0.26	3.11	-1.17	1.68	2.63
1974	-8.13	-8.48	-9.86	-8.56	-5.96	-9.86	-7.26	-6.40
1975	-8.23	-8.58	-9.96	-8.66	-6.06	-9.96	-7.36	-6.49
1976	2.52	1.17	1.08	3.00	5.39	0.60	3.96	3.96
1977	2.70	1.74	1.26	3.18	5.58	1.26	4.14	4.14
1978	-1.48	-2.40	-2.86	-1.02	1.28	-2.86	-0.10	-0.10
1979	-2.67	—4.47	-3.79	-1.99	0.49	-3.79	-1.09	-1.09
1980	-7.60	-8.44	-8.65	-6.97	—4.66	-8.65	-6.13	-6.13
1981	-1.61	-2.50	-2.73	-0.94	1.52	-2.73	-0.04	-0.04
1982	0.18	-0.73	-0.96	0.87	3.37	-0.96	1.78	1.78
1983	-3.08	-2.20	-2.42	-0.66	0.00	2.42	0.22	0.22
1984	-8.33	-7.50	-7.71	-6.04	-5.42	-7.71	-5.21	5.21
1985	0.45	2.04	0.23	3.40	4.98	0.23	4.75	2.94
1986	-2.63	-1.10	-2.85	0.22	1.75	-2.85	1.54	-0.22
1987	-10.02	-8.64	-10.22	-7.46	-5.29	-10.22	-7.06	-7.06
1988	-15.59	-11.98	-15.78	-13.89	-11.03	-15.78	-13.50	-13.50
1989	-4.97	-0.89	-5.18	-3.04	1.03	-5.18	-2.61	-2.61

'Calculated as 100 [(i + 1)/(1 + p) - 1] where i is the nominal rate of interest and p is the inflation rate as measured by the GDP deflator. These rates apply to both rural and urban areas.

In contrast, informal financial market enterprises operate in many more places, both urban and rural. The rate of return on money deposited with SCAs is much higher and positive in real terms (see below), while rates of interest charged by moneylenders are generally higher than those charged by formal and semi-formal financial markets and positive in real terms.

With respect to macroeconomic conditions and policies, Malawi with a 1987 GNP per capita of US$160, is a low-income economy (World Bank, 1989, p. 164). Besides, the distribution of income is very unequal, with the bottom 40 percent of the population receiving only 21.5 percent of the income according to 1967-1968 data (World Bank, 1982). These conditions put pressure on people to engage in informal economic activities, including informal financial transactions, as a way of augmenting their income. The economic development that has taken place in the economy since independence in 1964 has offered a lot of opportunity and the means for such informal economic activity.

Furthermore, whereas the 1970s were a period of steady economic growth, external and internal financial stability and low rates of inflation, the 1980s have been an era of instability on all fronts. The economic instability has created yet new pressures that have resulted in the intensification of informal activity and the formation of new formal financial enterprises. For example, the fact that 94 percent of the co-operative savings association and 78 percent of the savings and credit associations were formed in the 1980s is partly attributable to the decline in real incomes. Participation in SCAs is seen as a means of earning extra income to prevent a further decline in one's standard of living. Partly it is attributable to a fiscal adjustment policy which reduced holiday transport allowances due to civil servants with a view to reducing the budget deficit. Yet another factor that may have contributed to the mushrooming of SCAs was the decision taken by the monetary authorities in 1976 to restrain commercial bank lending for consumption. Another reason is to give teachers a ready source of credit, thus making it possible to borrow within their school instead of outside.

For similar reasons, the 1980s have witnessed the establishment of 90 percent of the moneylenders *(katapila),* and 79 percent of other lenders who include landlords, smallholder farmers, relatives, friends, neighbours, traders, grain millers, employers and others. The earliest established informal financial institutions date back to 1940.

The characteristics of informal financial institutions, the repression of formal and semi-formal financial institutions and macroeconomic conditions and policies reinforce one another to promote the development of and perpetuate the informal financial sector.

The distribution of informal lenders and borrowers among various occupational groups illustrates the popularity of informal finance with relatively low-income groups. Almost one-third of those in the main survey for this study who stated that they belonged to SCAs were primary school teachers, while about one-third of those who belonged to CSAs were labourers/messengers. Labourers/messengers were also prominent in the lending carried out by friends, relatives and neighbours and in the membership of community funds.

Of the self-employed, traders, vendors and smallholder farmers dominated in terms of participation in various lending and borrowing schemes. As far as women are concerned, more than three-quarters took part in SCAs and CSAs, close to one-half lent money to their friends, about one-quarter lent money to their relatives, and about one-fifth lent money to their neighbours. About one-half of the women sampled reported borrowing money and about one-quarter took part in community funds. The proportions of men participating in the various lending and borrowing activities were comparable.

The law seems neither to encourage nor to discourage informal financial markets (IFMs). The existence of informal moneylending activities is acknowledged through the Loans Recovery Act (Cap. 6:04) of the Laws of Malawi whose aim is to limit hardship inflicted on borrowers by high interest rates. Court action can be initiated by the lender or the borrower. The approach is, understandably, moral rather than economic. Economically we would expect the borrower to have made a rational decision in borrowing from a given source, at least in terms of alternative sources of credit accessible to him and his capacity to repay the capital and pay interest charges at the agreed rate. The Act does not specify the types of moneylenders: they could be individual people, traders, or SCAs.

There is no Act which acknowledges the existence of CSAs and SCAs. The Cooperative Societies Act (Cap. 47:02) is for registered societies, which are the ones it recognizes. Nonetheless, the objective of a co-operative society as stated in this Act is the same for an SCA or a CSA, namely the promotion of the economic interest of its members. Turning the CSAs and SCAs into legal entities, say through the Cooperative Societies Act, may even reduce their efficiency in meeting their objectives. Speed and flexibility of action may be reduced through rules and regulations (on membership and other aspects) that they have to follow, as well as an additional volume of internal documentation and correspondence with the relevant Government ministry. It would also be costly to operate through additional paper work and payment of registration fees.

If moneylenders and other informal proprietary interests were turned into formal financial institutions, they would face the same operational difficulties that CSAs and SCAs would encounter. In addition, transforming all these informal financial institutions into formal financial institutions would not be easy. The new Banking Act stipulates that a deposit-accepting bank or non-bank can only be established with a minimum capital of K2 million. To establish a non-deposit-accepting financial institution would require K250,000. Clearly, these sums are beyond the means of most of informal financial institutions.

III. Sources of data

Most of the data used in this study[2] have been drawn from a random sample
survey of 1,611 households.[3] The survey covered seven districts, two cities, two
townships and three administrative centres (bomas),[4] the selection of which
represented the first stage of sampling. Two years earlier the whole country had
been demarcated into enumeration areas for census purposes. The second phase
of sampling entailed random selection of a number of enumeration areas from
the above districts, cities, townships and bomas. An intermediate phase carried
out in cities only, was the random selection of wards which included both high-
income and low-income sectors.

   The random selection of households was left to the field supervisors who led
teams of enumerators into the field to carry out the interviews. The principal
investigators trained the enumerators and assisted supervisors to control the
work of the enumerators. The system of control was useful at the beginning of
the survey in each region as most of the enumerators and supervisors had little
field experience. The period of training was short. This factor together with non-
response, errors in interviewing and coding were the main sources of errors in
the survey. However, we believe that these errors are not serious.

   Unusual observations, either large or small, have been removed from the data.
An attempt to weight estimates of numbers of borrowers, lenders and savers has
also been made. But the results of this exercise have not been included in the
study because estimates of credit based on weighted estimates of borrowers
were lower than those based on estimates of lenders and on the other samples of
lenders, Normally, for fear of of taxation, lenders are expected to hide more
information than borrowers, who have nothing to lose.

   The data generated by the main survey are presented both in the text and in
the tables. The amount of credit extended by the informal financial sector during
1988 is shown in Table 8. The entry against firms in column (1) refers to inter-
firm credit which was obtained from secondary sources. The rest has been
estimated from information on average sums borrowed or lent by the various
informal financial sector entities. Column (2) shows the relative distribution of
informal financial sector credit in 1988, while column (3) shows the average
credit period in months. Multiplying the figure in column (1) by the figure in
column (3) and dividing the result by 12 gives us the figure in column (4),
which is the amount of credit extended on an annual basis. This figure can then
be compared with data on formal-sector credit which is usually granted for a
period of one year (Table 9).

Table 8   Credit extended in 1988 (all to private sector)

Rank	Lender	Credit extended (K million)	Percentage distribution of (1)	Average credit period (months)	(1) x (3) / 12
		(1)	(2)	(3)	(4)
1.	Employers	79.8	28.3	5.4	35.9
2.	Friends	49.2	17.5	2.0	8.2
3.	Estate owners	40.2	14.3	5.6	18.8
4.	Firms	24.5	8.7	12.0	24.5
5.	Relatives	23.7	8.4	2.0	4.0
6.	SCAs	17.8	6.3	1.0	1.5
7.	Neighbours	10.9	3.9	2.0	1.8
8.	Moneylenders	9.6	3.4	2.0	1.6
9.	Traders	7.2	2.6	2.0	1.2
10.	Grain millers	2.5	0.9	10.0	2.1
11.	Smallholder farmers	2.0	0.7	6.0	1.0
12.	Community funds	1.7	0.6	1.0	0.1
13.	Other	12.4	4.4	3.7	3.8
	Total	281.5	100.0	4.5[1]	104.5

1. Weighted average credit period.

Table 9   FFM: Yearly increase in credit to private sector (K million)

Year	CBs	NBs	MC	INDEBANK	Insurance Co.	LFC	Total
1987	-30.93	+3.31	+0.98	+0.41	+2.28	9.76	—4.19
1988	+56.98	+4.00	-0.97	+1.54	+5.50	21.86	88.91
1989	+120.78	+7.44	N/A	+8.92	+5.50[1]	39.78	+182.42
Total	+146.83	14.75	+0.01	+10.87	+13.28	71.40	257.14
							+3
							= 85.71

1. Assumed as equal to 1988.

Note: We have derived the weighted average maturity period for IFM credit extended during 1988 as 4.5 months (see Table 8). In order to spread the less-than-one-year "credit effect" on economic activity over a full year, the 4.5 month period has been used to reduce proportionately the total of IFM short-term credits extended during 1988 to an annual equivalent that is comparable with the annual change in FFM credit.

Since FFM credit, especially that extended by commercial banks (which is the largest part), has been subject to substantial year-to-year fluctuations due to official credit controls and seasonal factors, it is more realistic to use the average of three years centred on 1988, i.e. K85.71 million (see Table 9), for purposes of comparing with IFM credit in that year. i.e. K104.5 million. Apart from borrowing by tenants on burley tobacco estates, IFM credit is likely to be less sensitive to seasonal factors.

Adding semi-formal financial sector credit of K19 million (smallholder agricultural credit fund K15 million and INDEFUND/SEDOM K3 million) gives total credit for 1988 of K107.91 million.

Based on the foregoing credit comparison, the result is that the informal financial sector in Malawi is about the same size as the formal and semi-formal financial sector.

The structure of informal financial sector interest rates is shown in Table 10. The relevant data have been annualized to facilitate comparison with interest rates in the formal and semi-formal financial sector. The annual weighted

average interest rates in the informal financial sector are shown in Table 11. These figures were arrived at by multiplying the credit extended on an annual basis shown in column (1) by the average annual rate of interest (2) and then by dividing the sum of column (3) by the total weight (the sum of column (1)).

Table 10 The informal financial sector: Structure of annual interest rates (%)

	Nominal		Real[1]	
	Deposit rates	Lending rates	Deposit rates	Lending rates
Moneylenders	N/A	300-1,200	N/A	284.3-1184.3
Estate owners	N/A	2-25	N/A	(-) 13.7-9.3
Traders	N/A	N/A	N/A	N/A
Grain millers	N/A	N/A	N/A	N/A
Smallholder farmers	N/A	N/A	N/A	N/A
Savings and credit associations	20*	24-720	4.3*	8.3-704.3
Co-operative savings associations	N/A	N/A	N/A	N/A
Community funds	N/A	60-600	N/A	44.3-584.3
Employers	N/A	4.5-14	N/A	(-)11.2-(-)1.7
Friends	N/A	N/A	N/A	N/A
Relatives	N/A	N/A	N/A	N/A
Neighbours	N/A	N/A	N/A	N/A
Firms	N/A	17	N/A	1.3
Other	N/A	N/A	N/A	N/A

N/A = not applicable
    = dividend rates
1.   On the basis of an annual inflation rate of 15.7 percent in 1989.

Table 11 Estimation of average rate of interest (%)

Rank	Lender	Credit in annual equivalent	Average annual interest rate (%)	(1) x (2)
		~ ~ (1)		
1.	Employers	35.9	7.4	265.7
2.	Friends	8.2	0.0	0.0
3.	Estate owners	18.8	5.7	107.2
4.	Firms	24.5	17.0	416.5
5.	Relatives	4.0	0.0	0.0
6.	SCAs	1.5	156.0	234.0
7.	Neighbours	1.8	0.0	0.0
8.	Moneylenders	1.6	720.0	1,152.0
9.	Traders	1.2	0.0	0.0
10.	Grain millers	2.1	0.0	0.0
11.	Smallholder farmers	1.0	0.0	0.0
12.	Community funds	0.1	118.8	11.9
13.	Other	3.8	0.0	0.0
	Total	281.5	1,024.9	2,187.3
	Average	21.7	78.8[1]	7.82

1. Unweighted average annual interest rate.
2. Weighted average annual interest rate.

At the planning stage it was hoped that use would be made of data from several secondary sources, including national sample surveys of agriculture and urban expenditure surveys. Accordingly, informal financial data were extracted from these sources. Unfortunately, the data were found to be gross underestimates of informal savings, borrowing and lending. The major problem was that the boundary of the informal financial sector was not properly demarcated. In the 1968/69 National Sample Survey of Agriculture, for example, only loans from relatives or friends and businessmen were included in the questionnaire. As far as savings are concerned, only hiding money and giving it to a friend for safeguarding were covered. Although an "other" category was included, it is believed that because the question was not precise, respondents did not bother to answer it. In the 1980/81 National Sample Survey of Agriculture, the source of credit was not even specified, while in the expenditure surveys, only loans from moneylenders and from friends or relatives were included.

The only secondary sources of data that have proved useful are the *Financial and Economic Reviews* of the Reserve Bank of Malawi (for data on formal sector bank deposits and credit), the *Annual Economic Surveys* (for data on inter-firm credit), and census reports (for data on population distribution and economic status).

The relevant secondary data are shown in Tables 1, 2, 3, 4, 5, 6, 7, and 9. Malawi does not have an acceptable measure of consumer price inflation representative of all social groups or all urban and rural areas. For the period 1968-1980, the only consumer price index that can be used is the Blantyre low income group consumer price index (Table 1). But even this suffers from omissions of important items of expenditure like personal taxes, dowry and house rents. For the period after 1980, a composite retail price index is available, but it covers only two cities (Table 2). Besides, it leaves out some important items of expenditure. For these reasons, changes in prices as measured by the GDP deflator have also been presented (Table 3) and used in this study.

The data on formal financial sector nominal interest rates are presented in Table 4. These nominal interest rates have been deflated into real interest rates using the procedure explained at the bottom of Table 7.

Lastly, data on the number of branches of certain deposit-taking institutions are shown in Table 5, while the density of bank branches is shown in Table 6.

Information and data from the pilot survey have been used as well. In this survey, 71 rural households were randomly selected for interviews in the Rumphi Agricultural Development Project of the Mzuzu Agricultural Development Division. Out of these, 43 were borrowers and 28 were lenders. Some 32 estate owners (landlords) and 6 tenants were also interviewed, but these were not strictly randomly selected. Also purposely selected were 10 moneylenders and 15 clients of moneylenders drawn from Blantyre and Zomba urban areas; 60 members of savings and credit associations drawn from Blantyre City and Zomba Rural District; and three traders and three borrowers from

traders. The principal investigators personally conducted some of the interviews. The rest were conducted by five assistants.

Data and information from two previous surveys have also been used in this study. These are a random sample survey of 76 wage earners in Zomba who were interviewed on their involvement in co-operative savings associations, and a sample survey of moneylenders and their clients at Walker's Ferry in Blantyre Rural District.

IV. Survey and other results

Proprietary informal financial institutions

Moneylenders   (katapila)

The number of respondents who reported moneylending was 64, or 2.5 percent of the total. The amount of money lent during 1988 ranged from K2 to K500, with a mean of K130.98. For the country as a whole, the total sum lent by moneylenders has been estimated at K9.6 million. The amount of money repaid to respondents during 1988 ranged from K7 to K1,000, with a mean of K199.61 (urban mean K136.73 and rural mean K235.84). The smaller sums lent and repaid might reflect errors in identifying moneylenders, who are expected to lend large sums, and other types of lenders. The main sources of the money lent were farming (52 percent of the cases), salaries (25 percent of the cases) and business (22 percent of the cases). Most of the moneylenders (72 percent) were able to meet the whole demand for credit. Only 28 percent were not. Among those who were able to recollect, the shortfall in resources ranged from K3 to K700.

As regards the terms and conditions of credit, 57 percent of the loans were granted for one month, 26 percent for one year, and 17 percent for other time periods. The rate of interest charged ranged from 25 percent to 100 percent. ·rhe mean rate of interest is about 60 percent. There were two modes, 50 percent (charged by 40 percent of the lenders), and 100 percent, charged by 43 percent of the lenders.

The rates of interest charged by moneylenders are regarded by the general public as usurious. The term*pilipili* (pepper) used for loans bearing 100 percenl interest per month reflects this disapproval (Mwalwanda, 1986). So does the term *mwala-ku-mwala* (stone-for-stone). To make matters worse, if a borrower defaults, extra interest is charged at the rate agreed upon. However, the effective rate of interest might be lower if the borrower takes longer than the agreed time period to repay the loan and if extra interest is not charged (Chipeta, 1981). The effective rate of interest might also be lower if there are defaults. Fortunately, defaults are likely to be minimized, especially in the long run, by confining lending to honest borrowers. In effective terms, the *katapila* rate of interest has been worked out to be 28.6 percent per month.

A number of reasons have been advanced as to why moneylenders charge higher nominal rates of interest than formal lenders. As some authors have pointed out (Bottomley, 1971), administrative costs are a small component of interest rates in informal financial markets in LDCs. However, in the case of *katapila* lenders in Malawi, it may not be negligible judging from the partial evidence of the number of days per month spent on disbursement of credit and collection of repayments, especially if a good part of the day is spent on this activity by the moneylender. The opportunity cost of lending has also been considered as a small component of interest rates in informal financial markets in LDCs because the moneylender's alternative of depositing his funds in formal financial institutions is unattractive since the latter's deposit interest rates are much lower (Bottomley, 1971), a situation which also prevails in Malawi. Besides, few other attractive investment opportunities are open to moneylenders in Malawi.

It is of interest to note that the present monthly 100 percent interest rate has prevailed for several years in many parts of Malawi. This calls into question the degree of influence on the determination of interest rates charged by moneylenders arising from factors which vary from year to year. The factor of particular interest here is the theoretically plausible influence of changes in income levels in the economy (more especially borrowers' incomes) on the other components of interest rates in the informal financial markets, i.e. default risk premium and monopoly profit. With the fluctuations in incomes seen in recent years, these interest-rate components should also have changed and consequently brought about some variations in the rates charged by moneylenders, but no variation appears to have taken place. On the other hand, interest rates charged by formal financial institutions changed in recent years.

This is not to say that risk premium and monopoly profit have absolutely no part in interest rates charged by moneylenders in Malawi. What we do know is that the high levels of interest rates in question (particularly that of 100 percent) have their origin in the concept of *katapila,* and are based on the customary principle of profit-sharing (Chipeta, 1981).

In case where a debtor fails to repay, the creditor may have recourse to the guarantor *(rnboni* or *kaboni)*. The *mboni* is usually a trusted man or relation of the debtor who is introduced by the debtor to the creditor for the purpose of testifying to the credit-worthiness of the debtor or, in reality, his honesty. The *mboni* pays only in the event of a defaulting debtor. He pays because he chose to be guarantor for the obligation and bears the consequences of the borrower's dishonesty. Forty-eight percent of the moneylenders interviewed in the main survey insisted on having the *mboni* as security. Thirty-nine percent required only the signature of the borrower. Confiscating the debtor's property is an alternative means of recovering the debt where neither personal nor material security is available (Matewere, 1988). Among lenders covered by the main survey who experienced default on their latest loans, 32 percent stopped granting further loans.

That moneylending is an important source of income can be gauged from the fact that 30 percent of the creditors stated that they obtained half their income, 19 percent more than half, and 3 percent all their income from this type of

business. For the economy as a whole, interest income from moneylending has been estimated at K5.7 million for 1988. Seventeen percent of the moneylenders spent half their time on lending, and 9 percent more than half. The mean number of days spent on lending and recovering loans was 5.9 and 5.5 respectively. The high rates of interest help to cover these administrative costs.

Estate owners (landlords)

There are approximately 4,000 registered burley tobacco growers who own estates (Malawi Government, 1989a). Most of these estates owners employ tenant labour to produce their crop. Tenants are supplied with inputs and provisions on credit. The data use in this part of the study have been estimated from those supplied by borrowers (tenants), as reconciled with data supplied by the estate owners themselves and data collected in the pilot survey.

The mean sum lent by estate owners in 1988 was K10,042. The amounts lend by individual estate owners were correlated with the level of income. Altogether, it has been estimated that K40.2 million was lent to their tenants.

The majority (51.5 percent), lent inputs at a relatively low rate of 5 percent per annum following an official directive not to charge high rates of interest. The relatively low rate of interest acts as an incentive to tenants. A further 9.1 percent charged only 2 percent per annum. Of the remaining owners, 18.2 percent lent at 17 percent per annum and 9.1 percent lent at 25 percent per annum. Interest earned has been estimated at K2.3 million.

About 59 percent of the estate owners demanded some form of security. For 41.4 percent, signatures of tenants were enough. No action was taken on unrepaid loans for fear of losing tenants.

Some 61.1 percent of the estate owners obtained all their income, 48.4 percent more than half. 19.4 percent half, and 16.1 percent less than half, indirectly through lending to tenants. Some 9.4 percent said that all their time was devoted to lending, 34.4 percent more than half, 31.3 percent half, and 25.0 percent Jess than half. The number of borrowing tenants has been estimated at 61,044 for the 1988/89 season.

Traders

This category was probably covered by the Malawi/USAID survey under the "other" category. But the relative importance of traders as an informal source of credit was not ascertained, nor were the terms and conditions of credit that they extend.

Using data on borrowers generated by the main survey for this study, the total amount of credit extended by traders in 1988 has been estimated at K7.2 million. Only on a handful of loans was (nominal) interest charged. The common practice is to grant credit to customers without charging interest as a way of promoting sales and good public relations (Chipeta, 1981). If interest were charged, fewer people would be willing to seek such credit. Had resources

permitted, more money could have been loaned by traders.

As against an average sum borrowed in 1988 of K180, only K167 was repaid, implying an overall default rate of K13. The average period for repayment of the loan was two months.

Grain millers

Like traders, this group was also included in the residual "other" category in the Malawi/USAID survey. But, again, the relative importance of grain millers as a source of informal credit was not ascertained, nor were the terms and conditions of credit granted by this group of businessmen.

Again, using data on borrowers generated by the main survey, the total amount of credit extended by grain millers in 1988 has been estimated at K2.5 million. Again, only on a handful of loans was (nominal) interest charged. The common practice is to grant free cash loans to members of the community in which they operate as a way of promoting good public relations. Had resources permitted, more money would have been loaned by grain millers.

As against an average sum borrowed of K278 in 1988, an average sum of K.342 was repaid, implying the absence of default. The difference may reflect the interest cost on some loans or statistical errors. The average period for repayment of the loans was ten months.

Smallholder farmers

Smallholder farmers were also included in the residual category "other" lenders. Therefore, their role as an informal source of credit was not ascertained separately, nor were the terms and conditions of the credit that they grant.

On the basis of data on borrowers generated by the main survey, the total amount of credit extended by smallholder farmers in 1988 has been estimated at K2.0 million. Nominal interest was charged only on a few loans. The common practice is to grant free cash loans as a way of promoting solidarity. Had resources permitted, more money could have been lent by smallholder farmers.

On the average, borrowers took six months to repay credit. As against an average sum of K90 which was borrowed in 1988, an average sum of K80 was repaid, implying an average default rate of K10.

Other

This category included a number of an unspecified businessmen and individuals: it was the source of K12.4 million of credit. The terms and conditions on which loans were granted were similar to those that applied to most of the other lenders in this sub-sector.

Data on inter-firm credit are now available. For 1988, such credit has been estimated at K27.5 million.

Mutual aid informal financial institutions

Savings and credit associations (SCAs)

Each member of the SCA contributes a fixed amount of money at the beginning of the school year, the amount varying from SCA to SCA. The amount is payable in a specified maximum number of months. If a member fails to contribute the full amount, the shortfall is subtracted from the portion he is supposed to receive when the fund is distributed to the members when it is temporarily wound up.

A major aim is to build up as much money as possible, through interest paid on borrowings, for distribution to members when the fund is wound up. Therefore, money in the fund is always lent out to members and little or nothing is kept by the treasurer. Consequently, there are occasions when members who do not really need loans are required to borrow the balance left after other members have received their allocations. In some cases such involuntary borrowings have been used by members to on-lend to outsiders, especially those who may have found other sources of credit more expensive or have no access to any other source of credit. Generally, such borrowing by a member to assist an outsider is allowed as long as the credit requirements of members have been satisfied.

The amount a member is allowed to borrow per month is expected not to be in excess of his monthly salary, which sets an upper limit on his known debt-servicing capacity since the standard credit period is one month. Loans are supposed to be repaid together with interest immediately after borrowers have received their monthly salaries, but the treasurer disburses new loans a day or more after pay day in order to give himself time to receive repayments of maturing loans and interest charges on them, out of which new loans are made. If a borrower fails to extinguish his debt voluntarily over a reasonable number of months, the extinction is involuntarily effected by deduction from his salary.

The number of respondents who reported taking part in SCAs was 142, or 8.8 percent of the total. The size of the SCAs ranged from 2 to 250 people, with a mean for the whole sample of 38.5 (urban mean 34.8 and rural mean 40.7). The oldest SCA was formed in 1964. Fifty percent of the respondents stated that their SCAs were formed so that they could have a source of loans; 30 percent said that they were formed to earn money for members; while 13 percent cileil saving as the motive for establishing SCAs.

Most of the SCAs are formed by workmates (48 percent) and neighbours (35 percent). This makes it easy to establish and maintain contact. There are only a few between friends (3 percent), relatives (5 percent), and business colleagues (6 percent).

Eighty percent of the respondents stated that their SCAs were run by a committee, 13 percent by a leader, and 5 percent by all members. **Employmcni** earnings (51 perceit of the cases) and farming (35 percent of the cases) were the most popular sources of money contributed to the SCAs.

Analysis of the main survey data has revealed that both the mean initial contribution and the mean monthly contribution are negatively correlated with the size of the savings and credit association, an indication of economies. The mean sum received at the end of each fund is also negatively correlated with the size of the savings and credit associations. In contrast, age and the number of dependants are positively correlated with the mean monthly contribution, as is the level of education. Those who are employed and those who went to school have a higher mean monthly contribution than the unemployed or those who did not go to school. Marital status does not significantly influence the size of the mean monthly contribution to the SCA. Religion does, with Christians contributing more per head than Muslims, whose mean contribution is, in turn, greater than that of members of other religious faiths.

After further scrutiny of the data, the total contributions to SCAs for the economy for 1988 have been estimated at K8.4 million, and the total sum borrowed at K17.8 million. The larger proportion of the money borrowed from SCAs during 1988/89 (72.7 percent) was invested (64.9 percent spent on fertilizer, 4.9 percent on farm labour and 2.9 percent on school fees/uniforms), rather than spend on consumption. Consumer goods and services claimed the remaining 27.3 percent (of which 2.8 percent was spent on foodstuffs). Similarly, out of the total sum distributed to members by SCAs during 1988/89, a significant proportion (38.5 percent) was invested (10.2 percent to fertilizer, 21.4 percent to farm labour, and 6.9 percent to business). That a larger proportion of borrowings than of distributions was invested may reflect members' consciousness of the cost of funds.

The nominal rates of interest charged on loans ranged from 10 percent to 60 percent per month. The lower rates of interest were charged where borrowers wanted to benefit from cheap money. Such rates of interest are thus based on the needs of the members. The higher rates of interest reflect the desire of the members to maximize income and are based on the moneylending profit-sharing principle. The mean SCA lending rate was 13 percent; the median and the mode were both 10 percent. Interest income has been estimated at K2.3 million. For a formal model of savings and credit associations, See Annex 1.

Co-operative Savings Associations

Co-operative savings associations (CSAs) operate as follows. Each member of the co-operative saving group contributes an equal sum of money at the end of every month, or whenever income is earned. The pooling may, therefore, be regular or periodic. The contributions are given to members one at a time, hence the term co-operative savings association. No interest is charged for using the funds raised in this way. Members are fully compensated by receiving from others what they paid to them.

The payment into the pool reduces one's disposable income at the time when payment is made. The size of the reduction, determined by the income depressor, depends on the magnitude of the fixed contribution agreed upon. The major determinant of this is the level of income, but the objective of pooling

income may also play a role. The receipt of a contribution boosts one's disposable income. The size of the increase is determined by the income amplifier, the magnitude of which depends on both the amount of the fixed contributions and the number of contributors.

The co-operative savings group may obtain the interest of a few or many people, leading to small or large groups. The groups may also vary by geographical ties, or by blood relationship. They could also be classified on the basis of friendship, age and gender. These different forms of co-operative savings groups may have different economic implications.

The number of respondents who reported taking part in CSAs (*chiperegani)* was 221, or 13.7 percent of the total. The size of CSAs ranged from 2 to 50 members (59 percent of them having only 2 members). In 54 percent of the cases CSAs were formed between workmates, while in 13, 12, and 14 percent, they were formed between friends, relatives and neighbours, respectively. In 58 percent of the cases, CSAs were formed to raise money for the members and in 25 percent to force members to save. The mean contribution per head per period was K34.07 (urban mean K28.8 and rural mean K39.57).

The mean contribution is negatively correlated with the size of the membership, implying that numbers create economies. Also negatively correlated with the mean contribution are the level of education and the length of the contribution period. Positively correlated with the mean contribution are monthly earnings, age, and the number of dependants. The contribution of the married is greater than that of the single. The mean contribution of those who are not employed but who may have businesses, is greater than that of those who stated that they were employed. As is the case in SCAs, the mean contribution of Christians in CSAs is bigger than the mean contribution of Muslims and others.

The main sources of CSA money were salaries (62 percent), business (14 percent), and farming (14 percent). In 68 percent of the cases, contributions were made monthly. The total amount of resources mobilized by the CSAs in 1988 has been estimated at K51.6 million.

Drawing lots is not a popular way of deciding who should receive the contributions first as it affected only 1 percent of the members. Neither is seniority (4 percent). Negotiation is the most popular method (83 percent), with "other" second (12 percent).

With respect to allocation of CSA resources, it has been estimated that 56.1 percent was spent on consumer goods in 1988. Of this proportion, the largest share (24.5 percent) was allocated to the purchase of foodstuffs. Out of the remainder, 5.1 percent was saved and 38.8 percent was invested (school fees and uniforms 1.8 percent, farm labour 33.6 percent, and fertiliser 3.4 percent).

From the above and on the basis of other studies (Chipeta, 1987), the characteristics of CSAs may be summed up as follows:

1. They are popular among low income earners who find them a convenient means of augmenting their incomes. They are not popular among higher income groups for whom there is less need to augment wage income;

2. Most of the *chiperegani* are two-person societies formed by mutual agreement among workmates, friends, relatives or neighbours who trust each other, and who are in frequent contact. For this reason, there is little friction among the members and the clubs seem to operate relatively smoothly. Besides, the return benefit in terms of receipts of contributions from partners is received within a short period of time. However, the small size of the clubs and the low income of the members mean that the size of the contribution, and hence the benefit, is limited. In turn, this implies that there is a limit to what they can spend their cash on. (With low contributions, if the membership is larger, the benefit would be greater as the income amplifier, the coefficient by which one's income rises, would be larger as well.) In Blantyre, the average *chiperegani* had five members (Mhango, 1985);

3. The money mobilized through *chiperegani* costs nothing in terms of interest; the receiver pays back exactly what he or she got from other people. Inevitably, he or she must wait;

4. *Chiperegani* tend to be short-lived. They exist only as long as the members are willing and able to contribute money. If the members have no further desire for the items for which they formed the associations or should their real income fall, the clubs easily become dissolved. Thus, to most members the benefits from *chiperegani* are short-term;

5. Most members of *chiperegani* seek credit from other sources. This is a further reflection of the inadequacy of resources raised through these associations;

6. Most of the members of *chiperegani* spend receipts of contributions on projects and items that can be said to promote development, e.g. the purchase or production of food, the construction or improvement of housing, and the payment of fees for school children. Only a few reported spending the contribution on non-productive items like drink. The important role that *chiperegani* (as well as *katapila)* has played in financing house construction among low income groups in Blantyre city has been highlighted elsewhere (Mhango, 1985);

7. As informal organizations, *chiperegani* are easy to establish, manage and dissolve. They also cost less to operate.

For a formal model of CSAs, see Annex 1.

Community funds

These funds are established by local community groups. The groups could be social, religious, civic, etc. In rural areas, a fund may be associated with a particular village or a group of villages.

Some 18.5 percent of the people interviewed in the main survey stated that they belonged to a community fund. The mean fund size is 88 people with a large standard deviation. The mean urban fund size is 168, while the mean rural fund size is 55. In 70 percent of the funds, money is raised through financial

contributions, while in 27 percent resource mobilization is through group work. Of those who mobilize resources by working for them, 89 percent perform agricultural work for pay.

The mean contribution per head in 1988 was K5.21. The mean rural **contribution** per head was K3.51, while the mean urban contribution per head was K8.40 due to higher per capita income in urban areas. The mean contribution per member is negatively correlated with the size of the membership and the age of the members, but positively correlated with the level of education, the number of dependants and the level of monthly earnings.

Most of the contributions are annual or periodic. Altogether, it has been estimated that K4.3 million was mobilized by community funds in 1988. Some 41 percent of the funds were used to finance private emergencies only, 18 percent to finance community projects only, and 28 percent to finance both private emergencies and community projects. In 39 percent of the funds, the money could be lent out to members with or without interest. The rate of interest ranged from 5 percent to 50 percent. The lower rates of interest are based on the needs of the members, whereas the higher rates of interest are based on the same custom that governs interest rates under moneylenders *(katapila)*. Interest income amounted to K 166,332, assuming that credit amounted to K1.7 million.

Most of the funds (61 percent) are run by committees. Only in 28 percent of the cases is the business of running the fund entrusted to a leader. The treasurer is usually a trusted member of the community. For a formal model of community funds, see Annex 1.

Staff and social welfare funds

Employers

Employers may lend out of funds of their organizations set aside for this purpose or out of money contributed to a special fund by senior or better-paid employees. In the former case, management or administration would run the fund. In the latter case, a special committee of employees may be appointed to run the fund.

Using data on borrowers generated by the main survey, the total amount of credit granted to employees by their employers in 1988 has been estimated at K79.8 million. Some loans were not granted at interest. For those on which interest was charged, the rate was usually below 10 percent per annum. The data on credit and interest rates have been checked against data on staff loans provided by a number of organizations. Employers earned interest income of K5.9 million on their lending in 1989.

The average repayment period was 5.1 months. Had resources permitted, more money would have been loaned to staff by employers.

Friends

Along with relatives and neighbours, this is the most informal category, but at the same time the most popular source of informal finance. Out of 1,611 people interviewed in the main survey, 210, or 13 percent reported that they borrowed

money from friends in 1988. The total amount of credit has been estimated at K49.1 million. The loan was repaid in an average of two months. On most of the loans no interest was charged as lenders used these loans to promote and maintain friendship.

Relatives

Eighty respondents, about 5 percent of the total, reported borrowing from their relatives. The total sum borrowed during 1988 has been estimated at K23.7 million. The loan was repaid in an average of less than two months. Interest was not charged on most of the loans as lenders use them to promote solidarity.

Neighbours

Thirty-three respondents, or 2 percent of the total, reported borrowing from their neighbours. The total sum borrowed during 1988 has been estimated at K10.8 million. The loan was repaid in an average of two months, again implying that most of the loans were short-term, and most of them were interest free as lenders used them to promote social relations.

Allocation of loans

Estimates of allocation of loans by sources are not available. Out of the total sum of loans granted by employers, friends, relatives, neighbours, traders, moneylenders and smallholder farmers, 74.6 percent was invested (business 59.5 percent, farm labour 3.1 percent and fertilizer 12.0 percent). The sum spend on consumption was 25.4 percent of the total. The single largest proportion (9.5 percent), was used to purchase foodstuffs.

The size of the informal financial sector

In a pioneering attempt to measure the size of the informal financial sector, U Tun Wai (1957) estimated the ratio of agricultural or rural indebtedness to the claims of the banking system on the private sector for 16 countries.5 He found (hat in half the sample the size of the informal financial sector was larger than the formal financial sector in the 1950s. But in the 1970s, in only three countries out of a sample of 17 countries^ was the informal financial sector larger than the formal one. However, in about half the sample, the informal financial sector was at least three-quarters the size of the formal financial sector (U Tun Wai, 1977).

The technique used in those studies assumes that informal lenders operate in rural areas only. In Malawi, as perhaps in several other countries where they operate both in rural and urban areas, one would need to estimate the ratio of informal borrower indebtedness to the claim of the banking system on the private sector.

Unfortunately, while data on the claims of the banking system on the private sector are available, data on the claims of the informal financial sector are not. For this reason, we have compared credit extended by the informal financial

sector (all of it to the private sector) with credit extended by the banking system to the private sector in 1988. The total amount of credit extended by the informal financial sector has been estimated at K281.5 million, while that extended by the formal and semi-formal financial sector was K107.9 million, implying that the formal and semi-formal financial sector was less than half the size of the informal financial sector. Employers were as large as the formal and semi-formal financial sector. Estate owners and friends were relatively large sub-sectors of the informal financial sector. These results are subject to the limitation that we are generally comparing very short-term credit granted by the informal financial sector with not so short-term credit extended by the formal and semi-formal financial sector,[7] and that we are comparing net changes in the claims of the latter with gross changes in the claims of the former.[8]

An alternative method of assessing the relative sizes of the informal and formal financial sectors might be to compare the amount of savings mobilized by each sector. Savings mobilized by the formal financial sector have been equated with the change in deposit liabilities of banks and non-banks to the public. For the informal financial sector, savings have been equated with the credit extended by various entities. The credit extended by traders has been excluded on the ground that it is all used to finance consumption. The resources mobilized by community funds have also been excluded on similar grounds. CSAs do not extend credit, but the proportion of their resources which is invested has been regarded as savings.

The results of the alternative method are similar to those of the other technique. The formal sector mobilized additional resources of only K72.9 million in 1989, while the informal sector mobilized savings equal to K265.6 million, implying that the size of the formal financial sector is less than a third the size of the informal financial sector.

V. Conclusions

A number of conclusions can be drawn from what has been said above. First, as measured by the ratio of credit extended by the informal financial sector to the private sector to credit extended by the formal and semi-formal financial sector to the same sector, the informal financial sector in Malawi is larger than the formal and semi-formal financial sector. The same result is arrived at by comparing savings mobilized by the formal and informal financial sectors. Estate owners and friends are relatively large sub-sectors of the informal financial sector. Employers are as large as the formal financial sector. As for future prospects, the informal financial sector will remain relatively large even in the long run. Current macroeconomic conditions and policies, which partly explain the growth of the informal financial sector, are likely to remain the same in the future. The indigenous economy, which accounts for its existence, is also likely to remain large, while repression of the formal and semi-formal financial sector and the operational advantages of the informal financial sector will continue.

Secondly, the large size of the informal financial sector implies that official monetary data understate the volume of financial savings and credit in the economy. Furthermore, it does imply that monetary policy instruments are targetted at a small proportion of financial transactions. Whether this adversely affects the efficacy of monetary policy will be the subject of a later study. In principle, the effectiveness of monetary control can be reduced if borrowers can evade the controlled money market by using the informal market (Courakis, 1984). Changes in the distribution of resources between formal and informal financial markets may also lead to distortions in money-supply statistics, thus giving a false view of the degree of monetary control.

Thirdly, the informal financial sector seems to be playing an important role in alleviating economic hardship among low-income groups. That role is played by enabling these groups to mobilize resources (the savings effect), to use those resources to earn income (the investment effect), and by enabling them to obtain loans (the credit effect). With respect to the savings effect, all informal financial institutions play a significant role, especially employers, estate owners, businessmen, friends, relatives, SCAs (where savings are encouraged by high positive real rates of return, the possibility of borrowing from the fund of

savings, and the commitment of a fixed amount of savings per period), and CSAs (where savings are encouraged by the commitment to a fixed amount of saving per period and the share in the pool which is fairly immediate because of the small size of the CSAs). Apart from CSAs, all these informal financial institutions play a significant role with regard to the credit effect. But in terms of the investment effect, the crucial role is that which is fulfilled by employers, SCAs, *katapila* and estate owners.

A significant proportion of informal sector loanable funds is directed at the priority agricultural sector. Although some of the informal financial sector resources are used to finance consumption, to the extent that they are spent on basic needs (e.g. purchase or production of food, payment of water bills, the construction or improvement of housing and the payment of school fees) they promote development and lie within priority sectors. For lack of data it has not been possible to ascertain whether marginal rates of return on investment financed by informal sector savings are larger than those financed by formal sector savings.

Considering the informal financial sector as a whole, a significant part of the loans does not bear interest, which is contrary to the common belief that interest rates in the informal financial sector are generally higher than in the formal financial sector. Few of the traders, farmers, friends, relatives and neighbours charge interest on the loans that they grant. Traders may be looking at free loans as a means of maintaining and improving relations with their customers, while the rest may regard them as a means of maintaining solidarity. Estate owners charge interest varying from 2 percent to 25 percent, the mean being 5.7 percent. At the current rate of inflation, this mean is negative. Estate owners derive most of their benefit from the tobacco grown by tenants. Only rates of interest applicable to *katapila* and savings and credit associations are in most cases higher than those in the formal and semi-formal financial sector and positive in real terms. But the weighted average lending rate in the informal financial sector is lower than the average lending rate in the formal and semi-formal sector (Tables 4 and 11).

As regards income and employment generation, informal lending by landlords is indirectly (via the tobacco grown by tenants) an important source of income and employment. Lending by moneylenders is an important source of income and self-employment. Lending by savings and credit associations is also an important sourge of income (to friends, relatives, and neighbours it is not). Moreover, *katapila* and SCAs are more profitable ways of generating income than investment in formal financial institutions. This, and the findings above, would justify the inclusion of these informal entities in the country's plans for promoting small- and medium-scale enterprises through the provision of start-up and working capital (which some find inadequate) and through the provision of business and technical advisory services.

Furthermore, because SCAs are playing an important intermediation role, there is justification for including them in policies for promoting savings, efficient allocation of loanable funds and the extent of financial intermediation.

The ability of informal markets to generate and lend resources is constrained by a number of factors. For co-operative savings association, the main constraints are the small size of the associations; for moneylenders, it is the secrecy of the moneylending business.

Credit extended by estate owners to their tenants and credit extended by employers to their employees tend to compete with similar credit extended by formal and semi-formal financial institutions. Mobilization of financial savings by SCAs also tends to compete with financial-savings mobilization by formal and semi-formal financial institutions. Otherwise, the credit extended by the rest of the informal financial institutions seems to complement credit from formal and informal financial sector. Whatever the case, the activities of the informal financial sector serve as means of involving the masses in economic development (USAID, 1989). But despite its success, the informal financial sector does not meet all the demand for loans, as explained above. Besides, few informal financial institutions provide term finance or generate resources for the future security of participants. These limitations of the informal financial sector can be addressed by measures that would (i) make more funds available to them, (ii) stimulate them to lend long-term, and (iii) encourage them to maximize long-term capital growth by persuasion but not through official regulation because that would be inimical to their informal mode of operation and hence their existence.

One approach to this problem may be to establish and strengthen links between formal and informal financial markets. According to one authority, informal financial markets must be developed and integrated with formal financial markets so that (i) the savings in other sectors can be lent in the more productive agricultural sector, (ii) the informal financial market can share in the available amount of safe deficit financing through the development by the central bank of appropriate commercial and financial instruments, (iii) there can be a better allocation of financial resources between export and domestic crops and between commodities in strong demand and those in weak demand, and (iv) lenders in the informal markets can begin to adopt some of the practices of the formal financial market, such as accepting deposits and raising additional capital outside the family enterprise (U Tun Wai, 1981). We may add that the formal financial market could also benefit from the informal financial market's intimate knowledge of its borrowers and the techniques of dealing with them. Other writers are less enthusiastic. To the extent that formal and informal financial markets in developing countries serve the interests of different types of clientele, integration of the two may not benefit the weaker sector of the economy, a sector for which the formal market has not shown much concern (Bouman, 1977).

As to the mechanics of integration, it has been suggested that formal financial institutions should operate in rural areas (Ghatak, 1981). Whether this would be tantamount to integration is debatable. Formal and informal financial markets are already operating in both rural and urban areas. What may be required is to get each market to be associated with the activities of the other and to adopt

appropriate techniques from the other. Informal financial institutions could deposit surplus funds with formal financial institutions and meet their requirements of extra resources through borrowing from the formal market. In addition, the possibility of using informal financial institutions as agents of formal financial institutions should be explored. Future research might throw light on all these possibilities by focusing on links between the formal and informal financial sectors.

Although the best solution is to maintain the informal financial sector and to improve on its performance, it may be worthwhile to expand and improve the semi-formal financial sector as a second-best solution. As has already been pointed out above, Malawi's semi-formal financial sector consists of an agricultural group lending scheme, co-operative finance institutions, a Grameen-type grassroots bank (World Bank, 1989) and two small development finance companies. The organization and operational characteristics of these institutions could benefit by drawing on the rich cultural heritage of the informal economy. At present, it is only a few of the cultural traits of the informal economy that have been adopted.

The group lending scheme for smallholder farmers is bsscd on limited liability. Borrowers are required to put part of their loans in a fund that is forfeited if any member defaults. If all members repay their loans, these deposits are returned. This requirement has resulted in a good loan recovery record. Between 1969 and 1985, for example, 97 percent of the seasonal credit disbursed was recovered. During this period, 10 percent of the loans was held as security (World Bank, 1989). It must be noted that, in addition to the above requirement, continued access to credit was linked to prompt repayment of loans. The group lending scheme has improved access to credit. However, the beneficiaries are only 23 percent of all smallholder farmers. The total sum disbursed annually is comparatively small. During the 1984/85 season it amounted to K15.9 million. The high cost of administering the scheme, and the amount of resources available to it, limit its coverage. Another drawback is reliance on external resources which does not promote local savings habits and the mechanism for mobilizing those savings.

Turning to co-operative finance, the first credit unions in Malawi were formed in the 1960s through initiative of Catholic missionaries. Following the establishment of the Malawi Union of Savings and Credit Cooperatives (MUSCCO) in 1980, the promotion of credit unions has become its responsibility. When MUSCCO was formed, there were 26 credit unions in the country with a membership of 7,700. Total savings stood at K400,000, while total loans outstanding were K300,000. By the end of 1985, there were 58 credit unions with a total membership of 14,500. At that time, total loans outstanding were K989,757 and reserves and total assets were K1,095,571 (Malawi/USAID, 1987). Since then, reserves and total assets have grown to about K3 million. But even then, credit union movement is very small compared to informal financial markets.

Being semi-formal institutions, credit unions suffer from most of the controls, inflexibility, repression and high administrative costs that formal financial institutions suffer from. In particular, credit unions do not permit withdrawal of

shares, making investment in them illiquid. And because of high loan deliquency rates, some credit unions cannot pay the dividends due to lack of interest income, making investment in them unprofitable. Even if they were able to pay dividends, the dividend rate of 10.75 percent (formerly 5 percent) **compares** unfavourably with the dividend rates of SCAs, even if one were to take into account the payment of bonuses. Furthermore, MUSCCO relies on foreign aid to meet its development and administrative costs, something that is not consistent with self-reliant economic financial development.

The Grameen experiment follows the recent establishment of a grassroots banking institution, known as the Malawi Mudzi Fund, to serve the credit needs of the rural poor who certainly do not have access to formal and semi-formal financial institutions and probably do not have access to informal financial institutions either. Modelled on the Grameen Bank in Bangladesh, the bank's customers will be organized into small groups. The bank will mobilize resources through small but regular deposits from its customers. The first borrowers in each group will be required to make several regular payments on their loans before other group members can borrow. The Malawi Mudzi Fund has started operating. An interest rate of 10.75 percent per annum will be paid on deposits and 15 percent per annum will be charged on loans. These interest rates are administered. No collateral security is required.

The Malawi Mudzi Fund will suffer from the same disadvantages as the credit unions, but unlike the informal financial sector, the Fund may provide the mechanism for long-term capital growth and hence for the future financial security of its participants.

The two small development finance companies concentrate on providing finance to small-scale and medium-scale businesses owned by Malawians. One is the Investment and Development Fund (Indefund), which was established in 1981 as an offshoot of Indebank. The other is the Smallscale Enterprise Development Organisation of Malawi (Sedom) which started operating in 1983 with assistance from the EEC. Neither of these institutions mobilize resources. Instead, they rely on foreign aid, thus increasing external dependence. Moreover, the proportion of small- and medium-scale enterprises making use of their services is relatively small. In 1986, this proportion was estimated at 5 percent. Credit access is limited by both availability of loanable funds and lack of resources to administer an extensive credit network. Besides limited coverage, these institutions suffer from controls, inflexibility, and high administrative costs.

Annex 1

Formal models of SCAs, CSAs and community funds

Savings and credit associations can be explained by means of a formal model that has the following features: *m* which stands for the total number of members; *p* which stands for the contribution of each member per time period; *c* for the total number of contributions for the lifetime of each fund; *P* for the principal sum invested; *i* for the rate of interest charged on loans; *A* for the accumulated fund; *E* for earnings; *e* for the dividend rate; and *t* for the sum received per member at the end of the time period of the fund.

The total number of people in each savings and credit association depends on demographic and other exogenous factors. Therefore, *m* is a predetermined variable. Other predetermined variables are *p, c* and i, where *p* depends on the ability and goal of the association, and where both *c* and *i* depend on the goal of the individual savings and credit association. *A, P, E, e* and *t* are endogenous variables.

Given the above notation, the model can be put down as

(1) $A = P + E$

That is, the accumulated fund is the sum of the principal sum that is invested and earnings by definition.

(2) $P = P(m, p, c, i)$

is the function that relates *P* to its arguments, subject to *dp/dm > 0, dp/dp > 0, dp/dc > 0* and *dp/di > 0*. In other words, the principal sum invested varies directly with the size of the membership, the size of the contribution per head per period, the length of the fund and the rate of interest charged on loans.

(3) $m = m$

(4) $P = P$

(5) $c = c$

(6) $i = i$

where the bars over *m, p, c* and *i* indicate that these variables are determined exogenously,

(7) $E = E(P, c, i)$

subject to *dE/dP > 0, dEldc > 0* and *dEldi > 0.* In other words, the total amount earned is a function of and varies directly with the sum of money invested, the duration of the fund and the rate of interest.

(8) $e = e (E, P)$ $de/dE > 0, de/dp < 0$

That is, the dividend rate is a function of and varies directly with earnings and inversely with the principal sum invested.

(9) $t = t(A, m)$ $dt/dA > 0, dt/dm < 0$

Equation (9) states that the sum received per member depends on and varies directly with the accumulated fund and inversely with the number of members. Lastly, the following conditions must hold:

(10) $Z t j A$ $i = 1 \ldots \ldots m$

The sum of receipts must equal the accumulated fund (Chipeta, 1990).

Co-operative savings behaviour can also be explained by means of a formal model. To simplify the analysis, it will be assumed that there are only two members in a CSA, 1 and 2. The total number of members, *m,* is thus equal to 2. Let *ycl* and *yc2* stand for the contributions of 1 and 2, respectively. Similarly, let *yol* and *yo2* stand for the own incomes of 1 and 2; and *ydl* and *yd2* stand for the disposable incomes of 1 and 2. Lastly, let c = *1,2* stand for the time period that it takes to complete each contribution cycle.

The total number of people in each CSA depends on friendship and other personal features. Therefore, *m* is a predetermined variable. Other predetermined variables are *ycl* and *ycl,* which depend on the goals and abilities of the members; and *yol* and *yo2* which depend on conditions in the markets where the members sell their services and products, *ydl* and *yd2* are assumed to be endogenous variables. Given the above notation, the model can be described as:

(1) $m = m$

(2) $c = c$

with the bar over *m* and c indicating that *m* and c are given.

By definition

(3) $yc1 = yc2$

Assuming that 1 receives and 2 contributes first in the cycle,

(4) $ydl = yol + yc2$

That is, the disposable income of 1 is the sum of own income and the contribution from 2.

(5) $yol = yol$

(6) $y^{c2} = y^{c2}$

That is, both *yol* and *yc2* are given.

Without the transfer, the disposable income of 1 would be equal to *yol*, own income, only. With the transfer, 1's disposable income exceeds own income by the sum of *yc2*. The ratio of *ydl* to *yol*, say *a* (where *a - ydl/yol > 1)* is the income amplifier. For the contributor, 2:

(7)   yd2 = yo2 - yc2

(8) $y^{o2} = y^{o2}$

Disposable income of 2, *yd2* is less than own income *yo2* by the amount of the transfer *yc2*. *yc2* can be rewritten as:

(9)   yc2 = byo2

where *b* is the income depressor. Substituting equation (9) in equation (7), we get:

(10) yd2 = yo2 - byo2
          = yo2(l-b)

(Chipeta, 1990)

   Community funds can be explained by means of a formal model that has the following features: *m* which stands for the total number of members; *p* which stands for the contribution of each member; *P* for the capital fund; *i* for the rate of interest charged on loans; *A* for the accumulated fund; *E* for earnings; and *T* for the total sum distributed to needy members.

   The total number of people in each community fund depends on demographic factors. Therefore m is an exogenous variable. Other exogenous variables are *p* and *i,* where *p* depends on the ability and goal of the community fund and *i* depends on the needs of the membership. *P, A, E* and *T* are endogenous variables.

   Given the above notation, the model can be put down as:

(1)   A = P + E

By definition the accumulated fund is the sum of the capital fund and earnings.

(2)   P = P(m, p, i) dp/dm > 0,   dp/dp > 0, dp/di > 0

Equation (2) states that the capital fund depends on and varies directly with the number of members, the size of the contribution per head and the rate of interest charged on loans.

(3)   m = in

(4)   P = P

(5)   c = c

where the bars over *m, p* and *i* indicate that these variables are determined exogenously.

(6) $E = E(p, i)$ $dE/dp > 0$, $dp/di > 0$

In other words, total earnings depend upon and vary directly with the size of the capital fund (principal sum) and with the rate of interest.

(7) $T = T(A, m)$ $dT/dA > 0$, $dT/dm < 0$

That is, the total sum distributed to needy members depends on and varies directly with the accumulated fund and inversely with the number of members. Lastly, the following condition must hold:

(8) $T \wedge A$

That is, the total sum distributed must not exceed the accumulated fund.

Assuming that transfers to needy members are made out of work earnings only, we have

(2') $P = P(Q)$ $dP/dQ > 0$

implying that the capital fund depends on Q, the work output of the members with which it varies directly. The work output is determined exogenously by the needs of the employer. So

(9) $Q = Q$

Further assuming that transfers to needy members are made out of work earnings only, we have

(7•) $T = T(P, m)$ $dT/dP > 0$, $dT/dm < 0$

subject to the proviso that the total amount distributed varies directly with the capital fund but inversely with the number of members. Equation (8) changes to

(8') $T \wedge P$

Next, assuming that the accumulated fund is used to benefit the community as a whole, the benefit accruing to the ith individual can be put down as

(10) $\cdot i = b_i$ $1 = 1 \underline{\hspace{2cm}} n$

where the bar over *bi* is supposed to indicate that the benefit is based on individual i's relative needs. The entire accumulated fund may or may not be fully used up. Hence

(11) $I b j \wedge A$ $i = 1, \ldots \ldots n$

If it is the earnings of the members that are used to benefit the entire community, condition (11) becomes

(11') $l b ; \wedge P$ $i = 1, \ldots \ldots n$

In the event that the capital fund depends on both financial contributions and the work output of the members equation (2) can be put down as

(2') $P = P(Q, m, p, i)$

subject to *dP/dQ > 0,   dP/dm > 0* and *dP/di > 0*

(Chipeta, 1990).

Annex 2

Questionnaire: Informal financial markets

Case number ☐

Name of supervisor --

Name of Enumerator --

Date of Interview --

Whether checked by Supervisor --

Village or Town --

E. A. Number --

District ---

A.D.D. --

Coded ☐

Not coded ☐

Informal financial markets

Questionnaire

A. **Personal details**

1. **What is your name?**

2. **Gender?**   **01 - Male**   **02-Female**

3. **Age in years**   **01 - (20-29) 02 - (30-39) 03 - (40-49)**
    04 - (50-59) 05 - (60 and over)

4. **What is your religion?**

    01 - Christianity   02 - Islam   03 - Hindu   04 - Other

5. **Which is your home district ?**

6. **Where do you live now?**

7. **How many kilometres from home village ?   01 less than 8 km   02-5-10 km**
    03-11-20 km   04-more than 20 km

8. **Are you single or married?**
    01-Single   02-Manied

9. **How many dependants do you have? State number**
    01 - Wives   03 - Other dependants
    02 - Children   04 - Total number of dependants

10. **Did you go to school? 01 - Yes   02 - No**

11. **Up to what level?**

    01-Primary   02-Secondary   03-Tertiary

12. **Can you read and write ? 01 - Yes   02 - No**

13. **Are you employed? 01 - Yes   02-No**

14. **What is your occupation? State**

15. **Are you self employed? 01 - Yes   02 - No**

16.   **What is your business**

  01 - Trading   07 - Constructing houses
  02 - Grain milling   08 - Exporting
  03 - Smallscale farming   09 - Importing
  04 - Estate farming   10 - Owner of hotel, resthouses,
                                                   restaurant, bar.
  05 - Manufacturing   11 - Transporting
  06 - Brickmaking   12 - Repairing and other services
  13 - Vendor   14 - Tenant
  15 - Other (specify)

17.   **How much money did you earn?**

  01 - 1987 K...   02 - 1988 K...   03 - Last (or any latest) month K ...

18.   **How much did you save last (or any latest) month in any of the following:**

  01 - Post Office K ...   05 - Leasing & Finance Co. K ...
  02 - New Building Society K ...   06 - Mercantile Credit K...
  03 - A commercial bank K . . .   07 - Other (specify) K ...
       (National or Commercial Bank)
  04 - Credit union K ...

19.   **How much did you borrow recently from these institutions**

  01 - New Building Society K . . .   06 - Sedom K ...
  02 - A commercial bank *K*.. .   07 - Indefund K ...
  03 - Leasing & Finance K . . .   08 - Agricultural Fund K , ..
  04 - Mercantile Credit K ...   09 - Your employers K . . .
  05 - Credit Union   10 - Other (specify)

20.   **When you went to obtain your most recent or only loan, how much did you spend on transport? K .. .**

20 (a) **When you went to obtain your most recent loan, how much did you spend on resthouse/hotel? K. ..**

20 (b) **When you went to obtain your most recent loan, how much did you spend on applications fees, other fees, etc? K ...**

20 (c) **If you received some of your income in kind last (or any latest) month, what was it and what was its value?**

K

B.   Savings and credit associations (SCAs) (Borrowing funds)

21.   **Do you take part in SCA?**

  01 - Yes   02 - No

22. **What are the monthly expenses of the association? K ...**

23. **How many are you?**

24. **When was your SCA formed? ....**

25. **Why did you form the SCA?**
    01 - To save   **04 - To have source of loans**
    02 - To make money for travel during holiday   **05 - Other (specify)**
    03 - To make money for various
    **   purposes**

26 (a) **How much did you contribute per head at beginning of the year?**
    01 - 1986/7 K ...   **03 - 1988/9 K ...**
    02 -1986/7 K...

26 (b) **If you contributed per month, how much was it per head K ...**

27. **How much did you get back (deposit plus interest)?**
    At the end of: 01 - 1986/7 K...   **03 - 1988/9 K ...**
    02 - 1987/8 K ...

28. **Did you borrow from the fund?**
    0 1 - Y e s   **0 2 - N o**

29. **How much did you borrow during the year?**
    01 - 1986/7 K...   **03 - 1988/9 K ...**
    02 - 1987/8 K . ..

30. **In the act of last borrowing in 1988/89, how much did you spend on transport? K ...**

31. **In the act of last borrowing in 1988/89, how much did you spend on a resthouse/hotel? K...**

32. **In the act of last borrowing in 1988/89, how much did you spend on application fees, other fees, etc? K .. .**

33. **How much did you pay back (principal plus interest) during the year?**
    01 - 1986/7 K...   **03 - 1988/9 K ...**
    02 - 1987/8 K ...

34. **If you did not pay back on time how many months did it take you to pay?**

35. **What did you use the borrowed money for in 1988/89? State amount.**
    01 - Food   **08 - Farm labour**
    02 - Other non-durable consumables   **09 - Business Capital**
    04 - School fees/uniform   **10 - General support of relatives at**
                                                        **   home village**
    05 - Transport   **1 1 - Lending**
    06 - Other services   **12 - Loan repayment**
    07 - Fertilizer   **13 - Other (specify)**

36. **What did you use the money distributed in 1988/89 for? State amount.**

01 - Food
02 - Other non-durable consumable
03 - Durable consumables

04 - School fees/uniform
05 - Transport
06 - Other services
07 - Fertilizer

08 - Farm labour
09 - Business Capital
10 - General support of relatives at home village
11 - Lending
12 - Loan repayment
13 - Other (specify)

37. **Was it enough?**

01 - Yes   02 - No

38. **If not, did you get money from other sources?**

01 - Yes   02 - No

39. **What sources were they?**

01 - Salary
02 - Business
03 - Farming
04 - Katapila
05 - Traders

06 - Friends
07 - Relatives
08 - Neighbours
09 - Landlord
10 - Employers
11 - Other (specify)

40. **How much did you get from them? K...**

41. **Where did the money you contributed to the SCA in 1988/89 come from?**

01 - Salary   03 - Farming
02 - Business   04 - Other (specify)

42. **Did you go to your home village during your long annual holiday?**

01 - Yes   02 - No

43. **Do you bank your personal money?**

01 - Yes   02 - No

44. **If so, where?**

01 - Post Office
02 - A commercial bank
03 - New Building Society
04 - Leasing and Finance

05 - Merchantile Credit
06 - CSA
07 - At home in notes and coin
08 - Other (specify)

45. **Do you bank because of**

01 - Safety   03 - Other (specify)

46. **If you do not bank, is it because**

01 - Banking facilities are far away
02 - Not aware of levels of interest rates at banks
03 - Not aware of safety and other benefits at banks

04 - Low interest rates at banks
05 - Don't trust banks
06 - Low income

47. **Does your SCA bank its money?**
01 - Yes   02 - No

48. **If not, is it because**
01 - Interest rates in banks are lower than in   02 - Other (specify)
      your SCA

49. **Does your SCA borrow from banks?**
01 - Yes   02 - No

50. **How are you related to other members of the SCA?**

01 - Workmates	05 - Neighbours
02 - Businessmates	06 - Former schoolmates
03 - Friends	07 - Other (specify)
04 - Relatives	

51. **Who runs the SCA?**

01 - Committee	03 - All together
02 - Leader	04 - Nobody

Note: Interviewer should enquire from treasurer and/or other officials of an SCA about their operational procedures, rules, nature of records kept, etc and make brief notes.

52. **If your SCA banks money, where does it bank?**

01 - Post Office	05 _ Merchantile Credit
02 - A commercial bank	06 - CSA
03 - New Building Society	07 - At home
04 - Leasing and Finance Co.	08 - Other (specify)

53. **What is the rate of interest on SCA loans?** .... %

C.   Chilimba or Chiperegani or Chiryelano (CSAs)

21. **Do you take part in Chilimba?**
01 - Yes   02 - No

22. **What are your monthly expenses? K ...**

23. **How many are you?**

24. **How are you related to other members?**

01 - Workmates	05 - Neighbours
02 - Businessmates	06 - Former schoolmates
03 - Friends	07 - Other (specify)
04 - Relatives	

25. **Why did you form the Chilimba?**
    01 - To raise funds   03 - Other (specify)
    02 - To force ourselves to save

26. **How much do you contribute per head per period? K ...**

27. **What is the period?**
    01-Weekly   04-Yearly
    02 - Bi-weekly   05 - Other (specify)

    03-Monthly

28. **When did you last obtain your share in the pool? ...**

29. **What did you use the money for? Indicate the amount?**
    01 - Food   07 - Farm labour
    02 - Other non-durable consumables   08 - Fertilizer
    03 - Durable consumables   09 - General support of relatives at
                                                          home village
    04 - Transport   10 - Lending
    05 - Other services   11 - Loan repayment
    06 - School fees/uniform   12 - Saved
                                                     13 -Other (specify)

30. **Was the money from the Chilimba enough for the purpose?**
    01-Yes   02-No

31. **If not, did you get money from other sources?**
    01-Yes   02-No

32. **What were they?**

    01 - Salary   07 - Estate owner
    02 - Business   08 - Traders
    03-Farming   09-SCA
    04 - Friends   10 - Katapila
    05 - Relatives   11 - Employers
    06 - Neighbours   12 - Other (specify)

33. **Where does the money that you contribute to Chilimba come from?**
    01 - Salary   07 - Estate owner
    02 - Business   08 - Traders
    03-Farming   09-SCA
    04 - Friends   10 - Katapila
    05 - Relatives   11 - Employers
    06 - Neighbours   12 - Other (specify)

34. **When did you start the Chilimba? ,**

35. **How did you decide who should get the pool of money first?**
01 - Drew lots   03 - By negotiation
02 - Seniority   04 - Other (specify)

36. **Who runs the Chilimba?**
01 - Committee   03- All together
02 - Leader   04- Nobody

37. **Do you deposit money from Chilimba in banks?**
01-Yes   02-No

38. **Which banks?**
01 - Post Office   04 - Leasing and Finance
02 - New Building Society   05 - Merchantile Credit
03 - A commercial bank   06 - Other (specify)

39. **Do you bank your personal money?**
01 - Yes   02-No

40. **If yes, where?**
01 - Post Office   05 _ Merchantile Credit
02 - A commercial bank   06-SCA
03 - New Building Society   07 - At home in notes and coin
04 - Leasing and Finance Co.   08 - Other (specify)

41. **Do you bank because of:**
01 - Safety   03 - Other (specify)
02 - Interest income

42. **If you do not bank, is it because:**
01 - Banking facilities are far away   04 - Low interest rates at banks
02 - Not aware of levels of interest rates at banks   05 - Don't trust banks
03 - Not aware of safety and other benefits at banks 06 - Low income
                                           07 - Other (specify)

Note: *Interviewer* **should enquire from treasurer and other officials of SCA about their operational procedures, rules, nature of records kept, etc and make brief notes.**

D. Katapila

21. **When did you start lending money under Katapila?**
Year of

22. **How much did you lend during**   01 - Year 1988 K ...
    02 - Last (or any latest) month K ...

23. **How much were you paid on loans extended during**
    01 - 1988 K ...   02 - Last (or any latest) month K ...

24. **What action did you take on unrepaid loans last (or any latest) month?**
    01 - Summoned defaulter(s) to court   05 - Seized defaulter(s) property
    02 - Summoned defaulter(s) to party officials   06 - No action
    03 - Stopped lending him (them)   07 - Other (specify)
    04 - Rescheduled the loan(s)

25. **What was the time period of the loan(s) extended last (or any latest) month?**
    01 - One year   03 - Other (specify)
    02 - One month

26. **How much did you charge on each kwacha?**

27. **What was the security?**
    01 - Mboni (Kaboni)   04 - Cheque
    02 - Tax receipts   05 - Property
    03 - Signature   06 - Other (specify)

28. **Where did you obtain the money that you lent last (or any latest) month from?**
    01 - Salary   03 - Business
    02 - Farming   04 - Other (specify)

29. **If some of the money was borrowed, how much was it? K . . .**

30. **Where did you borrow it from?**
    01 - A commercial bank   06 - SCA
    02 - Sedom   07 - Friend
    03 - Indefund   08 - Neighbour
    04 - Katapila   09 - Smallscale farmer
    05 - Trader   10 - Estate owner
                                                       11 - Other (specify)

31. **Did you meet all the demand for loans last (or any latest) month?**
    01 - Yes   02 - No

32. **If no, what was the shortfall? K ...**

33. **How much of your annual cash income comes from Katapila?**
    All_____More than half...   Half...   Less than half

34. **How much of your time do you devote to Katapila?**
    All_____More than half_____Half_____Less than half

35. **How much did you save from Katapila last (or any latest) month? K .**

36. **If so, where?**

01 - A Commercial Bank	02 - Post office
03 - New Building Society	04 - CSA
05-SCA	06-At home
07 - Other (specify)	

37. **Do you keep records of the loans you extend and their recoveries?**

01-Yes   02-No

38. **How many days per month do you spend on lending money?**

39. **How many days per month do you spend on collecting repayments?**

E. Other Lenders (e.g. landlords, traders, friends, relatives, employers, neighbours)

21. **Type of lender**

01-Katapila	06-Friend
02 - Estate owner	07 - Relative
03 - Trader	08 - Neighbour
04 - Smallholder farmer	09 - Employer
05 - Grain miller	10 - Other (specify)

22. **What are your monthly expenses? K ...,**

23. **When did you start lending money?**

24. **How much did you lend during:**

01 - Year 1988 K . . .   02 - Last (or any latest) month K

25. **What was the time period of the loan(s) extended last (or any latest) month?**

01 - One year   02 - One month   03 - Other (specify)

26. **What was the interest rate (state in tambales per one kwacha lent)**

27. **What was the security**

01 - Mboni (Kaboni)	04 - Cheque
02 - Tax receipts	05 - Property
03 - Signature	06 - Other (specify)

28. **How much did you get out of loans extended during?**

01 - Year 1988 K...   02 -Last (or any latest) month K ...

29. **What action did you take on unrepaid loans last (or any latest) month?**
    - 01 - Summoned defaulter(s) to court
    - 02 - Summoned defaulter(s) to party officials
    - 03 - Stopped lending him (them)
    - 04 - Rescheduled the loan(s)
    - 05 - Seized defaulter(s) property
    - 06 - No action
    - 07 - Other (specify)

30. **Where did you obtain the money that you loaned from?**
    - 01 - Salary
    - 02 - Farming
    - 03 - Trading
    - 04 - Grain milling
    - 05 - Other (specify)

31. **If some money was borrowed, how much was it? K.**

32. **Where did you borrow it from?**
    - 01 - A commercial bank
    - 02 - Sedom
    - 03 - Indefund
    - 04 - Katapila
    - 05 - Trader
    - 06 - SCA
    - 07 - Friend
    - 08 - Neighbour
    - 09 - Smallscale farmer
    - 10 - Estate owner
    - 11 - Other (specify)

33. **Did you meet all the demand for loans last (or any latest) month?**
    - 01 - Yes
    - 02 - No

34. **If no, what was the shortfall? K . ..**

35. **How much of your annual cash income comes from lending?**
    All... .   More than half...   Half .. .   Less than half....

36. **How much of your time is devoted to lending money?**
    All....   More than half....   Half.... Less than half....

37. **Is some income from lending saved?**
    - 01 - Yes
    - 02 - No

38. **If yes, where?**
    - 01 - A commercial bank
    - 02 - Post Office
    - 03 - New Building Society
    - 04 - Merchantile Credit
    - 05 - CSA
    - 06 - At home in notes and coin
    - 07 - SCA
    - 08 - Other (specify)

39. **Do you keep records of the loans you extend and their recoveries?**
    - 01 - Yes
    - 02 - No

40. **How many days in a month do you spend on lending money?**

41.   Normally how many days in a month do you spend on recovering your loans?

F.   Borrowing

21.   Did you borrow money from any sources last month/year?
01 - Yes   02 - No

22.   What sources were they?

01 - Katapila	06 - Friends
02 - Estate owner	07 - Relatives
03 - Traders	08 - Neighbours
04 - Smallholder farmers	09 - Others (specify)
05 - SCA	10 - Employers

23.   How much did you borrow from each source last (or any latest) month?

01 - Katapila	05 - SCA
02 - Estate owner	06 - Friends
03 - Traders	07 - Relatives
04 - Smallholder farmers	08 - Neighbours
	09 - Others (specify)
	10 - Employers

24.   To obtain your loan, how much did you spend on transport?
K

25.   To obtain your loan, how much did you spend on a resthouse/hotel? K ....

26.   To obtain your loan, how much did you spend on application fees, other fees, etc? K

27.   How much was the interest for each loan? (state in tambalas per one Kwacha)

01 - Katapila	06 - Friends
02 - Estate owner	07 - Relatives
03 - Traders	08 - Neighbours
04 - Smallholder farmers	09 - Other (specify)
05 - SCA	

28.   What security did you provide

01 - Mboni (Kaboni)	04 - Cheque
02 - Tax receipts	05 - Property
03 - Signature	06 - Other (specify)

29.   Did you repay principal plus interest on time?
01 - Yes   02 - No

30.   How many months did it take you to repay the loan?
                    months

31.   What was the time period of the loan?
01 - 1 year   03 - Indefinite
02 - 1 month   04 - Others (specify)

32.   If you did not repay on time, why not?
01 - Lack of adequate funds   02 - Other (specify)

33.   What action was taken by lenders?
01 - Summoned to court   05 - Seized my property
02 - Summoned to Party Officials   06 - No action
03 - Stopped lending me   07 - Other (specify)
04 - Rescheduled the loan

34.   What did you use the money borrowed on?
01 - Food   07 - Fertilizer
02 - Other non-durable consumables   08 - Farm labour
03 - Durable consumables   09 - Business
04 - School fees/uniform   10 - General support of relatives at
home village
05 - Transport   11 - Lending
06 - Other services   12 - Loan repayment
                                      13 - Other (specify)

35.   Did you get all that you wanted from these sources?

01 - Yes   02 - No

36.   If not, what was the shortfall? K

37.   For how long have you been borrowing from these sources? .,

38.   Why do you borrow from these but not other sources?
01 - Interest lower   04 - Easy to get loan
02 - Have adequate funds   05 - Loan given quickly
03 - Known to me   06 - Near home
                                      07 - Other (specify)

39.   How did you know about these sources
01 - Through other people   03 - Personal knowledge
02 - Advertised themselves   04 - Other (specify)

40.   What was the total sum borrowed in 1988? K.

41.   How much was repaid? K

G,   Group or community fund

21. Do you belong to a group or community fund?
01-Yes   02-No

22. How many are you?

23. How is the money for the fund raised?
01 - Financial contributions   03 - Other (specify)
02 - Group work

24. If the money is raised through financial contributions, how much does each member contribute? K

25. Is the contribution
01 - yearly   03 - weekly
02 - monthly   04 - Other (specify)

26. If the money is raised through work, what type of work is it?
01 - agricultural   04 - harvesting
02 - construction   05 - other (specify)
03 - processing produce

27. What is the money used for?
01 - community projects   02 - private emergencies
03 - both 01 and 02   04 - other (specify)

28. Is the money lend out to individual members?
01-Yes   02-No

29. If yes, is it lent out at interest?
01-Yes   02-No

30.   If it is lent out at interest, what is the rate of interest?. . . . . . .%

31. What is the required time period?
01-1 month   04 - indefinite
02 - 1 week   05 - Other (specify)
03 -1 year

32. Did you borrow from the fund last (1988) year?
01 - Yes   02 - No

33. If yes, how much was it? K ,

34. Did you return the whole sum?
01-Yes   02-No

35. If not, how much was not repaid? K

Notes

1. The term informal financial sector is taken from the term "informal sector" which was first used by Keith Hart in "Informal income opportunities and urban employment in Ghana", *Journal of Modern African Studies,* Vol. n, No. 1 (March 1973), pp. 61-89; and in International Labour Organisation and United Nations Development Programme, *Employment, Incomes, and Equality: A Strategy for Increasing Productive Employment in Kenya* (Geneva, 1972). Since then the term has been used widely.

2. The authors are grateful to Prof. M.L. Srivastava of the Demographic Unit, Chancellor College, for his assistance in drawing up the sample for the main survey and for estimating the weights used in calculating a number of population parameters.

3. This compares favourably with a sample of 1,376 selected in the 1980/81 National Sample Survey in Agriculture.

4. Blantyre City, Mangochi Township, Zomba District, Mangochi District, Lilongwe District, Dowa District, Mponela Township, Mzimba Boma, Mzimba District, Mzuzu City, Rumphi Boma, Rumphi District, Nkhata Bay Boma and Nkhata Bay District.

5. Brazil, Burma, Colombia, Cyprus, El Salvador, India, Japan, Jordan, Khmer Republic, Lebanon, Mexico, Pakistan, Sri Lanka, Syria, Thailand and Turkey.

6. India, Korea, Nepal, Pakistan, Phillipines, South Viet Nam, Sri Lanka, Taiwan and Thailand in Asia, Brazil, Chile, Costa Rica, Equador and Mexico in Latin America; and Afghanistan, Iran and Turkey in the Middle East.

7. After allowing for the period of credit, the size of the informal financial sector is estimated to be about the same as that of the other sector. See Tables 8 and 9.

8. This may not be a serious weakness if it is assumed that outstanding informal-sector credit is small.

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