



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

8966

UNIVERSITY OF CALIFORNIA
DAVIS
JAN 23 1991
Agricultural Economics Library

1990

**THE STRUCTURE AND IMPORTANCE OF
INFORMAL FINANCIAL GROUPS IN CAMEROON**

Gertrud Schrieder

and

Carlos E. Cuevas

Credit

Agricultural Finance Program
Department of Agricultural Economics and
Rural Sociology
The Ohio State University
2120 Fyffe Road
Columbus, Ohio 43210-1099

AAEA paper 1990

**THE STRUCTURE AND IMPORTANCE OF
INFORMAL FINANCIAL GROUPS IN CAMEROON**

ABSTRACT

Based on a 1988 survey, this paper shows that informal groups in Cameroon are capable of responding to widely different demands for financial services. The striking importance of these informal groups in Cameroon highlights the need to consider the likely effect on these groups of financial policy measures.

THE STRUCTURE AND IMPORTANCE OF INFORMAL FINANCIAL GROUPS IN CAMEROON

Groups with simple organizational frameworks are found worldwide. Individuals with a common objective or problem seek to join together when unorganized or individual action seems capable of furthering the individuals' interest. Financial self-help groups (SHGs) can be found in West, Central, East, and South Africa, Asia, the West Indies, Central, and South America. In this broad geographical range, two different concepts of financial SHGs are usually recognized: rotating savings and credit association (ROSCAs) and non-rotating savings and credit associations (NonRoSCAs) (Ardener, Bouman 1976, Geertz, Miracle, Miracle and Cohen, Seibel 1986).

This paper documents and analyzes the activity of rotating and non-rotating informal financial groups in Cameroon, based on a field survey carried out in the Fall of 1988 (Schrieder). The findings highlight the active participation of rural people in informal groups and the dominant role informal finance plays in funds circulation in this country. A brief description of the methods and data used in the study is presented in the following section. The final section reviews the main findings and summarizes the major implications of the study.

METHODS AND DATA

The primary data for this study were obtained from a survey conducted in three Provinces of Cameroon (North-West, West, and Central) in the Autumn of 1988. Four separate questionnaires provided information on the internal decision making process, control of group conduct, funds management, selection of beneficiaries, mechanisms of social control, the importance of women as group members, and the relative importance of SHGs in the community.

A total of 136 members and 14 group leaders were interviewed. Three-quarters of the total number of the randomly selected members interviews were women. About 60 percent of the interviews were carried out in the anglophone North West Province. The Central and West Province, both

predominantly French speaking Provinces, accounted for about 9 percent and 33 percent of the sample respectively. The financial self-help groups in the survey had a total of 1,057 participants. The predominant occupation of the respondents was farming (77 percent of the sample). The category housewives accounted only for about 10 percent¹. Public and private employees represented 7, merchants 5.2, and businessmen only one percent in the sample.

FINANCIAL SELF-HELP GROUPS IN CAMEROON

It was found that the degree of financial intermediation and monetization in informal groups increases from the most simple type of ROSCA (those with an interest free rotating fund and no other financial intermediation) to the ROSCA type where the rotating fund is auctioned and the NonROSCA that operates as an emergency fund and a mutual aid fund. This indicates that the types of financial SHGs should not be understood as strictly separated categories but rather as a continuum of group structures and operational modes. The data gathered shows that all types of financial SHGs (with the exception of the money lending group) share several features in common:

- (a) All groups are self-selecting regarding their membership. New members must pass a period of regular savings before they are eligible for loans.
- (b) Meeting proceedings follow a specific pattern and protocol. Most meetings start with a prayer.
- (c) Contributions, loan payments and loan demands are made publicly in front of the group.
- (d) Financial sanctions (fines) are assessed to participants who arrive late to a meeting, disturb the meeting, or do not pay their contribution
- (e) In addition to the financial sanctions mentioned above, there are social sanctions that apply to the defaulters. Defaulters lose their reputation in the community and might never again be accepted in any other informal financial institution, therefore, defaults are rare. During the

¹ Most women in the survey called themselves farmers rather than housewives since they produce food crops and thus contribute to the total income of the family.

course of this study, eye-witnesses reported that groups might sell all belongings of a defaulting member to get their loans repaid.

Main Features of Informal Financial Groups

A majority of all financial SHGs interviewed were founded by indigenous members of the community (53 percent of the sample). Most of these initiators still participate actively as members in the organization they founded. The remaining groups were brought to life by missionaries, and administrative village authorities and traditional village authorities with 33 percent and 13 percent respectively. On average, the groups in the survey had existed for 10 years in 1988.

One informal financial institution had a lifetime of 34 years, while the most recent groups were founded two years ago. One-half of the groups showed at least seven years of functioning, and a good number of them were founded before independence in 1960. Mutual trust and place of residence were most often reported as the common bond of the financial SHGs (50 percent of the groups), whereas ethnic group and gender appeared to play a less important role as a membership condition than was commonly assumed (21 percent and 14 percent of the groups respectively).

Women in Cameroon are traditionally food crop producers who sell their surplus in local markets. Due to the recent financial crises in Cameroon and the relatively low prices for cash crops - the traditional domain of the men - the financial standing of farm-women is presently better than that of male small holders. Thus, farm women seem to be more active in financial SHGs than their husbands due to their more substantial and steadier flow of cash income.

The total number of members per group varied between 5 and 350 individuals. The size of groups consisting solely of men (4 in the sample) ranged between five and 24, while women-only groups (also 4 in number) totaled a minimum of 26 and a maximum of 200 members. The data indicate that financial SHGs wherein both genders participate are dominated by women. Men in mixed groups serve

mostly in the position of secretary since they are more often literate than women. On the other hand, the treasurer's position is usually held by women.

Most financial SHGs are governed by a board of members. This was the case in 86 percent of all groups interviewed. Only two groups reported a single individual leadership structure: a money lending group and a corn mill group. All groups kept records in written form. In about 79 percent of all the groups' interviewed, the secretary kept track of the number of members, their contributions, loan, and deposit transactions. It was also found that all financial SHGs had at least a register book to record their financial transactions. A cash and visitor book were used by 21 percent of the groups and a member passbook, loan, and interest book were used by another 14 percent.

Generally, the member who is or was the last beneficiary of the rotating fund in a ROSCA provides the group with palm wine and corn beer. In ROSCAs where the rotation is determined in advance, the actual beneficiary supplies the beverages and the food. In groups where the primary fund is allocated by auctioning, the last beneficiary pays for drinks and food. Understandably, this kind of entertainment was only found in groups smaller than 100 participants.

Deposits and Contributions: The most common meeting frequency is monthly. This was the case in 43 percent of the groups. Other common frequencies were weekly, bi-weekly or every three weeks. Members' contribution are normally paid at every meeting, however, in special cases, the members' contributions are paid at once at the foundation of the group or when a new member enters the association.

Thirty-six percent of the interviewees reported that their financial SHG pays them interest on their deposits. Not all of them could specify the interest rate since the rate is generally calculated at the end of the cycle. This is because the interest revenues from member loans and/or savings accounts can only be quantified at the end of the cycle and then distributed. The average return on savings was about 50 percent with a range from 12 percent to 60 percent per annum for the respondents who

specified an interest rate on their savings. These rates are higher than those reported by DeLancey in his earlier studies of Cameroonian groups (10 percent and 12 percent respectively).

Six informal financial groups reported sources of funds other than the members' contributions. One financial SHG had a current FONADER² loan and four groups had received a loan from FONADER the year before. Two groups had loans in 1987 as well as in 1988 from the Liywontse Association, an umbrella organization of 24 informal financial groups in the Nkar area (North-West Province). A credit union had granted a loan to one of the interviewed groups in 1987. This group had borrowed from this credit union for the first time 22 years ago. All other groups had obtained their first loan from their creditor institution within the past two years.

Uses of Group Funds: About three-fourths of all groups interviewed use their funds primarily for member loans. About 46 percent of these groups also hold reserves either at the treasurer's home and/or the bank or the credit union. One group, the money lending group, granted exclusively non-member loans, while another informal financial group invested its funds in a corn mill and accumulated savings in a nearby credit union.

The average member loan amount was 156,532 FCFA, the smallest loan reported was 1,000 FCFA, while the largest was 4,500,000 FCFA³. As Table 1 shows, the majority of the member loans reported in the survey ranged between 1,000 and 20,000 FCFA.

Loan terms in the sample had a mean of 9.5 months. The shortest loan term was one month, while the longest term was four years and eight months. However, 83 percent of all loan terms found in the survey varied between one month and one year. The interest rates charged by informal financial groups vary widely. The one extreme was an interest rate of 6 percent per year (non-rotating savings and credit

² "Fondation Nationale de Développement Rurale", (FONADER) is a public development institution currently being replaced by a public agricultural bank.

³ 1 US\$ = 320 FCFA

association), the other extreme was a 360 percent interest rate per annum (money-lending group). Three groups did not charge any interest on loans. If one excludes the extreme interest rates indicated above, the average rate charged on loans by informal groups is 33 percent per year.

The interviews showed that informal financial groups generally do not require guarantees from their borrowing members. This was found to be the case in 83 percent of all groups, and confirms previous findings by Bouman. Two groups considered the members' savings as sufficient security for their loans and one interest-charging ROSCA required a check as guarantee for the contributions not yet subscribed. The money-lending group however required several loan guarantees. The debtor had to sign a loan contract and a check for the amount of the loan.

All member loans are made in front of witnesses. Generally, the whole group acts as a witness, otherwise loans are witnessed by the group board. About eighty-three percent of all groups gave loans only to members who have proven their savings capability. Also important (in 58 percent of the cases) was the regular participation of the members in the group's meetings and other activities.

In the sample, three-fourths of all interviewed ROSCAs allocated their rotating fund through general agreement prior to the beginning of the cycle. However, this order was open to changes by the group board in agreement with the members if a group participant could document an urgent need. If funds in non-rotating savings and lending associations are limited, the member with the most urgent need generally has priority. The need for money by members in ROSCAs is also a strong determinant for the allocation of the group's fund. Seventy-three percent of all rotating and non-rotating groups with loans named a member's need as a determinant for loan allocation. This flexibility in the allocation of funds explains the finding that only two of the 14 groups interviewed operated a mutual aid fund. Emergency funds however, were observed in almost one-half of the groups in the sample.

Relative Importance of Financial SHGs

Membership Involvement in Informal Financial Groups: Local experts claim that almost everybody in Cameroon belongs to at least one financial SHG. A person who does not participate in any informal lending and savings association might lack money or might have a bad or not yet established reputation in the community (Lantum 1988). In this survey, almost 80 percent of all adult-family members participate in at least one financial SHG, a proportion somewhat higher than that reported by Warmington and DeLancey.

About 52 percent of all interviewees belonged to multiple informal financial lending and savings associations. In one-third of the cases at least one other family member also participated either in the same group as the interviewee or in some other financial SHG. Table 2 indicates that multiple membership in informal lending and savings associations is very common. As can be seen in panel B, 52 percent of all respondents belonged to at least two financial SHGs.

Seventy-one percent of all groups interviewed provided their participants with loan services. The exceptions were two pure savings groups, a corn-mill group, and the money lending group. Loans from sources outside the groups in this data set were mainly borrowed from other financial SHGs. Only 7 percent of the sample had loans from formal financial institutions. However, loans from other SHGs were found in 17 percent of the cases.

Relative Importance of Informal Borrowing Projected to the National Level: The mean value of the total amount (21 million francs CFA) of informal loans in the sample is about 157 thousand FCFA. This calculation includes interviewees who had not yet received a member loan in 1988 but also loans from informal sources outside the groups in the data set. Therefore, this average amount is somewhat larger than the average loan granted exclusively by the groups in the data set mentioned above.

As stated earlier, 79 percent of all adult household members participate in at least one financial SHG, however, we assume for the purpose of extrapolation that about 70 percent of Cameroon's

population participates in informal lending and savings associations. Cameroon's population totalled about 11 million citizens in Autumn 1988, of which the active population is estimated at about 3.5 million. This number has been calculated using the assumption that Cameroon's active population represents 30 percent of the total population (Agricultural Census 1984).

With the foregoing assumptions, and using the average member loan from the sample data indicated above, it is possible to estimate the total amount of credit granted through informal groups in Cameroon at about 385 billion FCFA (157 thousand FCFA times 0.7 participation rate times 3.5 million active population). This amount is equivalent to 36 percent of all claims on the private sector by Cameroon's commercial banks and its development bank in March 1988. This implies that these indigenous financial groups provide 27 percent of all loan requirements in Cameroon. Bechtel had estimated that more than 50 percent of all short and medium term loans are granted by informal savings and lending groups, which is not inconsistent with our findings, given the different loan amounts involved in institutional and non-institutional lending.

Relative Importance of Informal Savings Projected to the National Level: In addition to the voluntary savings in external formal financial organizations, interviewees held large deposits in financial SHGs other than the groups in the data set. Table 3 illustrates the external savings pattern of the respondents in the survey.

Table 3 shows clearly that informal savings institutions are far more important in absolute numbers than are formal savings organizations. Fifty-nine of the respondents held savings in other informal financial institutions, while only a total of 21 had bank or credit union accounts.

The total accumulated amount of informal financial deposits by the respondents in the data set was 33.8 million FCFA in 1988. This estimate includes savings in the interviewed groups as well as deposits in other informal financial groups. The mean over the total amount of voluntary informal savings for all respondents was 248,679 FCFA. Using the same assumptions about participation in

informal groups and active population, the total national savings kept by informal financial groups is estimated at about 580 billion FCFA, an amount equivalent to 1.2 times the magnitude of all demand, time, and savings deposits in Cameroon's commercial banks and its development bank in March 1988. This analysis thus indicates that informal voluntary savings account for about 54 percent of total financial deposits in Cameroon.

CONCLUDING REMARKS

This paper has described and analyzed the main features and operational modes of informal financial groups in Cameroon and their relative importance in the country's monetized economy. Two major remarks arise from this preliminary analysis. First, informal SHGs appear to be able to adjust their structure and operating principles to a wide variety of circumstances. These groups are capable to respond to widely different demands for financial services, a major advantage with respect to formal financial institutions.

The second major remark relates to the striking importance of informal groups in Cameroon's overall monetary circulation. The estimates reported in this paper suggest that informal groups account for more than one-fourth of total domestic private sector credit, and for more than one-half of total financial savings. These findings, for the most part consistent with previous studies on Cameroon, highlight the significance of informal finance in the country and emphasize the need to consider the likely effect on these groups of financial policy measures. The current initiative of establishing a public agricultural bank in Cameroon should be evaluated in terms of the effects this institution might have on the motivations and incentives associated with the formation and functioning of informal financial groups.

Table 1
Informal Loan Categories in Francs CFA

Amount FCFA	Frequency	Pct	Cum. Pct
1,000 - 9,999	45	36	36
10,000 - 19,999	30	27	63
20,000 - 49,000	18	16	79
50,000 - 99,999	6	5	85
100,000 - 1,000,000	12	11	95
> = 1,000,000	5	5	100
Total	111 ^a	100	

^a Missing Values: 25
Source: Schrieder, 1989.

Table 2
Multiple Participation in Financial SHGs by Respondent

A			B		
No. of Groups	Frequency	Percent %	Participation in at least ... groups	Frequency	Cumulative Pct
1	66	49	1	136	100
2	57	42	2	70	52
3	8	6	3	13	10
4	1	1	4	5	4
5	4	3	5	4	3

Source: Schrieder, 1989.

Table 3
Savings in Other Informal Financial Institutions

Deposits in		Other Financial SHGs				Total	
		Yes		No		Absolute	Pct
		Absolute	Pct	Absolute	Pct		
Formal Financial Institution	Yes	8	6	13	10	21	15
	No	51	38	64	47	115	85
Total		59	43	77	57	136	100

Source: Schrieder, 1989.

REFERENCES

- Ardener, Shirley. "The Comparative Study of Rotating Credit Associations," in The Journal of the Royal Anthropological Institute of Great Britain and Ireland. 94(1964).
- Bouman, F.J.A. "Indigenous Savings and Credit Societies in the Third World - Any Message?" Savings and Development.
- Bouman, F.J.A., and K. Harteveld. "The Djanggi, A Traditional Form of Saving and Credit in West Cameroon," in Sociologia Ruralis. 16(1976).
- DeLancey, Mark W. "Credit for the Common Man in Cameroon," Journal of Modern African Studies. 15(1977).
- DeLancey, Mark W., and Virginia H. DeLancey. A Bibliography of Cameroon, 4 vols. New York: Africana Publishing Company, 1975.
- Gadway, John F. Recommendations to Improve Rural Financial Markets in Cameroon, FONADER Mission Report GTZ, Cameroon, May 30, 1986.
- Geertz, Clifford. "The Rotating Credit Association: A Middle Rung in Development," in Economic Development and Cultural Change, 10(1962).
- GTZ. "Diskussionspapier: Credit Agricole du Cameroun," Cameroon, May, 1988a.
- Heidhues, Franz and Günther Weinschenk. Rural Finance Sector Study, GTZ. Frankfurt, FRG, July 10, 1986.
- IMF. International Financial Statistics, 42(1989).
- Kropp, Erhard. "Banking of the Poor: A Dialogue and Cooperation Process Involving banks and Non-Governmental Organizations," GTZ, 1988.
- Lantum, Alexander. "The Liwontse Association of Nkar-A Joint GTZ/FONADER Pilot Project," Bamenda, Cameroon, March 31, 1988a.
- Ministry of Agriculture. "Agricultural Census," Ministry of Agriculture, Republic of Cameroon, Vol.1, Oct. 1984.
- Miracle, P. Marvin, Diane S. Miracle and Laurie Cohen. "Informal Savings Mobilization in Africa," in Economic Development and Cultural Change, 28(1980):701-724.
- Schrieder, Gertrud R. "Informal Financial Groups in Cameroon: Motivation, Organization and Linkages," M.S. Thesis, Ohio State University, 1989.
- Seibel, Hans Dieter. "Rural Finance in Africa: The Role of Informal And Formal Financial Institutions," in Development and Cooperation, ISSN (0723-6980), vol.6, 1986.

Warmington, A. W. "Savings and Indebtness among Cameroon Plantation Workers," Africana,
28(1958):329-343.