

POVERTY-ORIENTED BANKING (INT/92/M01/FRG)

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**TONTINES AND THE BANKING SYSTEM -
IS THERE A CASE FOR BUILDING LINKAGES**

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1. TONTINES, BANKS AND MUTUAL GUARANTEE ASSOCIATIONS

The idea to look closer at tontines in Dakar originated in the late 1980s when the International Labour Organisation (ILO) and the Central Bank of West African States (BCEAO) were carrying out a training programme on commercial bank lending to small enterprises. As the programme progressed, it was becoming increasingly clear that the commercial bank sector was unprepared to make the necessary adjustments and innovations to extend financial services to small-scale operators. In this situation it was obvious that one had to look beyond the banking sector to find ways and means of delivering financial services on a small scale and at low costs. The informal financial sector and various financial self-help organizations outside the purview of the Central Bank were generally said to be able to do just that and to thrive on it. Considering the volume of financial resources passing through the informal financial sector, ILO and BCEAO commissioned a brief survey of financial self-help organisations in the Dakar region.¹

"Tontines" were chosen because they are supposed to handle large amounts of money. It was thought that this could, and would, interest commercial banks short of liquid, low-cost resources like private deposits. At the same time it was expected that banks would be more open to copy joint liability mechanisms from the informal financial sector and apply them in small enterprise finance. More specifically, the objective of the survey was to see whether the apparently well-functioning social sanctions in tontines could be taken out of context and incorporated in mutual guarantee associations. This seemed pertinent in view of the failure of guarantee *funds* for small enterprises across West Africa².

A *Mutual Guarantee Association* (MGA) is a group of people that pool resources into a fund to cover a bank claim in case of loan default by one of the associates. The purpose is to allow all members access to bank credit that they individually would not have been able to obtain because of a lack of bank guarantee.

A "*tontine*" is a traditional, informal savings organisation.³

MGA and tontine have a few common features:

- both have a fairly homogenous composition,
- both have cost advantages in generating information about the credit risk (peer monitoring),
- both are basically self-financed.

Considering the interest in new financial technologies for small and micro-enterprises, the question arises how tontines and MGAs differ and whether the differences constitute constraints that make the transformation of tontines into MGAs neither feasible nor desirable.

1.1. Economic, social and ethnic profile

A tontine allows members to save very small amounts of money and at a preestablished rhythm; it is a rotating savings and credit association.

¹ The survey was carried out by Mr. E.H. Gueye under the supervision of Mr. B. Balkenhol, Programme Coordinator, ILO.

² B. Balkenhol (1990).

³ The term is used here to encompass *rotating* savings and credit and *accumulating* savings and credit associations (ROSCA and ASCRA respectively); see Bouman (1992).

In a tontine with 10 members where every member contributes 100 units at each meeting, the first one in line receives an interest-free loan of 900, the second one of 800 and so on until the last member in line who receives practically his own savings of 1000 made over the entire period, but without interest. Being the first in line is obviously advantageous in terms of saver utility and risk; hence the need to rotate the ranking order from cycle to cycle. Also, members can always make arrangements among themselves to modify the sequence in case of unexpected expenditure obligations. The tontine is a mechanism adapted to the informal sector where income flows are uncertain and where there is considerable social pressure on those with visible liquidities.

In Senegal tontines seem to have existed for at least several decades.¹ Their proliferation in recent years may be related to rural-urban migration and the increasing population concentration in the Cape Verde region outside of Dakar. It appears that in Dakar and other towns in Senegal tontines have originated in women groups.² This would make sense in so far as the tontine allows women to obtain a measure of financial independence. Another reason could be that women are more involved in the organisation of social events.

It appears further that tontines are more common in some "castes" of Senegalese society than in others. The "nienio", for example, a caste of craftsmen like jewellers, blacksmiths, weavers, shoemakers, have taken to tontines much more than other castes.

Within the two major Muslim communities of Senegal different types of tontines have developed:

among the Tidianes the "adji maka" is widespread; this tontine is a way to save for the pilgrimage to Mecca;

among the Mourides the mutual help variety is more common ("dahira") which assists members in financial difficulties due to theft, legal disputes, illness, fire; this type of tontine has more of a providential orientation.

In rural areas one finds a non-monetary form of tontine where the proceeds of work on a village field serve to finance social investments like wells, mosques etc. The remittances of migrant workers make up a large part of financial flows in tontines in the areas of St. Louis and Tambacounda where they help build small health clinics and post offices. Generally speaking, the neighbourhood and professional tontines still retain an ethnic flavour even in urban areas; and these have taken roots best among these ethnic groups that maintain strong links with their rural areas of origin and that are comparatively community-oriented. This applies largely to the Diola of the Casamanche, the Serere, Sarakole and less to the Peulhs. Company-based, "modern" tontines, however, are ethnically more diverse and cosmopolitan.³

¹ See Dupuy (1991) and Dupuy and Servet (1987).

² Bouman (1992) reports S.Steiner's research on female tontines in Douala, Cameroon which would seem to confirm the important role of women in urban tontines, p.6.

³ Ernest Aryeetey (1992), p.13.

1.2. Political role and legal status

Some tontines have political clout in Senegal. This is especially the case with the "dahira" tontine of the Mourides. The traders in the Sandaga market of Dakar, for example, are protected by the religious hierarchy in Touba against what the traders consider excessive Government interference, be that in the form of the market chief, tax collector, customs, zoning laws etc. This protection is granted in return of spreading the Mourides belief through tontines and the "hadiya", i.e. grants collected through the tontines for religious leaders, the "marabouts". These grants can amount to several million francs CFA (US\$ 10,000 and more).

The tontine is a simple and informal sort of association. The absence of a legal status under the Senegalese civil and commercial law is precisely what most members find so appealing about it. After all, most tontine members cannot read and write. In this environment the word of honour counts usually for more than written engagements. However, things are changing slowly, however: in company-based tontines one finds more and more written bye-laws and savings passbooks.

1.3. Types

One can distinguish tontines according to the motive for participation, the number of participants, frequency of rounds, contribution per cycle, allocation systems, and functions of the organizer.

From the point of view of *financial transaction* one can distinguish two forms:

the rotating savings and credit association (ROSCA): the money is put up daily, weekly or monthly; the distribution takes place at the end of the month resp. year;

the accumulating savings and credit association (ASCRA): the sums collected are invested or lent against interest during the cycle thus yielding a net return to members' savings;¹ the contributions can also be used to finance an activity of collective interest; this form of tontine presupposes a high degree of social cohesion.

Looked at from the angle of the *criterion of organization* one can distinguish four principal types:

the *neighbourhood tontine*: probably the most common, it is often women who finance social events of tontine members. This type of tontine is characterised by a very low degree of formalisation, and extensive voluntary work. The contributions vary between FCFA 10,000 and 2,000 a month (\$ 30 and 6). These tontines can have 10, but also as many as 340 members;²

¹ Bouman calls this variety "Accumulating Savings and Credit Association" /op.cit. (1992) p.2/ He found in Asia that the organisers of this type of commercial tontine lent out the fund before the end of the cycle, thus turning into moneylenders. The Susu collector in Ghana and Nigeria also has traits of a tontine organizer or manager gone professional /Aryeetey, 1992 op.cit. p.18/.

² While large groupings of several hundred members have been observed elsewhere in West Africa among the mutual aid variety of tontines /Aryeetey (1992), op.cit. p.12/ their precise allocation mechanism remains unclear; unless the monthly and twice monthly rhythm of allocation is changed, members would theoretically have to wait up to 30 years before their turn is up. One possible explanation is that under the overall umbrella of a rotating savings and credit association there are several sections with their autonomous cycles; another explanation could be that this is an accumulating savings and credit association (ASCRA).

work place related tontines: members have the same employer, share an occupation or operate in the same market sector. These tontines help co-finance industrial or commercial investments undertaken by individual members or the group as a whole. The monthly contribution varies between FCFA 5,000 and 50,000 among handicraft people, (i.e. \$ 16 and 160), and between \$ 66 and \$ 500 in trader tontines. Membership ranges from 10 to 100 and the attribution is monthly or twice monthly. The firm-based tontines are the most formalised and sophisticated. The group may also decide to mobilise resources for a specific purpose and to modify the amounts for contributions;

community-based tontines: the collected sum is attributed to a group, for collective investments like mosques, wells, health dispensaries, social events. They resemble the accumulating savings and credit association (ASCRA). They are more common in rural areas and among religious communities. Membership is fairly high going up to 200 and 300, while the contributions are modest.

2. HOW DO TONTINES FUNCTION?

2.1. Membership and access to group savings

Trust and the certainty of impending social sanctions in case of failure to pay up stabilize a tontine. Membership is the result of self selection and co-option which minimises risks and costs. Neighbourhoods or the association within the same professional group are the ideal framework for tontines. In the handicraft centre of Soumbédioune, for example, there is a tontine of jewellers, a tontine of shoemakers and a tontine of carpenters.

Because of the required mutual acquaintance tontines cannot and do not want to grow: after all, with increasing numbers the risk of not being able to benefit from one's turn increases. Newcomers have to pay up contributions of earlier cycles which acts as a break on membership growth. The closed character of tontines is also due to the fact that members do not wish their families and friends to know that they have come into the possession of a cycle. This has been labelled the "illiquidity preference".¹

There are two ways to allocate the collected resources, by balloting or by direct allocation. The first system, more common within professional tontines, means that the tontine manager organises a ballot; the winner either takes possession of the sum or lets it, sometimes against a premium, to some other tontine member. Attribution by auction, as it is often found in other parts of the world² does not appear to exist in Dakar. Direct allocation is more widespread in neighbourhood tontines: someone who has to finance a social event can usually count on the consensus of the group; even when two members claim the same hand, the group consensus ensures an amicable arrangement.

In principle tontines have an unlimited life: once a cycle is terminated, a new one can start; obviously, the tontine expires where there have been irregularities by tontine manager or members.

2.2. Fund collection and management

There are two methods for fund collection: either the tontine "manager" goes from member to member or members come to the tontine manager's place on the agreed day of contribution, which is common practice in neighbourhood tontines.

The tontine manager is chosen on the basis of personal and financial considerations: he or she must be trustworthy, reliable and respected by all tontine members. At the same time it must be someone with sufficient authority to impress members to live up to their contribution obligations and with the capacity to inflict sanctions. The tontine manager must also be independent and wealthy so as to withstand the temptation of helping himself out of the fund. The manager is either the first or the last in line to ensure that the cycle is completed, even if another member has failed to pay up.³

¹ We owe this point to A. von Eldijk of Wageningen Agricultural University; see also J.P. Krahnén (1987) and R. Schmidt (1985).

² Boumans (1992), Ghaté (1992).

³ Von Pischke op.cit. p.331 found that "for his service the organizer usually receives the first hand, which constitutes an interest free loan repaid over the life of the ROSCA" which is a way of making sure that the organizer or manager is not tempted by the tontine fund.

In compensation for his services the tontine manager is in some cases (Kaye Baakh, Thiaroye) entitled to participate in a cycle without having to make a contribution; in this arrangement the post of manager rotates as well. Some tontines also have the habit of giving a small amount of money to the manager on a voluntary basis, in recognition for the services; and then there is, of course, a certain honour and social status that goes with the function.

The tontines of the ROSCA type with immediate collection and attribution have their cash held by the manager only for a few days, normally from the 1st to the 5th of each month. This money is not handled by banks; this is different with tontines of the ASCRA type: here a bank account is found to be more practical and safer. Two or three members have joint signature for this account. In this arrangement the manager with the approval of tontine members may lend the accumulated amount to a member for a short period while the cycle is still not yet completed, provided the member is trustworthy enough to pay back in time before the distribution date.

Some tontines resemble a hybrid of the ROSCA and the ASCRA type in the sense that members leave 5 to 10% of the distributed sum with the manager to build up a separate common fund facility. It shares with an ASCRA the residual resources that remain after attribution of all claims by tontine members; but in contrast to a ASCRA this money is not lent but deposited in a bank account to finance social investments like chairs and cooking utensils for festivities. Alternatively the fund is used to celebrate within the tontine.

2.3. Sanctions and penalties

Due to the informality of financial contracts there is a variety of sanctions, both financial and social. All forms of tontines appear to apply financial sanctions whenever a member fails to pay his or her contribution on the fixed date. A penalty equivalent to the usual contribution is levied if the member has not yet had his turn; this amount is doubled if the member has already obtained the hand. If this penalty is still not paid, nor the contribution due, then the manager accompanied by some tontine members, visits the defaulting member and seizes valuables for auctioning. In company-based tontines the financial sanction is directly deducted from the salary, with the assistance of somebody from the personnel department.

Should a financial sanction not work, then some tontines, especially those composed of craftsmen like carpenters, jewellers, etc., impose sanction by blocking the defaulting member from using tools and equipment belonging to the group or used collectively, like machines, sales and exhibition facilities. In neighbourhood tontines this sort of sanction bans the defaulting member from using chairs, tables and canvases.

Social sanctions consist of the boycotting by the tontine of weddings, funerals etc. Alternatively, the traditional council of elderly may pay a visit to the defaulting member and appeal to his or her sense of honour ("diom"). The tontine can even go as far as making the default publicly known. In company-based tontines the complaint can reach the superiors or chief of personnel of the defaulting tontine member.

Legal action goes fundamentally against the philosophy of tontines based on mutual trust and conviviality and is, therefore, only rarely taken, even in fairly "modern", company-based tontines with bye-laws and statutes.

2.4. Use of collected resources

In *neighbourhood tontines* of the ASCRA type with a high proportion of female members, the money attributed at the end of a cycle is used to finance social events, like baptisms, weddings, funerals or the occasional pilgrimage to Mecca ("Adji Maka"), but also small plots of land, clothes, furniture and jewellery. Increasingly, however, these neighbourhood tontines finance commercial activities like weaving, pirogue operations and business trips to Europe.

Social events have traditionally also been the main use of funds in *professional tontines*. This has to do with caste organisation of many artisanal activities in Dakar. Such social events fulfil an important function to ensure cohesion and solidarity among the "nienio". This is nowadays somewhat disappearing as these professional tontines finance more and more trade-related activities - as in the large Sandaga market - and production-related investment like purchase of tools and equipment - as in

the craft village Soumbédioune.

In *company-based tontines* funds are used to finance the acquisition of furniture or to co-finance a car, a plot of land or a house. In the tontine of SENELEC, the public electricity company, there is even an obligation to buy within each cycle electrical appliances, like a fridge or a stove.

3. POTENTIAL AND CONSTRAINTS

The survey attempted to determine the potential for a linkage of tontines to banks via group deposits and via the transformation into MGAs and to assess the costs and benefits to banks, tontines and the informal economy as a whole. The survey showed that tontines are characterised by a high degree of "self sufficiency, self regulation and self control".¹ Linking them to banks either for the deposit of savings, access to credit via a mutual guarantee association or any other mechanism, goes basically against the intentions and constitution of tontines.

3.1. Access to banking services

Access to bank services is not something that would occur naturally to tontine members, it is rather a notion introduced by outsiders interested in their integration into the formal financial sector. Tontines are savings-based voluntary and self-help creations, fully autonomous and not subject to any control. Tontines even appear to have a basically negative attitude vis-à-vis banks. Traders find the interest rate and bank fees excessive and the disbursement procedure long and complicated. At the same time banks do not go out of their way to make themselves known and acquire new customers in the informal sector.

Theoretically, some tontines - certainly those of the ASCRA variety - have a potential for the collection of savings and their remuneration in deposit accounts. Tontines are the predominant form of savings in the informal sector: it is estimated that tontines collect several tens of millions of FCFA (\$ 33,333 to 100,000) per month in the market of Sandaga . In Thieroye, an area on the outskirts of Dakar, a single tontine, the Kaye Baakh, handles more than 5 million FCFA, i.e. nearly \$ 17,000 per month.

From the bank's point of view, there would be advantages to collective tontine accounts since the cost of collection and the resource costs associated with tontine savings are lower than with individual deposit accounts. In addition, the savings and dissavings pattern is basically stable, progressive accumulation from the first of the month up to the 30th day, then dissavings.

However, these advantages are more theoretical than borne out by facts: in the tontine with immediate collection and distribution (ROSCA), the money collected remains in the hands of the tontine manager only for a few days or hours. At best there could be an account to capture the residual cash of the tontine fund; but this is too little and falls below the minimum deposit threshold of most commercial banks. On the other hand, in the case of tontines with accumulating residual balances (ASCRA), there is an interest to keep the collected sums in a safe and remunerated checking or current account. But in actual fact tontines of this type prefer to keep the money at the tontine manager's home to facilitate short-term loan operations.

The absence of banking relations is probably not just due to ignorance, but also the result of a deliberate choice for a more rapid, flexible and liquid cash management system, namely the tontine's own. Easy and discreet access to liquidities is in fact the motive for joining tontines. Money must be immediately available for a wedding, baptism or funeral. If a trade opportunity suddenly and unexpectedly opens up, then the entrepreneur must be able to "enter into his funds" instantly. All this comes on top of the general distrust by informal sector operators of banks, perceived as the financial partners of the high and mighty.

3.2. Can and should tontines be transformed into mutual guarantee associations?

The search for viable mechanisms to provide small and microenterprises with acceptable

¹ Bouman (1992), p.3.

guarantee instruments has also directed attention to tontines. The assumption was that the apparently well functioning group savings and peer monitoring could be transformed into mutual guarantee associations, based on professional criteria to help members obtain bank credit on the basis of joint liability. The Savings Bank of Togo, for example, proposed, at a Seminar in Lome in 1987 organised with the German Savings Banks Association, "to transform traditional savings associations to which artisans belonged into mutual guarantee associations."¹

Mutual guarantee associations (MGA) require a certain homogeneity among members and comparable financial risk profiles. Members must perceive the association as a longer-term bridge to bank credit, they must be prepared to take the risk of having to compensate for someone else's default, for the sake of gaining access to bank credit. In other words, this presupposes a considerable scarcity of bank credit and fairly good business opportunities. Also an MGA is a fairly structured entity, with rules, regulations, bye-laws, annual meetings and audits.

The survey showed that despite some similarities, tontines and MGA differ fundamentally:

formality: the tontine is essentially informal, the MGA must meet minimum requirements of formality to be acceptable to banks;

permanence: tontines may have a long life, but they are not permanent; MGAs are intended as lasting self-help organizations with a specific financial function;

links to the banking sector: MGA are part of the formal financial sector, tontines have very loose relations to banks and are reluctant to engage themselves further;

objective: tontines are multi-purpose providential arrangements, MGAs have the single objective of facilitating access to bank credit.

Whether the informal financial sector and tontines in particular would gain much from linkages to commercial banks via MGAs or group deposit accounts depends on the compatibility of the creditworthiness criteria of bank and tontines: where the entitlement to joint liability is as strictly regulated on a rotating basis as in many tontines, it is bound to clash with the bank's appraisal standards; for a bank the applications by tontines members are *not* all *equally* creditworthy; not to speak, of course, of the effect that the availability of bank credit has on member contributions and cohesion.

4. CONCLUSIONS

In Dakar where tontines initially have developed in and around women groups in neighbourhoods, they are now increasingly gaining importance in financing short-term trading and service activities, in addition to their traditional role of organising the financing of social events. With this has come the extension of the tontine into the artisan population, traders in the local markets and employees of larger modern companies. It is generally acknowledged that tontines are the most important form of savings organization in the informal sector and that the sums involved are quite substantial. As in other informal financial markets, tontines offer a way to accumulate savings, intermediate between depositors and borrowers and to provide some insurance against personal mishaps.²

As von Pischke has observed, tontines are a most elegant implicit mechanism for determining debt capacity, namely by way of savings capacity.³ Tontines are based on group monitored and enforced savings, non-compliance brings with it various social, financial and material sanctions. Tontines require a minimum of discipline. The effectiveness of this discipline can only be understood against the background of the comprehensive nature of financial and social links among members. In fact, the monthly contributions are not simply acts of savings, but a way of paying insurance

¹ Seminar Report DSGV/DSE/IICE (Lome, November 1987), p.7 of the paper of M. Djagbare.

² J.P. Krahen and R.H. Schmidt: *Development Finance as Institution-building* (ILO Publication, Westview Press Boulder Colo., forthcoming), p.52.

³ von Pischke, op.cit., p.329.

premiums for the use of a social net in case of need.¹

The effectiveness of group sanctions, or "peer monitoring" is based on two factors: reciprocity and an equal, "symmetrical distribution of information".² Reciprocity means that each depositor is at some point in the cycle also a borrower and vice versa; and symmetrical distribution of information means that every member is equally well informed about the default risk associated with the allocation of the group guarantee to another tontine member. Both factors explain why tontines are necessarily small.

The small size of tontines brings with it certain advantages and limitations in terms of financial intermediation: advantageous is that it reduces transaction costs for each member and information costs as regards default risks;³ on the other hand the reciprocity principle implies that no one can build up longer term savings or debt positions, hence term transformation does not go beyond lengthening term structures;⁴ the small size means that size transformation is fairly limited, as well. On top of that the homogenous composition reduces the scope for risk diversification.

While unable to deliver full financial intermediation, tontines offer, nevertheless, superior services to their members in comparison to banks in terms of ready accessibility of resources and flexibility to modify the sequence of claims and obligations. Bancarisation seems therefore to be more in the interest of banks which would - if they were interested to make the necessary adjustments - gain fairly important and cheap deposit resources.

¹ Aryeetey, op.cit. p.16.

² J.P. Krahnert and R.H. Schmidt, op.cit. pp.55-56.

³ Garry Christensen: *The Limits to Informal Financial Intermediation*, World Development vol. 21 NE 5 (May 1993), pp.721-731.

⁴ J.D. von Pischke: *ROSCAs: State of the Art Financial Intermediation in Informal Finance in Low-Income Countries*, ed. by Dale Adams and D. Fitchett (Westview Press, 1992), p.327.

5. ANNEX

Tontines surveyed

Name	Creation	Members	Contribution cycle	Use of funds	Residual fund
Sandaga	1970	30	5,000 daily	investments	3,15
Sonaga	1976	19	25,000 monthly	house, cars	0,47
Kaye Baakh	1980	340	4,000 weekly	social, house	0,27
Kaye Baakh 2	1985	44	500 weekly	religious	0,22
Senelec	1987	10	20,000 monthly	appliances	0,20
Soumbédioune	1988	18	5,000 monthly	mutual aid	0,09
Camara	1984	12	15,000 monthly	social	0,18

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