

**African Finance for the 21st Century
High-Level Seminar organized by the IMF Institute
in collaboration with the Joint Africa Institute
Tunis, Tunisia, March 4–5, 2008**

**Session II:
Developing Sound Financial Intermediaries**

***From Informal Finance to Formal Finance in
Sub-Saharan Africa: Lessons from Linkage Efforts***

Ernest Aryeetey
Institute of Statistical, Social and Economic Research
University of Ghana

The views expressed in this paper are those of the author(s) only, and the presence of them, or of links to them, on the IMF website does not imply that the IMF, its Executive Board, or its management endorses or shares the views expressed in the paper.

**FROM INFORMAL FINANCE TO FORMAL
FINANCE IN SUB-SAHARAN AFRICA:**

Lessons from Linkage Efforts

**Ernest Aryeetey
Institute of Statistical, Social and Economic Research
University of Ghana**

**Paper Presented at the
High-Level Seminar on African Finance for the 21st Century
Organized by the IMF Institute and the Joint Africa Institute
Tunis, Tunisia, March 4 – 5, 2008**

FROM INFORMAL FINANCE TO FORMAL FINANCE

Lessons from Linkage Efforts

Ernest Aryeetey

1. INTRODUCTION

Most African economies are characterized by a financial system that has both formal and informal segments. Within the two broad segments there are several different types of operators that usually have very little contact with one another and whose clients often do not overlap. Even when the clients overlap, the clients are able to sort out clearly which aspects of their financial business will be handled by which financial arrangement. It is generally difficult to determine how the allocation of financial assets among different operators is made since this is not determined solely on the basis of the intrinsic return on the asset (Aryeetey 1997). The same low level of interaction among the operators is also observable, except in a few cases. The fact that interaction among the operators is minimal ensures that the flow of funds among the operators is very limited and does not allow the financial system to act as an effective and efficient intermediary at most times (Nissanke and Aryeetey 1998).

Many analysts who see informal finance as a consequence of inadequate formal financial systems expected that financial sector reforms will lead to a decline of informal finance. There is no sign of that happening in any country yet. On the contrary there are signs of formal institutions borrowing from the informal sector. It is the expectation of this relationship increasing that often leads to calls for properly regulated linkages to be developed between formal and informal finance. It is argued that integrating these two segments of financial markets and ensuring effective linkages between them can improve the efficiency of the financial system by enabling different agents to specialize for different market niches and by facilitating the flow of savings and credit up and down the system. Whatever transformation the informal sector will undergo then will be driven the

desire to access the resources of the formal sector. It will not diminish or disappear so long as the socio-economic structures of African countries require informality.

But it is not all analysts that believe in the need to develop strong linkages between formal and informal finance at all cost. This position is often driven by the notion that the informal sector cannot really change in view of social structures. Floro and Ray (1997) considered evidence from the Philippines and suggested that in the absence of a competitive informal market a vertical linkage that allows banks or formal financial institutions to provide credit through informal lenders was unlikely to lead to an expansion of the supply of credit significantly. This was because credit availability was driven by a whole range of complex arrangements between lenders and borrowers that led to strategic cooperation or collusive behaviour among informal lenders.

While the debate about how best to reach small or marginal borrowers has been going on, there have emerged several other financing arrangements that seek in part to address the same issues confronting the financial systems. In the past two decades, the emphasis has been on establishing microfinance schemes as the best alternative to ensuring access to financial services for small borrowers. This has been based on the success of institutions such as the Grameen Bank. In spite of these efforts, many potential clients are still not reached and a number of microfinance institutions (MFIs) struggle to operate, remaining very dependent on donor support. The proliferation of microfinance institutions in many countries has not necessarily benefited clients since only a few of these institutions have reached the scale necessary for the provision of efficient financial services. This situation has led to new calls for the adoption of methods that will help bridge the gap between those who can provide financial services and those who require those services. Thus, in general, complementarity in service provision is often touted as the way forward. Lately, there have been quite a number of studies into the development of new strategies that will encourage linkage between the informal and formal financial markets as a possible solution to this problem, with microfinance seen as a step in the progression of the informal sector.

Despite the existence of both informal and formal financial arrangements in sub-Saharan Africa and the fact that they appear to be both growing in many countries, the problem still remains how to ensure that small borrowers have significantly improved access to credit. The problem has always been that credit from informal sources was often not seen to have the attributes essential for investment in small growing businesses. It was often too little, interest rates were too high or the maturity periods were too short. That does not seem to have changed much in the last decade.

The potential for transforming the informal sector and for developing financial linkages depends on how developed a country's financial system is. In countries where both formal and less formal institutions are weak, the potential for transformation and linkage is extremely low. In contrast, in countries where formal and less formal institutions are both strong the potential for linking up is quite high (Conning and Kevane, 2002). There is the obvious need for national policy frameworks that have appropriate levels of incentive and regulatory policies as a context for achieving these desired linkages. It is also necessary for this framework to draw on broader economic relationships by ensuring that the approach is truly driven by demand from the real sector. It has been argued that as countries grow the potential for financial linkages grow but it seems best to implement policies that provide the platform for these linkages to come about.

The main argument of this paper is that the 'transformation' of the informal financial sector can take place if it is driven by a need to increase access to the resources of the formal financial sector. But that will first have to come from increased and expanded linkages in the two sectors. The growth of the formal sector is not necessarily going to reduce the size of the informal sector. In this paper we first provide an overview of the financial system that exists in sub-Saharan African economies, showing recent growth trends in both the formal and informal sectors. It explores the existing literature on financial linkages for proven examples of financial linkages in some developing countries. In doing this the paper assesses what role still remains for the informal sector with the gradual growth of formal financial sectors in SSA. In providing a summary of the state of both formal and informal financial arrangements in Africa, the paper notes the

changes in the environment for their operations, including the transformation of some operations into microfinance activity. The discussion of informal finance and microfinance overlap in parts of the paper where a distinction may not be important. The paper examines the extent to which informal financial arrangements are still useful despite the presence of growing and diversifying formal institutions. It discusses whether microfinance institutions are sustainable in both the short-run and the long-run. Some thought is also given to whether microfinance institutions could eventually transform themselves into more formal intermediaries such as banks. The role that governments may have in bringing about a greater complementary relationship between informal and formal finance is discussed, bearing in mind the several past failures of government support through state-owned banks. The paper finally explores the mechanisms that could be used to facilitate the transition for individual institutions from the informal to the formal sector by developing effective linkages.

2. AN OVERVIEW OF FINANCIAL SYSTEMS IN SUB-SAHARAN AFRICA

Sub-Saharan African financial systems have witnessed some growth in the last few years, even though this has generally been slow in coming. After undergoing some liberal reform in the 1990s, the financial systems in most SSA countries were generally expected to perform much better, improving upon their efficiency and effectiveness in the delivery of financial services. By removing policies that were seen to hamper the competitiveness of banks, it was assumed that they would be free to pursue management practices that supported their rapid growth and transformation. A decade later, there were serious concerns about their ability to achieve the anticipated growth and expansion (Aryeetey and Senbet 2000). In the last few years, however financial markets in many African countries appear to be finally doing considerably better. This section of the paper discusses the nature of the financial market and then examines some of the growth trends in the formal and informal sectors.

Table 1: Segments of Financial Systems by Degree of Formality

Tier	Definition	Institutions	Principal Clients
Formal banks	} Licensed by } central bank	Commercial & development banks	Large businesses Government
Specialized non-bank financial institutions (NBFIs)		Rural banks Post Bank Savings & loan companies Deposit-taking microfinance banks	Large rural enterprises Salaried workers Small & medium enterprises
Semi-formal	Legally registered, but not licensed as financial institution by central bank	Credit unions Microfinance NGOs	Microenterprises Entrepreneurial poor
Informal	Not legally registered at national level (though may belong to a registered association)	Savings (susu) collectors Savings & credit associations, susu groups Moneylenders	Self-employed Poor

Source: Steel (2006)

The Nature of the Financing Problem

An outcome of the structural and institutional characteristics of African financial markets mentioned earlier is that individual financial units specialise in a very narrow range of financial products. As result, the financial markets become too fragmented to allow risk-adjusted returns to converge. They also leave major gaps in financial services as already indicated. As Nisanke and Aryeetey (1998) highlighted, those who fall into the crack are all the potential borrowers that fail to meet the lending criteria of very distinct types of lenders. The lenders have crafted their products for particular market niches or groups. Those borrowers may also find the products of the lenders unattractive. In general many of them would have requirements that are well beyond the capacity of informal lenders and yet may not satisfy the criteria of most formal lenders.

Long before reforms, governments in sub-Saharan Africa attempted to deal with the problem by diversifying the institutional structure of the formal financial system. They established specialized banking and non-banking institutions. Central banks were challenged to deal with the problem and they went about creating commercial banks, merchant banks, development financial institutions (DFIs) and a number of non-banking and specialized financial institutions including insurance companies and provident funds. For their lending operations the banks have always been characterised by relatively high

value and longer duration loans which require formal application and collateral. The central banks held shares in many of the formal institutions or banks that governments created and yet they failed to solve the problem of the huge financing gap. Indeed it was the difficulty of trying to reach small borrowers with large formal institutions that, among others, led to poor banking practices that eventually weakened many banks and made reforms necessary.

In contrast, advances made by individual savings collectors¹ known all over West Africa to their regular clients are usually low value, very short term (less than one month), provided on an interest-free basis without collateral, and disbursed immediately. For many analysts, combining the banks' capital with the intrinsic advantages of the informal agents (small savings and loan provision, physical and social access, simple procedures, reliance on social capital and collateral, quick withdrawal and disbursement, and high proportions of women clients) is thus one argument for linking the formal and informal financial intermediaries. This has not happened in a significant way yet, even though both sectors are growing without the financing gap problem being solved.

Growth in the Formal Financial Sector

Reform of the formal institutions in SSA took several forms. In most countries it began with interest rate liberalization. This was accompanied by the removal of credit ceiling and credit controls in a number of countries. Restructuring and capitalization of banks was also pursued in most countries in view of the poor state of the many publicly owned banks. Also, as part of the restructuring exercises, many of the state-owned banks were privatized. Many governments followed this with improvements in the regulatory regimes and the supervision of the institutions. In a number of cases, reforming countries went on to develop capital and money markets. Indeed, in all countries, without necessarily meaning to, non-bank financial institutions emerged from within the more liberal environment and this led to the thousands of variations of informal finance as well as semi-formal microfinance institutions.

¹ They are known in Ghana as *susu collectors*. The term *esusu* is generally used in Nigeria for the same purpose.

The outcomes were initially not very positive in making the system more effective and efficient, but this is now improving. In terms of financial deepening, it may be observed from Table 1 that both the M₂/GDP ratio and the private credit/GDP ratio as measures of financial deepening have shown much better performance in a number of countries in the last five years. In Nigeria, both indicators worsened considerably in the early part of the reform period but improved after 2000. Indeed it is interesting that for the economies that have seen significant stabilization and improvement in economic performance such as Ghana and Tanzania the last few years have witnessed significant improvement in financial deepening. After several years of no movement on the financial deepening indicators, Ghana has recently seen the M₂/GDP ratio move to 28% (2005) compared to 13% in 1990. Many other countries have also experienced steady improvements here, an indication of the growing competitiveness of African banks.

Table 1: Money and Quasi Money (M2) as % of GDP

	1980	1990	2000	2005
Benin	17	24	27	25
Botswana	26	26	23	26
Cameroon	21	23	14	17
Cote d'Ivoire	27	29	22	23
Ethiopia	..	37	34	45
Ghana	16	13	23	28
Kenya	30	27	34	37
Malawi	18	18	15	20
Mozambique	..	40	26	26
Nigeria	24	19	19	19
Senegal	27	23	24	34
South Africa	50	54	52	56
Tanzania	..	19	18	25
Uganda	13	6	16	19
Zambia	28	20	19	17
Zimbabwe	31	28	19	45

Source: World Bank, 2007 World Development Indicators, Washington DC.

Table 2: Credit to Private Sector (% of GDP)

	1980	1990	2000	2005
Benin	29	20	12	17
Botswana	11	10	14	19
Cameroon	30	27	8	9
Cote d'Ivoire	41	36	15	14
Ethiopia	..	24	24	25
Ghana	2	5	14	16
Kenya	29	33	28	26
Malawi	21	12	9	11
Mozambique	..	32	19	11
Nigeria	12	9	12	15
Senegal	42	27	20	24
South Africa	60	85	134	144
Tanzania	..	16	5	10
Uganda	4	..	7	7
Zambia	20	9	9	8
Zimbabwe	33	30	25	27

Source: World Bank, 2007 World Development Indicators, Washington DC.

In terms of credit as a share of GDP, again the most improvements have taken place in the last 5 years, but even these are not significant in most countries. The generally low credit/GDP ratios for Africa, usually less than 20% contrast sharply with 50% in Indonesia and 75% in Malaysia. Since 2005, however there have been signs of improvement in these indicators. South Africa remains the only country in the region with a credit share of more than 100%

In many countries it took quite a while to get the public sector's share of total domestic credit to go down after reforms, but quite a bit of change has taken place in the last five years. In Ghana, for example, the share of the public sector in total lending from the banks was as high as 81% in 1986 and this dropped to 46% in 2005. The largest share that the private sector has ever had in domestic credit was 62.3% in 1996.

To a very large extent, the improvements in financial deepening may be related to the improvements in macroeconomic management. The earlier reforms had very little effect

in the midst of high inflation in several countries. The last few years have seen inflation come down in many. Ghana, Malawi, Tanzania, Uganda and Zambia all saw significant drops over the years, even if it remains high in some places.

Table 3: Inflation, Consumer Prices (annual %)

	1980	1990	2000	2005
Botswana	14	11	9	9
Cameroon	10	1	1	2
Cote d'Ivoire	15	-1	2	4
Ethiopia	4	5	1	11
Ghana	50	37	25	15
Kenya	14	16	10	10
Malawi	..	12	30	15
Mozambique	..	47	13	7
Nigeria	10	7	9	13
Senegal	9	0	1	2
South Africa	14	14	5	3
Tanzania	30	36	6	9
Uganda	..	33	3	8
Zambia	..	107	26	18
Zimbabwe	5	17	56	--

Source: World Bank, 2007 World Development Indicators, Washington DC.

One of the most difficult problems that countries have continued to face despite reform has been the persistently high lending rates leading to wide interest rate spreads. Several years after reform had been initiated, the spread continued to remain quite high in most African countries.

Table 4: Interest Rate Spread (lending rate minus deposit rate)

	1980	1990	2000	2005
Benin	8	9
Botswana	3	2	6	6
Cameroon	6	11	17	13
Cote d'Ivoire	8	9
Ethiopia	..	4	5	4
Ghana	8	9	10	10

Kenya	5	5	14	9
Malawi	9	9	20	22
Nigeria	3	6	10	7
Senegal	8	9
South Africa	4	2	5	4
Tanzania	8	..	14	10
Uganda	4	7	13	11
Zambia	3	9	19	17
Zimbabwe	14	3	18	145

Source: World Bank, 2007 World Development Indicators, Washington DC.

Another major development in the African financial markets has been the creation of capital and money markets. A number of countries have developed stock markets in the last decade. Whereas only five sub-Saharan African countries had stock markets in 1989 the number has grown to 16 countries currently. The IMF (2007) has reported that between 1992 and 2002, the capitalization of African stock markets more than doubled from \$113 billion to \$245 billion. While this offers some promise of future growth, there is still indication of the thinness of the market and illiquidity.

The growth of the formal sector is largely reflected by several other institutional developments. The number of banks is increasing largely as a result of the rapid admission of South African banks into many African countries. They tend to offer considerable momentum to the domestic financial markets with their additional products. In West Africa the introduction of Nigerian banks in countries like Ghana has led to considerable expansion of the financial market. Ghana now has 25 banks registered compared to 12 at the beginning of the reforms, and this leads to new competition and associated new products. It has taken quite a long time for this to happen though, two decades after reforms began.

Growth in the Informal Financial Sector

In this paper we have tended to use the term informal more broadly to include also a number of semi-formal activities. These include

- such institutions as credit unions and savings and credit co-operatives;

- less formalized, smaller-scale group arrangements such as savings groups, mutual aid associations, non-rotating savings and credit associations (SCAs), rotating savings and credit associations (ROSCAs);
- commercial lenders such as individual savings (*susu*) collectors, estate-owners, landlords, traders, shopkeepers, and professional and non-professional money lenders;
- friends, relatives and business associates among whom transactions take place on a non-commercial basis.

Most informal financial agents tend to specialize in either lending or savings mobilization. And most organizations tend to be membership based. Informal financial units have been developed in response to the demand of a distinct clientele and each unit tends to serve a particular market niche (Aryeetey and Gockel, 1991). Many analysts estimate that the informal financial sector is larger than the formal financial sector in terms of outreach since they are accessible to most socio-economic groups. It is also estimated that there is a rapid and growing demand for informal savings and credit facilities given the large number of people moving into the informal real sector. High proportions of rural credit and savings are still managed informally. To varying degrees, informal financial services are characterised by easy access, flexibility in loan use, rapid processing, flexibility in interest rates and collateral requirements. However, informal agents are restricted in the size and duration of lending and in their area of operations.

There are hardly any new studies of size and growth of the informal financial sector in Africa since the pioneering works of Aryeetey (1994) for Ghana, Soyibo (1996) for Nigeria, Chipeta and Mkandawire (1996) for Malawi, and Bagachwa (1994) for Tanzania. Those studies documented the substantial growth in the activities of the informal financial sector even in the midst of financial sector reforms. Their main message was that even though the informal sector was growing the individual units were unwilling to increase lending significantly, and this was largely a result of the limited or unorthodox manner in which they dealt with issues of moral hazard and adverse

selection. As earlier suggested, by their operational choices they made their products not necessarily attractive for most growing small businesses.

A lot of the initial growth that was observed in the informal sector in the mid-1990s is continuing in many countries. In Ghana, for example, it is now common to find that large numbers of individual *susu collectors* have established offices (kiosks) at various points in cities and towns where their clients can actually walk to make deposits and engage in other transactions. So clearly some process of transformation is taking place in the business of *susu collection* without necessarily making it formal in the sense of regulation. The business of informal savings collection is now being institutionalized with better record-keeping and a fixed address, a development that solves the earlier problem of collectors having no fixed address that was known to the clients. *Susu collectors* have tried to extend their clientele well beyond the market women who were their traditional clients. Most small and informal businesses are now seen as prime targets for savings mobilization. One would generally expect from the efforts to institutionalize operations new growth in the sizes of individual operations. There are many more *susu collectors* in Accra today than a decade but the number of clients on average is still 500 (Barclays Bank of Ghana 2006). So in general the growth is in the numbers of informal operators. The Association of *Susu Collectors* in Ghana has increased its numbers of registered members by over 1000% in the last ten years.

It is interesting that most other aspects of the actual business of collecting deposits and lending informally have not changed much. In 1994 loan sizes in the studies earlier mentioned were found to generally lie between \$50 and \$1,000, with a median value of about \$250. Evidence from Steel and Andah (2005) suggests that this has not changed much. Lending is still for short periods and interest on deposits is almost non-existent.

It is important to observe that in many countries there have been significant efforts to discuss the regulation of informal financial agents, including in Uganda and in Ghana (Steel 2006). The Financial Institutions (Non-Banking) Law of 1993 in Ghana made it possible for nine new categories of licensed financial institutions/agents to operate. These

included savings and loan companies (S&Ls) and credit unions. Individual *susu collectors* were recognized under the law. They were encouraged to join the registered Ghana Cooperative *Susu* Collectors Association [GCSCA]). In practice, member-based cooperatives and other savings and credit associations (including rotating savings and credit associations [ROSCAs] and *susu* clubs) are allowed to mobilize savings from and lend to members, and this is with the understanding that they do not engage the general public directly.

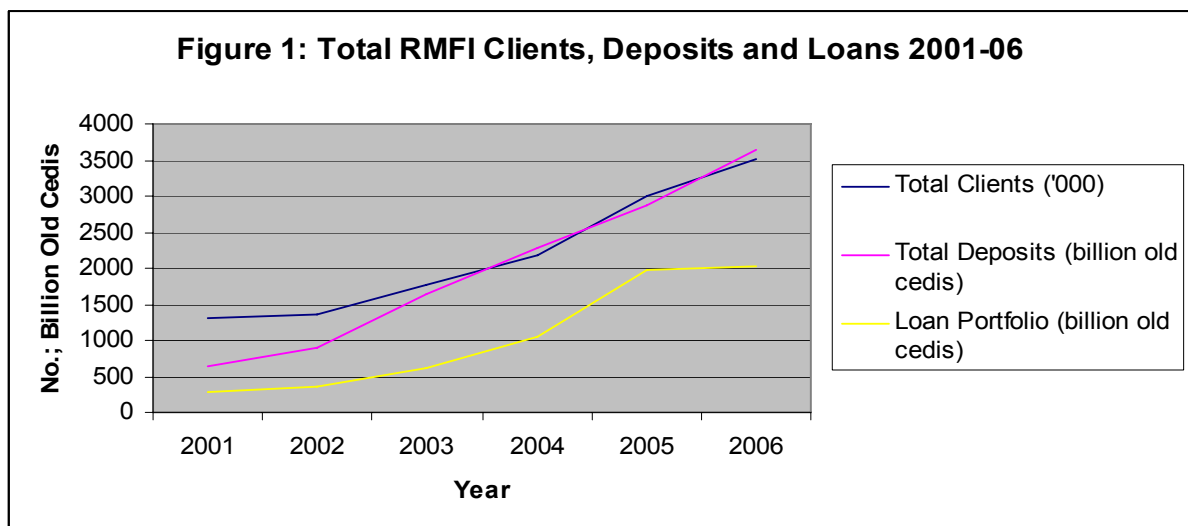
What this overview shows is that in spite of the growth of the formal financial sector many years after reforms began, there is still a vibrant informal financial sector that has sought to make itself relevant in many countries. The growing numbers of informal operators suggest that there is still a significant demand for their services and this would explain why formal financial institutions are beginning to direct some attention to linking up with them in a number of countries (Aryeetey 2004).

3. MICROFINANCE SCHEMES AND THEIR SUSTAINABILITY

It is significant to note that while the formal and informal financial sectors have continued to coexist, the emergence of a middle path that seeks to borrow principles from both has been observed. The growth of microfinance in sub-Saharan Africa is indeed interesting. While early attempts to explain microfinance always raised considerable difficulty among financial practitioners and policy-makers, and even among academics, there is growing consensus today that the expression refers to the "small but growing number of specialized financial institutions that use innovative delivery methods to extend the financial services market" (Berenbach et.al. 1998). "Microfinance institutions consist of organizations and agents that engage in relatively small financial transactions using specialized, character-based methodologies to serve low-income households, small farmers and others who lack access to the banking system. They may be informal, semi-formal (that is, legally registered but not under the central bank regulation), or formal financial intermediaries" (Steel 1998, p.7).

Microfinance needs to be seen as an effort to counter the effects of credit market failures that result in fragmentation and the exclusion of many potential borrowers from markets. These efforts have led to a variety of micro-credit schemes that have been introduced into many countries. In many African countries there is considerable confusion as to whether policy attention should be focused on informal financial sectors or on microfinance. While some may tend to view informal finance as microfinance and microfinance as informal finance, there is growing understanding that informal finance is generally indigenous and quite spontaneous in the sense that it is often a reaction by an individual or a group to a failed attempt to finance a business.

As microfinance schemes have emerged, there have been concerns about their outreach as well as sustainability in many countries. In terms of outreach we use data from a recent study of rural and microfinance institutions (RMFIs) in Ghana to illustrate the type of growth that has been reported in several African countries. The study by Ghana Microfinance Institutions Network (Ghamfin) (2006) showed considerable growth in the period 2001-2006. Figure 1 shows how rapidly growth in the total outreach in terms of number of clients, deposits mobilized, and loans provided occurred. The number of clients grew at an annual average of about 22% for the period. Deposits and loans grew at about 20-30% in real terms for the same period. The institutions reached 3.5 million clients with US\$400 million in deposits and US\$225 million in loans (Table 5). By this, it is reckoned that RMFIs generally reach about 15% of the total population compared to an estimated 10% for the commercial banking sector. They also mobilize over 25% of total deposits of the financial system.



Source: 2001-05: GHAMFIN 2007b; 2006: GHAMFIN estimates. Data include 1259 individual *susu collectors* who are members of GCSCA, in addition to the institutions shown in Table 2. Total clients represent NGO borrowers plus depositors in the other categories.

Table 5: Outreach of Ghana's Rural and Micro Finance Institutions, 2006

	Number of Depositors ('000)	Number of Borrowers ('000)	Deposits Mobilized (Old Cedis; billions)	Loan Portfolio (Old Cedis; billions)
Savings & Loan Companies	430	76	398	371
Credit Unions	199	100	585	395
Rural & Community Banks	2,493	358	2,265	1,151
NGOs	n.a.	96	n.a.	111
GCSCA <i>Susu Collectors</i>	301	n.a.	385	n.a.
Total	3,423	630	3,633	2,028

Source: Steel (2006)

The initial concerns about sustainability of microfinance in sub-Saharan Africa were drawn from the welfare approaches that have been associated with microfinance operations as opposed to a business approach. In these welfare approaches, microfinance has simply been a tool for fighting poverty. Its effectiveness was therefore judged on the basis of its impact on the reduction of poverty. Increasingly, however, the scope and operationalization of microfinance appears to be changing.

One of the most radical developments in the conceptualization of microfinance has been to acknowledge that the poor can borrow and repay. It is also now acknowledged that the poor

can and do save and that microfinance can be provided in a sustainable way by private institutions. This has led to donors and development agencies increasingly focusing on the building of sustainable institutions. There is now more interest in replacing the project approach with the development of financial systems that work for a large number of people (Steel 2006). In this light, Steel (2006) reports that the disbursement orientation associated with projects is being replaced by the institution of performance standards for the assessment of MFIs in order to qualify for support. Steel (2006) also notes that governments are changing their approaches to microfinance as they reconsider the direct delivery of credit to small clients and now encourage independent retail MFIs at the grassroots. It is reported that in many places they no longer dictate subsidized interest rates but allow the market to determine these in order to cover the costs of the small loans while encouraging savings. NGOs are supported to build business and financial management skills. Whereas borrowers may have had only short-term relations with lenders, these are now being replaced with long-term relationships with solid financial intermediaries (Steel 2006).

Steel (2006) has reported that following the changes in strategy, MFIs in SSA have improved considerably their performance and sustainability. Table 6 below shows the performance of MFIs in Ghana where financial sector reforms have been extensive. This is contrasted with growth trends in the rest of sub-Saharan Africa and the rest of the world. What this shows is that sub-Saharan MFIs are well behind their counterparts in the rest of the world in achieving operational and financial self-sufficiency.

Table 6: Financial Performance of Rural and Micro Finance Institutions (RMFIs) (2004)

INSTITUTION	Ave. No. of Borrowers	Operating Costs as% of Loan Portfolio	Adjusted Cost per Borrower (US\$)	Repayment Rate / Portfolio at Risk(%)	Operational & Financial Self-Sufficiency (%)
Column	(1)	(2)	(3)	(4)	(5)
GHANA					
Rural Banks	13,125	54	54	92 / 13	135 / 114
S&Ls	24,839	55	115	56 / 4	122 / 63
Credit Unions	669	26	61	84 / n.a.	116 / 106
Financial NGOs	3,015	34	32	99 / 6	101 / 64
Government Programs	n.a.	n.a.	n.a.	61 / n.a.	87 / n.a.
ALL AFRICAN MFIs*	15,542	28	68	n.a./ 3.4	111 / 98
AFRICAN MEDIUM FIs	17,878	37	76	n.a./ 3.5	112 / 105
WORLDWIDE*	10,421	22	100	n.a./ 2.1	120 / 110

Source: GHAMFIN 2007a ; PAR from Allaire Jean et al. 2007.

*Reporting to the MIX (MicroBanking Bulletin).

It has been suggested by Buss (2005) that even though MFIs in sub-Saharan Africa have the same aspirations as MFIs in other developing regions they have been slower in adopting new approaches. He poses the question “Why have non-governmental organizations in SSA lagged behind other regions in transforming from subsidized agents to private, albeit non-profit, regulated financial institutions? ... Why do microcredit programs differ so widely by region and by country?” Buss (2005). He then goes on to suggest that the main reasons for African NGOs not being able to transform satisfactorily include the large donor and government dependence of the institutions.

The K-Rep example from Kenya is the most noted transformation of an African NGO into a viable commercial banking entity. There are several questions about whether this is the way to go for sustainable MFIs. Many have expressed the fear that going the K-Rep way may make the institution lose touch with the grassroots communities, even though K-Rep itself has not been perceived to have changed its target communities. Another possibility is to

consider the adoption of the innovative approaches of MFIs into the operations of existing formal institutions. And that appears to be much more common in Africa and elsewhere as we will see in the next section. While it is difficult to find many properly assessed examples in sub-Saharan Africa, there are several examples from Asia that show how MFIs can become more integrated into the formal financial system (Aryeetey 2004).

4. TRANSFORMING THE INFORMAL SECTOR: A FRAMEWORK FOR LINKING INFORMAL AND FORMAL FINANCE

The literature on financial linkages is based on modern economic theory which explains that due to information asymmetry in financial markets and the lack of regulation of credit markets there is a relevant mismatch of resources and abilities between formal and informal lenders (Armendáriz de Aghion and Morduch, 2005; Bell, 1990 and Varghese, 2005). This creates a dualistic system with formal financial institutions on one hand and informal financial markets on the other. Formal financial institutions have to their advantage extensive infrastructure and systems, funds and opportunities for portfolio diversification which allows them to present a wide range of services to their clients. However, they are mostly accessible to populations in the upper and middle income strata and very often inaccessible to rural and the urban low income populations.

As earlier seen, in contrast, informal financial institutions operate close to rural populations and have information on their clients which enables them to conduct their operations productively. However, given their mode of operations they are unable to offer services beyond a small geographic area, resulting in highly concentrated loan portfolios. We have argued that it is possible to link the advantages of both formal and informal segments to overcome the gaps in financial markets (Aryeetey 1994). For example commercial banks may provide on-lending facilities to informal lenders. Or banks may link up with informal groups which will distribute or collect funds, or act as a guarantor for credit security through collective responsibility or peer monitoring (Seibel 1989 and 2006).

Attempts to integrate informal financial institutions into formal ones have been wide and varied. Although the institutionalisation of informal activities into the operations OF formal establishments may not be desirable in practice (Ghate 1990, Seibel 1989), many policy-makers today recognise that integration is possible through other ways. Ghate and Seibel suggest three ways:

- infusing into the formal institutions some of the flexibility of informal operations;
- strengthening the structure and performance of informal market operations;
- developing linkages between the formal and informal financial sectors.

The first two options are considered appropriate when the two sectors can potentially compete in providing finance, but the formal sector lacks the technology to deal with small-scale borrowers and savers while informal agents are not subject to the competitive pressure to improve their performance.

However, the third option seems to be the most practical given the high risk factors and high cost of transactions that characterise the informal financial sector in many developing countries as well as the limited capital-base and excessive cost of funds which prohibits further expansion of informal agents/institutions. The development of better linkages could be seen as leading to a financial system where the formal and informal markets could specialize and function complementarily, reinforcing each others' strengths.

In spite of the advantages of such a system, there is also the view that the different financial markets exist as a result of the different conditions and requirements of the population, which may lead to either complementary or competitive situations. Changing these institutions may therefore not achieve the intended results as the circumstances may not be ready for such a change. Rather, informal institutions should be strengthened so that the many small-scale borrowers can still have access to the small-scale credit they need for their businesses (Schrader, 1994).

However, advocates of financial integration emphasize that they do not seek to do away entirely with informal financial institutions since they have a lasting comparative advantage in serving certain segments of the financial market especially in Africa. Measures to link and integrate formal and informal finance are necessary to take advantage of specialisation, not simply to extend the formal sector's frontier (Seibel 1989). What this means is that informal finance will continue to be relevant and significant no matter how extensive formal finance becomes so long as the socio-economic circumstances of people do not change drastically.

Possible Approaches to Financial Linkages

A number of strategies have been proposed for the development of linkages between informal finance and formal finance. In each case it is a matter of a formal institution deciding what form of relationship it would like to have with an existing informal arrangement, or what supporting role it would like an informal unit to play. In the case of a relationship with microfinance institutions it is possible for the formal institution to modify its own structures in order to collaborate with the MFI or even allow the MFI to run specific aspects of the bank's operations.

A number of Asian practices have followed what has been described in the literature as two models. These involve (1) banks working with self-help groups directly to reach clients and (2) using the self-help groups as facilitators

The Self-Help Group (SHG) Model

In this model there is an attempt to mainstream informal finance by enhancing management skills and operational practices. It involves transforming small-scale deposit collectors into financial intermediaries with permanent loan funds. This is very much like the on-lending proposals made earlier (Seibel and Marx, 1987). The main aim of this model is to provide cost-effective financial services to the poor. It involves three partners: (i) the SHGs, (ii) the Banks as wholesale suppliers of credit, and (iii) NGOs, government agencies and individuals as agencies to organize the poor, build capacities and facilitate

empowerment. The SHGs are quite similar to credit unions (CUs), though unlike CUs, they are not bound by any legal requirements (Christen, 2006).

Business Facilitator/Business Correspondent Models

The other approach suggests linking banks to self-help groups by building on the existing formal and informal financial infrastructure. In January 2006, the Reserve Bank of India permitted banks to use a variety of organizations as intermediaries under two models: the Business Facilitator Model and the Business Correspondent Model with the intention of achieving greater outreach of the banking sector (Jones et al, 2007). The main difference between the Business Facilitator model and Business Correspondent model is primarily in the mode of operation and range of people/organisations who could act as intermediaries. In the Business Facilitator model, the services of an intermediary include the identification of borrowers and activities, collection and preliminary processing of loan applications, financial education, submission of applications to banks, promotion and nurturing of joint liability groups, monitoring and recovery of loans. This role could be played by a wide variety of locally based organizations that are identified as suitable for such an intermediary function as well as one type of individual: insurance agents.

In the case of the Business Correspondents model, a narrower range of organizations (NGOs/MFIs, Cooperatives, Registered Non-Bank Financial Companies) were identified as suitable intermediaries. In addition to the functions listed above for the Facilitator Model, intermediaries in this model were expected to offer services such as the disbursement of small value credit, collection of principal/interest, sale of other microfinance services (e.g. insurance) and receipt of small value remittances and other payments (Jones et al, 2007).

In Aryeetey and Fenny (2006) there is considerable discussion of how banks in Asia have dealt with the issue of reaching out by employing the ways of microfinance institutions. There is emphasis on the decentralization of banking operations to include out-sourcing and networking with existing MFIs. Several examples are provided of how banks have developed partnerships with informal groups and MFIs. One good example of this the

interest that Barclays Bank has developed in savings collectors, which we highlight later (Box 1).

Whichever model for linkage development that is followed, capacity building will play a major role in fostering the relationship between different institutional actors. The need for capacity building can be looked at from two levels. At one level there continues to be a significant need to build the capacity of informal actors, to enable them effectively to manage the traditional business of savings and credit, if they are to engage with commercial banks, apex institutions and insurers. At another deeper and more interesting level, there is a huge need to strengthen SHGs in the mechanics of building and maintaining the new linkages or partnerships.

Potential Benefits of Integration

Deposit Mobilization

In the increasingly competitive environment that African formal institutions are beginning to find themselves, the mobilization of deposits at reduced cost is essential. A closer relationship with savings collectors and savings and credit associations, as well as non-governmental organizations (NGOs), is likely to enhance the capacity of formal institutions. The informal units have the prospect of becoming effective mechanisms to mobilize deposits from the household and micro-business sector. They agents can bulk up small savings at relatively low cost.

Credit Allocation

The main advantage of informal agents is that they have much better information about small borrowers than formal institutions. Informal lenders are often able to build a personal relationship with their borrowers that can ensure an extremely low loan default rate. So long as informal agents are made to operate within the particular groups that they are well informed about and to which they have access, they are likely to extend the outreach of formal lenders at a low marginal cost.

5. EVIDENCE OF GROWING FINANCIAL LINKAGES

The emergence of commercial banks and apex organizations that are linked to less formal institutions, such as microfinance institutions (MFIs), savings and credit cooperatives and in some cases NGOs in order to increase their supply of funds is evident in many developing countries. There is evidence especially in Asia of how successful these linkages have been. The most notable case in this region is in India, where the National Bank for Agriculture and Rural Development (NABARD) since 1996 has reached 1.6 million SHGs, representing 21 million members, through its extensive network of 41,082 branches (Christen, 2006).

Over the past five years many private banks and insurers have entered the microfinance market by establishing direct financial and facilitating linkages with less formal actors. Indeed several banks in Africa have also shown keen interest in acquiring more information about the informal sector and making in-roads into strengthening group schemes which have led to the successful turnaround of micro-credit programs. An example is the recent merger of the Nigerian Agricultural and Cooperative Bank (NACB), Peoples Bank of Nigeria and Family Economic Advancement Program (FEAP) to form Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB).

In Tanzania, CRDB Bank Limited, a private bank has established financial links with the informal sector by offering MFIs a range of financial services from long and short term loans and credit lines to various payment and transfer instruments (Piprek, 2005). State-owned development banks continue to engage in partnerships, mainly through direct financial linkages with less formal institutions. In Mali, the *Banque Nationale de Développement Agricole (BNDA)* has a long history of serving less formal institutions through bulk loans and lines of credit, as well as savings accounts to help institutions like *Kafo Jiginew*, the largest network of savings and credit cooperatives. It also works with CVECA-ON, a large village bank network, dealing with their cash flow variability and/or portfolio expansion.

Privatized microfinance banks, incorporated firms and financial NGOs have established linkages with various actors in an effort to expand the scope and scale of their businesses, enabling them to survive in competitive, maturing microfinance markets. In Kenya, the famous microfinance bank, K-Rep Bank, links up with various MFIs and SACCOs as a way to minimize costs and further its business (Sabana, 2005).

In Ghana, for a long time individual savings collectors saved with commercial banks without receiving any acknowledgement for their role in deposit mobilization (Aryeetey and Gockel 1991). The 1990s saw several proposals for formal links to be developed between banks and *susu collectors* but with little interest from the banks. At the time banks had no incentive to mobilize deposits from the public in view of the easy access to low-cost public funds. The situation has changed today with greater fiscal discipline leading to reduced public borrowing and lower inflation in turn leading to lower interest rates. Coupled with the significant reduction in reserve requirements, banks are under pressure to find good quality clients in the private sector. The search for that client in a more competitive environment is forcing banks to increasingly move towards marginal clients. It is this new environment that has led to more and more banks developing products that are increasingly informal and require the involvement of the informal financial operators. The result is that there has been an increase in the proportion of *susu* depositors that gain access to credit facilities from their *susu collectors*. For *susu collectors* in a working relationship with the largest commercial bank in Ghana, their loans to deposits ratio is reported to have risen from 9 per cent to 60 per cent after two years of an improved relationship with the bank. The scheme was based on the observation that increased lending by collectors often led to larger numbers of depositors.

Apart from the largely spontaneous linkages described above, in recent years there have also been an increasing number of financial institutions in Ghana seeking to establish more formal, purposive linkages with informal financial agents. To date attention has concentrated on formalising linkages with individual financial agents such as *susu collectors* and traders, and with *susu groups'* (SCA) agents and organisations that have the potential to channel substantial informal savings into the formal financial sector.

Examples are the links an Accra based non-bank financial institution (Citi Savings and Loans Company) developed with *susu collectors*; the links established between an Accra-based Commercial Bank (The Metropolitan and Allied Bank) with ROSCAs, and the links another Rural Bank (Achantaman Rural Bank) had established with ROSCAs and the ways in which this bank had incorporated susu-like operations into its own banking practices.

Beyond increasing access to finance, these financial linkages have the potential to positively impact on education, empowerment of women, child mortality and decreased dependency on moneylenders (Thorat, 2006), although there is currently no clear evidence of this.

In spite of these milestones, the linkages between self-help groups and banks face a number of challenges. In India for example, there are noticeable disparities in geographical coverage, with the majority of SHGs concentrated in the southern part of the country. Sadly, some northern states with a high incidence of poverty e.g. Bihar and Utar Pradesh, have lagged behind in the formation of SHGs linked to banks (Pagura and Kirsten, 2006). Other problems identified are the capture of SHGs by local elites, inadequate risk management, and lack of administrative capacity (Christen, 2006). In addition, the total disbursement of credit through the SHGs is limited. For 2005/06 the average loan per member was less than Rs4,000 (approximately \$94). There is also a question of sustainability of the SHG infrastructure. The SHGs often lack the capacity and resources to deal with non-performing clients. It is necessary for the SHG to factor all these operational costs into the price of their financial services in order to ensure their sustainability.

Do Financial Linkages Really Work in Africa?

Despite the growing links among informal finance, microfinance and formal finance, there is still room for asking about the effectiveness of these arrangements in terms of filling the financial gap earlier identified. Although microfinance has been successful in

enabling small businesses and individual entrepreneurs to get started, access to capital is still one of the key obstacles hindering the development of micro-businesses. Currently, the need to “formalize microfinance” is on top of the agenda in many countries as a way for the MFIs to access more capital for their operations, even though many analysts do not see a need for it.

The main problem with current linkage arrangements is with the unit costs of offering these services. Even though many aid-agencies are encouraging the move towards increased financial linkages, catering for the small transaction costs involved in dealing with the poor can be prohibitively expensive for banks if not properly constructed. To rise above these challenges, technological innovations in finance are often proffered as the solution. There are ongoing efforts to incorporate these innovations into the financial sector and some have been piloted in a number of African countries. It is expected technology can significantly reduce transactions costs significantly especially in areas where there are fewer people dispersed over wide areas.

(a) Technological innovations in the financial market

Post office banking

Post office banking is regarded as one of the key innovations in the banking sector that is likely to bridge the “access” gap in the financial market in Africa. Post offices are many and widespread and as such have the potential to be used as channels for financial services with greater success than any other innovations (World Bank and ING Bank, 2006). They have the advantage of an extensive locational network as well as their IT capacity to offer simple financial products (savings, payments) to poor customers. They have been successfully established in Namibia where they are the largest single provider of financial services in the country. Nampost in Namibia has a 50 per cent share of the number of savings customers, and about 13 per cent of total savings. It has 190 offices across the country. A shortcoming of the arrangement is that very few of them offer credit (Imboden et al, 2006).

However, not all countries have managed to sign on to this programme. For example Nigeria which has the largest post office network does not currently offer such financial services. In the past many postal banks have lacked a customer-focus and some have not been well managed. A common problem has been the lack of control over the recording of liabilities in situations where passbooks are the legal record.

There are, however, reports of other African postal services that have managed to make the transformation and look promising (Imboden et.al 2006). Some postal banks have been spun-off from the postal service, taking after the successful experience of a few European countries. However, this experiment has not always been successful, and risks both increasing costs and undermining the built-in advantages that motivates the use of the post office as a financial service provider to begin with. Some spin-offs, such as that in Kenya – which serves an estimated 1.6 million savers – have concentrated their activities on a much smaller set of offices (about 70), without exploiting the full range of postal outlets, of which there are 900 in Kenya.

Mobile phone banking

A number of major international banks have been reported to be considering various approaches for the industry to reach what they generally refer to as "the unbanked" segments of the market without the expense of opening branches (Imboden et.al 2006). The Citigroup's Mexican unit, *Grupo Financiero Banamex*, is known to provide simple bank services over the counters of gas stations and small businesses. In South Africa, Standard Bank Group Ltd., First National Bank of South Africa and *Wizzit* (a unit of the South African Bank of Athens Ltd.) have teamed up with mobile-phone operators to offer phone-based money transfers. In the Philippines, customers of cellphone companies, Globe Telecom Inc. and Smart Communications Inc., can use their phones to make money transfers.

(b) Mainstreaming banks to reach the “unbanked”

Institutions such as Centenary Rural Development Bank (CERUDEB) in Uganda, Equity Bank and K-Rep in Kenya, CRDB and Akiba Bank in Tanzania, BNDA in Mali, MFRC

in Malawi, Afriland Bank, BICEC, and Union Bank in Cameroon and CNCA in Senegal are reported to have shown in different ways that licensed commercial banks in Africa can be effective in microfinance on a substantial scale. Other banks, rather than linking up with the MFIs, have established microfinance subsidiaries. Notable examples are in Benin and Chad by Financial Bank (a banking group whose international dimension builds on the long-standing migration links between Chad and the coast) and by Kingdom Bank in Zimbabwe (Isern and Porteous, 2005).

The success rate of these developments in the African financial sectors is yet to be properly assessed. A pilot scheme being carried out by Barclays Bank Ghana Ltd with 100 “*susu*” collectors is reported to have the potential to reach a client base of almost 2.5 million (see details in box 1). Barclays is currently considering entering informal banking systems in Zambia, Zimbabwe, Kenya, Botswana, South Africa and Tanzania.

Box 1: Barclays Bank “*Aba Pa Account*” in Ghana

Barclays Bank Ghana Limited out-doored another innovative product onto the Ghanaian market with the aim of extending its banking services to the largely ‘unbanked’ population. The new product named: “*Aba Pa Account*,” (meaning good seed) had been specifically designed and tailored for traders, carpenters, house-helps, taxi drivers, farmers, hawkers, wayside mechanics and farmers among others. The bank would operate ‘*Aba Pa Current Account*’ and ‘*Aba Pa Savings Account*’. The two products were the result of an extensive research conducted by Barclays into the needs, preferences, unique profile and requirements of the mass market. With only ₵40,000, one could open any of the two accounts and enjoy a free bank statement, higher interest rates, free ATM card and many more services.

Barclays, which launched the project in 2007 started with 100 *susu collectors* and plans to increase the number in subsequent months. At about 500 clients each, Ghana's estimated 5,000 *susu collectors* represent a customer base of 2.5 million. Barclays Ghana has adopted plans to aggressively increase the size of its business, with the mass market being its strategic focus. The bank has so far advanced ₵3.6 billion to them to lend to their clients with about 30,000 pounds sterling (₵510 million) provided to the Ghana Cooperative Credit Union Association to set up 20 pilot credit unions across the country and procure special savings boxes to help the association in its work.

(c) Difficulties with mainstreaming banks

A key problem with creating linkages is associated with MFIs that are donor-funded and have very little capital of their own. Commercial lenders are often reluctant to engage with them given the unstable nature of donor-funds and they may often insist on donor guarantee prior to granting any credit. Fortunately, there is a growing number of MFIs in good standing with the banks who may attract commercial bank lending without guarantees (Isern and Porteous, 2005).

There has also been concern about the potential capacity constraints of the informal operators as the amounts that they handle are increased fairly rapidly. There is a question of whether the banks are giving too much too soon to the informal operators. Unfortunately there has not been an opportunity for research to address this question yet.

6. SUMMARY AND POLICIES FOR TRANSFORMATION: ENHANCING LINKAGE DEVELOPMENT

We have argued here and elsewhere that there are number of obstacles that hamper the integration of both the formal and informal sectors of financial markets in sub-Saharan Africa (Aryeetey 1995). In the case of the formal financial sector, banks are often beset with problems of the maturity transformation of their liabilities; difficulties in loan administration through the screening and monitoring of relatively small borrowers and high transaction costs as a result of loan administration procedures and relatively high risks of default. The informal financial markets on the other hand, are limited in the size of deposits mobilized from a distinct group or on the surplus funds of the lender accrued from the profits made in the lending business or other businesses. The management of their liabilities and assets is confined to ensuring a proper balance between the two, for reasons that sometimes transcend the bounds of profitability.

As we have indicated in this paper, the two distinct segments of financial markets, invariably on the basis of their structure, offer services packaged to distinct socio-economic groups with the exclusion of other groups. Thus, banks are more likely to transact business with relatively large corporate entities because they believe that it is easier and more profitable to deal with this segment of the market, as risk is minimal. As a consequence, potential borrowers who have not been able to establish the desired track record on cash flow have to look elsewhere. Looking elsewhere does not necessarily imply the use of informal finance. This form of market segmentation can be damaging to efficient functioning of the financial system. Giving the potential for both the formal and informal financial segments to feed off each other, an improvement of informal finance creates a better chance for the formal sector to reach new clients and to broaden its lending base.

Recent reports on financial inclusion recognize the role banks and other formal sector institutions have played in the promotion of the SHG movement, for example, in the countries that have adopted them; and the institutional and operational reforms that have made for simpler and more efficient procedures. In Sub-Saharan Africa these financial linkages have only recently taken off. The process of establishing linkages can be long and arduous. Policy involving the official recognition of the informal sector and its inclusion in the regulatory framework are two key conditions to ensure the success of these linkages. The roll out of any new policy requires monitoring of its effect and impact. Hence future comparative studies will be able to determine positive and negative impacts of different kinds of linkage arrangements on financial service provision for individuals and businesses in general.

We note that many institutions in the formal financial sector have not linked up with informal finance because of considerable distrust, inadequate knowledge about the informal sector and in some cases prejudice. To overcome this, policies must be designed to protect all parties involved and also create the environment needed to sustain these

relationships. There may not be a need for the establishment of new institutions; rather some of the existing regulatory institutions can be resourced adequately to do this.

There are two possible ways for policy to be used to enhance the development of linkages between the various segments, including the informal sector and such semi-formal lenders as MFIs including NGOs. That is, the use of the fiscal system and the regulatory and supervisory systems to provide incentives for formal institutions who desire to offer wholesale credit through informal agents. Tax relief on profits granted to banks that allocated credit through informal and semi-formal agents could be recovered by imposing higher taxes on banks that do not channel credit through the informal sector. Some banks, such as merchant banks, will have no need to use informal agents for allocating credit and will therefore be the actual financiers of the subsidy. Since the higher tax is on the profits of the bank, it should not be transferred to users of those banks.

The regulatory and supervisory systems could be of considerable importance in providing incentives to banks. If banks perceived that risk was considerably reduced by dealing with credible semi-formal and informal agents, they would be encouraged to use them. Effective regulation and supervision of semi-formal and informal institutions would tend to be problematic, in some cases, however. Governments would require a proactive approach. This would embrace a legal, regulatory and prudential framework that fosters, and when possible, accelerates financial market development. This framework supports the setting up of mechanisms, institutions and instruments that promote and facilitate this development as the economy grows and market functions expand. Regulation should steer away from restrictive laws and focus on removing the obstacles to financial market development. Restrictions on what assets banks may hold could be modified to encourage them to invest in semi-formal financial institutions.

References:

Aryeetey, E. and F. Gockel 1991. *Mobilizing Domestic Resources for Capital Formation in Sub-Saharan Africa: A Study of Informal Finance in Ghana*, Research Paper 3, African Economic Research Consortium, Nairobi.

Aryeetey, E. 1994. *Financial Integration and Development in Sub-Saharan Africa: A Study of Informal Finance in Ghana*, Overseas Development Institute, Working Paper 78, London.

Aryeetey, E., *Informal Finance in Africa*, AERC/East African Educational Publishers, Nairobi, 1995.

Armendáriz de Aghion, B. and J. Morduch (2005) *The Economics of Microfinance* MIT Press, Cambridge, Massachusetts.

Bell, C. (1990) 'Interactions between institutional and informal credit agencies in rural India'. *The World Bank Economic Review*, Volume 4, Number 3, p.297 – 327.

Christen, R.P. (2006), "Microfinance and sustainability: International experiences and lessons for India", in *Towards a Sustainable Microfinance Outreach in India*. New Delhi: NABARD, GTZ and SDC, pp.43-67.

Conning, J. and M. Kevane (2002) 'Why isn't there more financial intermediation in developing countries', WIDER Discussion Paper, United Nations University.

Ghate, P.B. (1990); *Interaction Between the Formal and Informal Financial Sectors*, Papers Presented at the United Nations' International Conference on Savings and Credit for Development, Denmark, 28-31 May.

Isern, Jennifer, D. Porteous, R. Hernandez-Coss, and C. Egwuagu. (2005). "AML/CFT Regulation: Implications for Financial Service Providers That Serve Low-Income People." Focus Note 29. Washington, D.C.: Consultative Group to Assist the Poor. http://www.cgap.org/docs/FocusNote_29.pdf.

Jones H. M Williams and Y Thorat, (2007), *Rural Financial Institutions and Agents in India: A Historical and Contemporary Comparative Analysis*. International Conference on Rural Finance Research: Moving Results into Policies and Practice, Rome, Italy 19-21 March 2007

Nissanke, M. and E. Aryeetey 1998. *Financial Integration and Development, Liberalization and Reform in Sub-Saharan Africa*, ODI and Routledge, London.

Pagura and Kirsten (2006), *Formal-Informal Financial Linkages: Lessons from developing countries*. *Small Enterprise Development* (March 2006 Issue)

Piprek, G. (2005) 'A case study of CRDB Bank in Tanzania'

Sabana, B. (2005) *A study of financial linkages between K-Rep Bank and other financial intermediaries*

Seibel, H. D. (1989); *Linking Formal and Informal Financial Institutions in Africa and Asia*. Processing of the International Conference on Micro enterprises in Developing Countries IT Publications, London.

Seibel, H.D. (1996). *Financial systems development and microfinance: viable institutions, appropriate strategies and sustainable financial services for the microeconomy*. TZ-Verlagsgesellschaft: Rossdorf/GTZ: Eschborn.

Seibel, H. D. (2006) *From Informal Microfinance to Linkage Banking: Putting Theory into Practice, and Practice into Theory*. Published in: *European Dialogue* no 36 (September 2006), pp. 49-60 ADA Luxembourg & European Microfinance Platform (ISSN 1990-9357)

Seibel, H.D., and M. Th., Marx, (1987). *Dual Financial Markets in Africa: Case Studies of Linkages between Informal and Formal Financial Institutions*. Saarbrücken, Breitenbach.

Schrader, H. (1994), *Moneylenders and Merchant Bankers in India and Indonesia*, in Bouman, F.J.A. & O. Hospes (Eds.) *Financial Landscapes Reconstructed*, pp. 341-356 (Boulder, San Francisco and Oxford: Westview Press).

Steel, W.F. (2006) "Extending Financial Systems to the Poor: What Strategies for Ghana?" Paper presented at the 7th ISSER-Merchant Bank Annual Economic Lectures, University of Ghana, Legon

Thorat, Y.S.P. (2006), "Microfinance in India; Sectoral issues and challenges", in *Towards a Sustainable Microfinance Outreach in India*. New Delhi: NABARD, GTZ and SDC, pp. 27-42.

Vargese, A. (2005), 'Bank-moneylender linkage as an alternative to bank competition in rural credit markets', *Oxford Economic Papers*, Volume 57, Number 2, April 2005.

World Bank and ING Bank. 2006. "Worldwide Landscape of Postal Financial Services: Africa." in *The Role of Postal Networks in Expanding Access to Financial Services*. Forthcoming.