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SOME ASPECTS OF THE INFORMAL FINANCIAL SECTOR IN THE SEACEN COUNTRIES

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Staff Papers No.	Title	Author
1	THE SEACEN COUNTRIES AND THEIR RESPONSE TO THE ENERGY CRISIS	Zeti Akhtar Aziz
2	INTEREST RATE DEVELOPMENTS IN THE SEACEN COUNTRIES: 1980 — 1982	Zeti Akhtar Aziz
3	DEVELOPMENTS IN THE FINANCIAL SYSTEM OF THE SEACEN COUNTRIES: 1976 — 1983	Zeti Akhtar Aziz
4	CREDIT PLANNING IN THE SEACEN COUNTRIES	Gerardo S. Tison
5	THE ROLE OF SOUTH-EAST ASIAN CENTRAL BANKS IN DEVELOPMENT FINANCE	Bimal Nath Rimall
6	EXPORT PERFORMANCE OF THE SEACEN COUNTRIES: 1970 — 1984	Zeti Akhtar Aziz
7	DEVELOPMENTS IN GOVERNMENT EXTERNAL DEBT IN THE SEACEN COUNTRIES	Zeti Akhtar Aziz
8	SOME OBSERVATIONS ON RECENT DEVELOPMENTS IN THE FINANCIAL SECTOR IN SOUTH-EAST ASIA	Vinyu Vichit-Vadakan
9	THE EMERGENCE OF NON-BANK FINANCIAL INSTITUTIONS IN THE SEACEN COUNTRIES	Gerardo S. Tison

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The South-East Asian Central Bank (SEACEN)
Research and Training Centre

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FOREWORD

One of the major activities of the SEACEN Research and Training Centre in the pursuance of its objective of promoting closer collaboration and understanding among the SEACEN member banks is undertaking research. The research activities of the SEACEN Centre covers a wide range of subjects, in particular, monetary, foreign exchange, fiscal as well as other current economic issues faced by central banks and monetary authorities in the region.

The publication of the Staff Papers reflects the continuing efforts of the SEACEN Centre to achieve the above-cited objective. These Staff Papers were prepared by the professional staff of the Centre and were done mostly in connection with its other activities. More specifically, they were undertaken to serve as background papers for the seminars and meetings conducted by the Centre, as special papers on current issues in the annual Economic Survey on SEACEN Countries, and as materials for the speaking engagements of the staff members. Hence, these studies are not the regular research projects of the Centre which are more in-depth in terms of treatment and usually cover a longer time perspective.

The views presented in these papers are those of the authors and do not necessarily reflect those of the SEACEN Centre or the member central banks and monetary authorities. It is hoped that the publication of the Staff Papers series would contribute to a better understanding of the developments and issues currently confronting central banks and monetary authorities in the SEACEN countries.

This short paper is a revised version of an earlier paper distributed as a background paper for the Seminar on Unorganised Money Markets in the SEACEN Countries held in Yogyakarta, Indonesia from November 20 to 22, 1985. The paper was prepared by Mr. Ng Beoy Kui, with research assistance from Mrs. Kanaengnid Tantigate Quah.

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SOME ASPECTS OF THE INFORMAL FINANCIAL SECTOR IN THE SEACEN COUNTRIES

The term "informal financial sector" (IFS) has been used loosely to refer to a set of fragmented, localised, informal financial markets and yet somewhat unconnected to each other within a more broader market network. This IFS exists side by side with its more formal, more well-organised counterparts especially the banking sector and non-bank financial institutions, thus bringing about a seemingly dualistic structure in the overall financial sector. This sort of "financial dualism" has been a common feature in most of the less developed countries (LDC).

The IFS in LDC tends to persist with its relatively large absolute size and it has been a major concern to both policy makers and economists alike. It is alleged that the "usurious" or "exorbitant" rates of interest in these markets accompanying with its various "malpractices" exert a deleterious effect on both rural indebtedness and urban impoverishment. Various government strategies were subsequently adopted to dilute the powerful influence of the IFS. These strategies include basically the rapid development of financial institutions, the provision of cheap and supervised credit and the strict enforcement of legal regulations. Evidence from several LDC shows that these measures have not been effective in containing IFS activities. However, over the years, the relative importance of IFS to the total financial structure in LDC as a whole had been on the decline (Wai, 1977).

The persistence of IFS also poses various problems of financial and monetary nature. Of significance is the effect of IFS on the saving - investment process, the pace of monetisation as well as the deepening of financial development. It is also asserted that the existence of IFS might nullify partly the impact of monetary policy. These serious implications of IFS are the main concern of the central banks and monetary authorities.

The objective of this paper is to provide a cursory survey on the nature and structure of IFS in the SEACEN countries. The available data on IFS is, however, fragmentary and subject to a wide margin of error. Most of the analyses here are based on secondary sources of data, with different conceptual coverages and definitional problems. With such severe limitations of data, cross-country comparison and even inter-temporal analysis within a country are not really possible. Extraordinary caution has been exercised throughout and at most, the study here is only suggestive. Section I intends to give a rough idea about the size and magnitude of IFS in the SEACEN countries. The types of credit suppliers in the IFS are also examined. This is followed by Section II which covers an analysis of utilisation of credit by the borrowers in the IFS. In Section III, an attempt is made to examine the trend and structure of interest rates in the IFS in the SEACEN region. Finally, the concluding section tries to rationalise the persistence of IFS, despite various efforts on the part of the SEACEN governments to contain their activities. The same section also attempts to trace recent developments on the structural changes within the IFS which may have serious policy implications.

I. Nature, Size and Sources of Funds in the IFS

The diversity of socio-economic conditions in the SEACEN countries gives rise to a heterogenous nature of informal financial sector in the region. While it is recognised that each country in the SEACEN region has its own peculiar credit arrangement in its IFS which is unique in its own sense, there are still some traces of similarities among various SEACEN countries mainly as a result of historical links in a number of respects. One notable example is the conspicuous presence of professional moneylenders of Indian origin in those

SEACEN countries which had been under British rule. Another interesting example is the relative predominance of rotating savings and credit associations (ROSCA) and pawnshops in their IFS in those countries where overseas Chinese represents a significant percentage of their population. However, nearly all SEACEN countries share a common feature: a relatively strong kinship prevails in the rural areas such that a large portion of informal credit is obtained from friends and relatives and normally carries no interest. This is in direct contrast to the smaller share of credit from friends and relatives in the urban sector, where commercialisation is part and parcel of the urbanisation process.

Despite its heterogeneous nature, fragmentary data suggests that the IFS is still an important financial sub-sector in the SEACEN countries that merits further study. The limited data also suggests that the formal financial institutions are by and large the dominant source of funds in the urban financial sector, whereas the rural financial market is dominated by a heterogenous group of moneylenders, ranging from the professional moneylenders to non-professional ones such as friends and relatives. While the above suggestion may be indicative enough for the region as a whole, in some SEACEN countries such as Thailand, Indonesia, Sri Lanka and Malaysia, the IFS in their urban areas have flourished into unmanageable proportion largely because of the relative importance of their informal sectors in these countries (Hidayat, 1978). The recent outbreak of Mae Chamoy Chit Fund case in Thailand, for instance, had caught much attention by both policy makers and economists alike because of its possible adverse consequences on the the financial system (Far Eastern Economic Review, September 20, 1984, P. Vichyanond, 1984). In another instance, the mushrooming of credit and leasing companies and co-operatives in Malaysia has also become a matter of concern to the Central Bank of Malaysia. Many of these companies and co-operatives accept deposits in contravention of Section III of the Finance Companies Act, 1969 and the Co-operative

Society Ordinance, 1948, respectively (Central Bank of Malaysia, 1985).

As indicated earlier, the IFS has been the dominant source of credit in most of the rural areas in the SEACEN countries. Table I shows the relative importance of informal credit vis-a-vis formal credit in the rural areas in the region. It is observed that the informal credit accounted for more than half of the total rural credit availed of by rural borrowers.

Fragmentary evidence from the SEACEN countries also suggests that the share of IFS to the total financial sector has been on the decline over the past two decades with the exception of the Philippines and Malaysia. In Nepal, for instance, the share of informal credit declined significantly from 79 per cent in 1969/70 (Agricultural Survey of Nepal) to 57 per cent in 1982 (Nepal Rastra Bank, 1982). In the case of Thailand, the decline in the share of informal credit was equally dramatic, from 94.5 per cent in 1965 (P. Thisyamondol, V Arromdee and M.F. Long, 1965) to 52.5 per cent in 1972/73 (Bank of Thailand, Task Force on Agricultural Credit Development). In Sri Lanka, the decline of its share to the total financial sector was also significant, from 86 per cent in 1963 to 60 per cent in 1981/82. The general decline in importance of the IFS was due largely to the steady financial deepening in their financial structures in these countries. For instance, Sri Lanka had achieved a high degree of financial deepening during this period as reflected by the increasing percentages of both the marginal rate of financialisation of national wealth and financial intermediation ratio between 1950 and 1980 (See Table 2).

In the case of the Philippines and Malaysia, the share of the IFS relative to total rural credit declined in the 1960s after the introduction of supervised credit programmes 1/ together with seed-fertiliser revolution. Thereafter, the IFS seemed to stage a comeback in the late 1970s after most of the farmers under the supervised credit programmes became disqualified for new loans as a result of high loan deliquencies among these borrowers (See Table 3).

In the SEACEN countries, credit suppliers in the IFS are a heterogenous group of lenders and savers ranging from professional moneylenders to individual housewives of officials and traders.

In the rural areas, the group of semi-professional moneylenders is the major source of credit to the farm sector (See Table 4). These lenders are not full-time moneylenders and their main activities are usually non-farm businesses. Very often, they are involved actively in marketing and distribution of farm inputs as well as farm produce. In Malaysia, Indonesia, the Philippines and Thailand, most of these lenders operate provision shops and at the same time they act as crop buyers or produce dealers. More often than not, this group of lenders provides credit to farmers mainly in kind such as essential foodstuff and farm inputs. In return, the borrowers have to repay their debts in the form of harvested crops. In recent years, input dealers, a new group of semi-professional moneylenders, became an important supplier of informal credit since the introduction of seed-fertiliser revolution and the implementation of double to triple cropping in rice producing countries in the SEACEN region. In the Philippines, for instance, input dealers contributed 14.1 per cent of the total rural credit to rice farmers, in contrast to a negligible amount in the 1960s (Technical Board for Agricultural Credit, 1981).

1/ In the Philippines, the Masagana 99 Credit Programme was implemented in May 1973 while the Short-term Padi Production Credit Scheme in Malaysia commenced its operations in 1969.

The emergence of semi-professional moneylenders arises basically from the need to strengthen the interlinkage between production, consumption and marketing within a set of input, credit, consumer goods and farm produce markets in a well-defined localised area. The relationship between lenders and borrowers in this case are mainly of patron-client link (R.J.G. Wells, 1980; P.K. Bardhan, 1980 Quibria, M.G., 1985). In the extreme case, the lenders exert their monopolistic-monopsonistic powers on the borrowers to the extent that the borrowers fall into a trap of perpetual indebtedness. Malpractices are also common and "exorbitant" rates of interest are often charged to borrowers (C.R. Wharton, 1962).

Next in importance is the group of friends and relatives as a source of informal credit in the rural area. In almost all SEACEN countries, friends and relatives as a group provides a substantial amount of credit or financial assistance to their acquaintances cum borrowers especially in time of contingency. In the usual case, no interest is charged and even if the borrowers are charged with interest they are only requested to repay with nominal rates of interest. The readiness to provide financial assistance to their own friends and relatives in times of urgency reflects essentially the prevalence of close kinship and the spirit of mutual help and trust among the rural folks in the SEACEN countries.

As noted earlier, professional moneylenders or "chettiars" as a group was formerly an important supplier of rural credit in those countries which had been under British rule such as Burma, Malaysia, Singapore and Sri Lanka (Das, 1958; Wai, 1962). During the colonial period, these moneylenders worked as commission agents for their parent companies in the Madras State of India. For instance, as noted by Wai, between 1935-42, there were approximately 1,300 chettiars firms in Burma. These firms were members of the Nattukkottai Chettiar Association of Burma. In later years, these chettiars in the SEACEN countries gradually cut off their financial link with India, and operated with their own funds or borrowings from banks. However, their importance as a source of informal credit had been eroded over the decades due mainly to the severe competition from the semi-professional moneylenders and the intrusion of formal credit. In addition, their activities were regulated by the SEACEN governments (e.g., the enactment of Money Lenders Ordinance, 1951 in Malaysia - Mahani, 1975/76; Kratoska, 1975). Today, they account for less than 10 per cent of the total informal credit in most of the SEACEN countries with the exception of Sri Lanka (See Table 4).

In the urban area, credit suppliers in the IFS are much more heterogenous than their counterparts in the rural areas. Their modes of operations are also more complicated than their rural counterparts and in some cases, financial instruments are frequently used (e.g., post-dated cheques and promissory notes). There is a general lack of data on the sources of informal credit in the urban sector. From various sources of information, indications are that semi-professional moneylenders are again the dominant credit suppliers followed by pawnshops, rotating savings and credit societies, licensed financial institutions (See Table 5). Chit funds and pyramid schemes, a variant of the IFS, are especially common in Thailand where in some cases, a participant of such a scheme can earn interest as high as 78 per cent (Chamoy case). Because of their high interest, people even prepare to withdraw money from the banking system and invest in them, thus causing an out-flow of funds from the organised financial sector to the unorganised one.

On the other hand, rotating savings and credit associations (ROSCA) seem to be the universal practice in the SEACEN countries. They are called by different names in different parts of the SEACEN region (See Table 6). In this kind of associations, the participants pool together their financial resources and the funds are alloted either by pre-arrangement (e.g., lun-hui), by drawing lots (e.g., yao-hui) or by bidding (e.g., pia huey). Some of these associations are operated with no interest (e.g., kuthu among Muslim participants in Malaysia, cheetu in Sri Lanka and rural arisan in Indonesia - Gamba, 1958; Geertz, 1962). Others incur interest charges and only the highest bid prevails. The most interesting feature of these societies is that the organiser is often the first borrower and also becomes a borrower throughout. The last recipient of the common fund, however, is the saver throughout. Only those participants in-between interchange their positions as both lenders and borrowers. In the usual case, small ROSCA are meant for miscellaneous purposes while the bigger ones direct their financial resources mainly for financing business activities. In Indonesia, for instance, mutual financing associations or "arisan call" seem to be a fairly prevalent means of financing for some small enterprises in certain areas such as Klaten in Central Java Province (IDCJ 1977/78, p. 62). The Urban Credit Survey conducted principally by Bank of Thailand in 1970 revealed that the "pia huey" in Thailand are mostly organised to finance business activities ranging from industry, retail businesses to luxury establishments. As indicated by Table 7, a majority of these "huey", like ROSCA in other SEACEN countries, rotates their funds by tender and almost all meetings are conducted on a monthly basis. The total number of meeting sessions will depend ultimately on the number of members within a "huey".

In a recent study on urban unorganised money markets conducted by Bank of Thailand in 1984, it is observed that for personal rotating credit societies, the major source of funds (88 per cent) is derived from own personal income. In the case of business rotating credit societies, the sources of fund are more diverse: 47 per cent came from borrowings from commercial banks and finance companies; 23 per cent from own income; 9 per cent from other rotating credit societies; and 8 per cent from overseas borrowings.

From the above study, it is noted that there is much inter-linkage between formal credit institutions and the IFS, as well as inter-locking of funds among ROSCA. This also shows that participants in the ROSCA are very sophisticated investors, constantly looking for opportunities to grasp the highest rates of return from investment of funds.

Friends and relatives as a source of credit in the urban area are relatively less important than their counterparts in the rural area. But this group of lenders is still a significant source of business finance. For instance, in a survey conducted in Malaysia by Chee in 1975, friends and relatives as a group still contributed a significant share of 17.5 per cent of the total initial capital mobilised by small-scale industries and 3.1 per cent of medium and long-term loans (Chee, 1979). In another survey also conducted in Malaysia by Bruch, friends and relatives accounted for 19.8 per cent of fixed investment funds of the small-scale manufacturers while the same group also contributed 14.6 per cent of the total working capital (Bruch, 1983). In Indonesia, the significance of friends and relatives as a source of credit in the informal sector varies among regions, ranging from as low as 5.3 per cent to 52 per cent in various Indonesian cities (Hidayat, 1978). With the rapid pace of commercialisation and urbanisation, the emphasis on kinship and friendship in the lender-borrower relationship has been eroded over time. This also explains the rapid offshoot of ROSCA and borrowings through discounting of post-dated cheques in the urban areas in most of the SEACEN countries.

Pawnshops are another readily accessible category of informal credit in the urban area. In some countries such as Thailand and Indonesia, pawnshops are operated by governments and for that matter, they should rightly be classified under formal credit. In other SEACEN countries, notably Malaysia and Singapore, pawnshops are run mainly by private family businesses, usually of Chinese origin. However, they are licensed by the governments to operate their activity. In Malaysia, pawnshops are licensed under the Pawnbrokers Act, 1972 under which the legal rates of interest are normally between two to three per cent per month depending on the amount borrowed on pledge (Gamba, 1958; Malaysian Business, June 1978, pp. 45-47). Common articles accepted by pawnshops include a wide range of jewellery, gold ornaments, watches and even consumer durables like radio. Of course, there are also illegal pawning activities conducted by goldsmith shops in various parts of the SEACEN countries (Rozental, 1970).

Even though IFS in each SEACEN country may differ from one another in certain respects, it is generally observed that the IFS in the SEACEN region as a whole have certain common features in their operations as vividly summarised by Ghatak, as follows:

(a) flexibility in loan transactions;
(b) personal dealings with borrowers;
(c) simple and crude system of maintaining accounts;
(d) blending of money lendings with other types of economic activities;
(e) informal dealings with customers; and
(f) utmost secrecy about financial dealings.

These features are vastly different from those in the organised money markets where the atmosphere of formality permeates throughout the sector (S. Ghatak, 1981).

II. Utilisation of Credit from the IFS

Demand for credit from the IFS in the SEACEN countries arises from various situations. For the households, day-to-day family living expenditure including housing, medical and education expenses has to be fulfilled first for survival. In the case of a production unit, be it a manufacturing concern or a farming enterprise, the need for operating expenditure as well as long-term capital investment must be met in order to increase productive capacity. Both household and business needs are first met by internal sources of funds especially through income generation and past savings. The deficit then has to be met by selling of assets or by incurring liabilities through borrowing. The use of either methods will depend on their relative costs involved including the opportunity cost of giving up prospective uses of assets in the future. If an economic unit has already exhausted its past savings and also finds that the sale of assets will possibly incur heavy capital losses or that its assets have no resale value at all, then the unit has to resort to borrowing when its current expenditure exceeds current income. It is up to each economic unit to borrow from formal or informal money markets, depending not only on the borrowing costs but also the availability and accessibility of these funds.

Most of the studies on informal financial sector reveals that despite high interest rates, people continue to borrow from informal money market mainly because of its easy accessibility and informal dealings. Even if formal credit is available at low cost, the general tendency is that the iron law of low interest rates normally operates in favour of a few big borrowers through the operation of credit rationing (Pischke, Adam and Donald, 1983; Adams, Graham and Pischke, 1984), such that the majority of the small borrowers is denied of their opportunities to borrow from the formal sources. Moreover, formal credit is not provided for consumption purpose as it is usually considered as unproductive. Other factors which also operate simultaneously to the disadvantage of small borrowers in their loan applications include the stringent requirement of collateral security, the formal and tedious application procedures, and the non-synchronisation of credit needs and credit disbursement. As a result, the small farmers have no other alternative but to resort to borrowing from the IFS at high interest rates as they are usually reluctant to liquidate their productive assets such as farm land or livestock in the case of farm households (M.F. Long, 1968).

Apart from the cases mentioned above, another common situation which requires credit to tide over deficit period is the non-synchronisation between income flow and expenditure. Such non-synchronisation is common among farm households because of the long gestation period of agricultural production. In the SEACEN countries, paddy farming may require four to six months before paddy can be harvested. In the case of perennial crops, such as rubber and oil palm, the gestation period may last as long as five to seven years. During this period, the farmers or the smallholders for that matter, have to meet family expenses as well as farm operating and capital expenses. If formal credit is hard to come by, they will resort to borrowing from the IFS and normally repay their debts either in kind or cash immediately after harvest. In Malaysia, for instance, paddy farmers normally borrow from near-by provision shops in the form of provision supplies and farm inputs at no nominal interest rate. But the farmers have to sell their paddy at prices generally lower than the market levels to these shops to repay their former debts (C.R. Wharton, 1962). To indicate the relative significance of this type of borrowing, data from Malaysia reveals that family living expenditure including medical and educational expenses accounted for 18 per cent of the total borrowing by paddy farmers (R.J.G. Wells, 1980). Higher share of 25.9 per cent for family living expenditure was, however, recorded in the Philippines (Technical Board for Agricultural Credit, 1981) while the share for consumption purpose in Nepal and Sri Lanka was about 25 per cent each.

People also borrow for long-term capital expenditure in anticipation of a flow of higher income stream in the future. In this case, the capital investment covers purchase and improvement of farm lands, purchase of livestock and poultry, purchase of residential houses and investment in business enterprises especially in the urban sector. In a cross-section survey of 331 paddy farms located in the Muda Irrigation Scheme of Kedah in Malaysia, R.J.G. Wells (1980) noted that these farm households which obtained 70 per cent of their borrowings from informal source disbursed 72.2 per cent of their borrowings for production purpose, of which 7.6 per cent was for farm investment and mortgage. In Nepal, survey data also indicates that those small farmers who were not involved in any Government projects and also borrowed heavily from informal source (59.6 per cent of total borrowing), utilised 23.6 per cent of their borrowing for capital expenditure, such as purchase of livestocks and poultry, purchase of land and purchase of implements, tools and transport equipment. The same group of small farmers also expended 30.5 per cent of their borrowing for home construction and non-farm business activities (Nepal Rastra Bank, 1982). In the case of the Philippines, about 74 per cent of the loans was for capital expenditure (TBAC, 1981). As to Sri Lanka, lower capital expenditure by paddy farmers from their IFS borrowings was recorded: 2.8 per cent was for capital formation in the agriculture sector and 3.8 per cent for housing construction (Sanderatne, 1981).

Credit needs also arise from a situation of a sudden loss of income or an unanticipated/anticipated sharp rise in expenditure. The sudden loss of income may be due to business or crop failure following an economic recession, loss of competitiveness or just simply acts of God (breakout of fire, flood or plant disease epidemic, etc.). Both anticipated and unanticipated sharp rise in expenditure, on the other hand, may be due to ceremonial expenses, such as for marriages and funerals. This type of expenditure accounts for only a small percentage of the total borrowings, in constrast to the general belief that small borrowers borrow substantially from IFS mainly for ceremonial expenses. For instance, in Sri Lanka, ceremonial expenses accounted for a small share of 4 per cent of the total borrowing by small farmers from IFS, compared to a significant share of 55.9 per cent for farm production purposes (Sanderatne, 1981). The Malaysian evidence also reveals that only 1 per cent of the total borrowing by farm households was expended on ceremony, in constrast to a larger share of 72.2 per cent for farm production expenditure in the same period (R.J.G. Wells, 1980).

From the available data as indicated in Table 8, rural borrowers from IFS channelled most of their borrowed fund for production and non-farm business activities. Only less than half of the borrowings was for consumption purpose, of which a significant portion was for family living expenses.

Available data from the Philippines and Malaysia indicate that the share of consumption credit from the IFS relative to production credit had been on the decline over the past two decades. The sharp rise in production credit was the direct impact of seed-fertiliser revolution and the implementation of double to triple cropping in a number of SEACEN countries. The technological change commonly known as "Green Revolution" normally required a massive injection of agricultural inputs notably high-yielding seeds, fertilisers and farm machinery which in turn gave rise to the need for production credit. Meanwhile, the absolute level of consumption credit either stabilised or declined during this period mainly as a result of a rise in overall agricultural income. As a result, the relative share of consumption credit declined substantially since the onset of the "Green Revolution". In addition, the implementation of double to triple cropping of rice farming has also effectively shortened the gestation period of padi production process. This implies that the non-synchronisation of income stream and expenditure for padi farmers as a whole has reduced significantly over this period. Hence, the need for consumption credit declined steadily especially in the face of rising income levels in the agricultural sector.

Another interesting development in the utilisation of credit in the IFS is the rising intensity of arbitrage activities not only between formal and informal credit sector but also within the IFS itself. Such arbitrage activities are mainly conducted by urban investors who exploit the interest differentials between banks and finance companies on the one hand, and informal financial sector on the other. Hence, it is not uncommon for these people to borrow from commercial banks and finance companies at relatively low interest rates and on-lend to ROSCA or through discounting of post-dated cheques. In the study on urban unorganised money market by the Bank of Thailand, it is noted that 47 per cent of the total sources of funds in the business rotating credit societies came from borrowings from commercial banks. The study also indicates that about 22 per cent of cheque discounting derives from borrowing from commercial banks and finance companies.

Arbitrage activities to exploit interest rate differentials among various ROSCA are also common in the cities of a number of SEACEN countries. For instance, the same study in Thailand reveals that 7 per cent of the funds mobilised by personal rotating credit societies and 8 per cent from business rotating credit societies were utilised for on-lending to other ROSCA.

III. Level and Structure of Interest Rates in the IFS

While the IFS in the SEACEN countries exhibits heterogenous features in a number of respects, it is still possible to draw certain distinct patterns on the level and structure of interest rates in the IFS.

It is a common fact that most of the moneylenders in the IFS charge interest rates higher than the level stipulated by legal regulations. These interest rates in the IFS are also generally higher than those charged by formal financial institutions. However, in most cases, friends and relatives in the rural areas do not charge any nominal interest at all, reflecting essentially the important factors of kinship, friendship, patron-client relationships as well as reciprocal arrangement in the form of a return of labour service during harvest time or a readily reciprocal line of credit for the lenders in future difficult time. Some landlords and shopkeepers-cum-moneylenders also do not charge any nominal interest rate for the amount borrowed, but insist that the repayments be in kind, i.e., harvested crops. But this type of loan transactions, however, incurs some sort of "hidden" interest charges on borrowers through deliberate underpricing the harvested crops which are used as the repayment for the debts (Wharton, 1962). Sometimes, these "hidden" interest charges turn out to be much higher than the level normally expected.

The fragmentary data from the SEACEN countries also indicates that there is not much difference in interest rates charged between rural and urban IFS. However, there are still some distinct minor differences between the two IFS. The first difference is that in the urban area, financial transactions in kinds are rare, and therefore the issue of "hidden" interest charges does not arise. Secondly, friends and relatives as a source of credit in the urban area are relatively less important as compared to their counterparts in the rural area. Even if some loan transactions do occur among friends and relatives in the urban area, interest rates are charged normally higher than their counterparts in the rural area. One possible reason attributable to such a tendency is the erosion of kinship in the urban sector. The other factor contributing to such a consequence is the ready accessibility of a wider range of formal financial institutions in the urban area.

The other difference between interest rates in the two areas is that the interest rates in the rural IFS are mostly lending rates while in the urban sector, the rates can be both lending rates and savings rates (See Table 9). This is partly due to the peculiar nature of rotating credit and savings societies which are rampant among cities and towns in the SEACEN countries. The other reason is the active arbitrage activities not only within the IFS but also between the IFS and its organised counterparts in the financial system. For instance, a member of a "piah huey" in Thailand may bid for a fund and on-lend it to businessmen at higher interest rates possibly through discounting of post-dated cheques. It is also not uncommon that moneylenders in the urban area borrow from formal sources and re-channel the borrowed funds to the IFS: either on-lend to IFS borrowers directly or re-invest in chit funds which are also part of the IFS (S. Panitchpakdi, 1985).

In the case of rural IFS, the interest rates are mainly lending rates as most of the lenders do not accept deposits. Because of their heterogeneous and fragmentary nature, different types of lenders charge different interest rates at different localities. Among the SEACEN countries, no same group of moneylenders always charges the highest interest rate. In Malaysia, for example, professional moneylenders as a group charged the highest weighted average of 27.44 per cent per annum with a range from zero to 83 per cent and normally with no collateral. Some of the shopkeepers-cum-moneylenders charged as high as 140 per cent per annum but for this group of lenders as a whole, the weighted average interest rate was only 16.4 per cent (See Table 10). In Nepal, the village moneylenders might charge as high as 100 per cent per annum or as low as 10 per cent per annum. The professional moneylenders, however, seemed to charge a uniform rate of 36 per cent per annum. The landlords and agricultural traders, on the other hand, charged interest rates ranging between 20 to 48 per cent per annum (Nepal Rastra Bank, 1982). In the Philippines, there was a little distinct pattern of interest rates charged by the lenders. The storeowners cum moneylenders charged the highest interest rates ranging from a weighted average of 41.85 per cent to 96.21 per cent. Other semi-professional moneylenders such as farmers cum lenders, landlords, palay traders as well as input dealers charged relatively high interest rates. In Sri Lanka, 31 per cent of informal lending was interest-free mainly from friends and relatives. But moneylenders, be they professional or semi-professional, levied a weighted average interest rate of 40.16 per cent per annum compared to an overall weighted average interest rate of 27.28 per cent per annum (Sanderatne, 1981)2/. In Thailand, shopkeepers and landlords charged the highest interest rates, with the mean rate hovering around 42 per cent per annum. Professional moneylenders ranked second with a mean rate of about 40 per cent per annum (Rozental, 1970).

The basic argument against informal credit usually resolves around the sensitive issue of its interest rates. It is often claimed that moneylenders in the IFS of the LDC charge "usurious" or "exorbitant" rates of interest. Whether an interest rate charged is exorbitant or reasonable involves some elements of ethical judgement. Hence, there is no single agreed yardstick which can be used to determine the extent of usury.

From the government point of view, the most immediate yardstick used to measure the extent of usury is the legal rates which have been specified in various government regulations. Any interest charged in excess of these legal rates are therefore considered as "usurious". In the Philippines, prior to the deregulation of interest rates in 1976, for example, the Anti-Usury Law (Act No. 2655, as amended) specified that the statutory ceiling on interest rates were 12 per cent per annum on guaranteed loans and 14 per cent per annum on non-guaranteed loans. In Malaysia, the Money-lending Ordinance, 1951 also stipulates a maximum interest charge of 12 per cent per annum for secured

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2/ The weighted average interest rates were computed by the SEACEN Centre using tables supplied by Sanderatne.

loans and 18 per cent per annum for unsecured loans. Government officials tend to consider any rates in excess of these specified legal rates as "usurious" and "exorbitant".

However, such a yardstick is incorrect and not useful as it does not take into account the prevailing money market conditions. Secondly, these legal rates were fixed in historical time, ignoring the element of inflation over time.

The second yardstick is the market rates of interest in the organised financial sector. The absolute interest differentials of loans with same maturities between the IFS and the formal money markets may be considered as a prima facie evidence of excessive charges demanded by the informal moneylenders. Again, this measure of usury is defective as the market rates of interest in the formal money market are often distorted by the government's policy of low interest rates. In addition, the comparison between the two categories of interest rates is not an easy matter as a substantial portion of interest payments is in the form of kind or services in return. These implicit elements of interest rates in the IFS are difficult to be imputed into monetary terms.

The other common criterion used to measure the extent of usury is the cost of borrowing incurred by the borrowers themselves. Here, the cost is not confined to the actual interest payments incurred by the borrowers alone. The more important element in calculating the total borrowing costs is the transactions cost to obtain a loan and the follow-up servicing of the loan. To a small borrower, the actual transaction cost to obtain a bank loan may be excessively prohibitive even though the actual interest payments of such a loan may be substantially lower than the interest in the IFS. The transaction cost may be implicit or "hidden", involving socio-economic 3/ and even psychological elements, apart from the normal travelling costs between his house and bank. As this criterion involves a fair amount of subjective judgement on the transactions cost, such yardstick can be rather biased.

Professional economists, on the other hand, prefer the use of the potential lending costs incurred by credit suppliers at the time of granting the loans as a yardstick to measure the "usury" or the "monopoly profit". This methodology was developed originally by Bottomley to refute the argument that moneylenders in the IFS extract a large portion of interest payments as monopoly profit through their monopolistic - monopsonistic powers (for the interesting debate on this issue, read Wharton, 1962; Chandavakar, 1965; Bhaduri, 1977; Bottomley, July 1963, November 1963, May 1964, November 1964, 195, 1971 and 1975; and Long, 1968). Empirical evidence conducted by Bottomley and Long in the LDC seem to indicate that the element of monopoly profit constitutes only a small portion of the total lending costs, thus refuting the hypothesis that moneylenders in the IFS are "exploitative". According to this methodology, the cost components include basically the opportunity cost of funds, the administrative cost, the risk premium and the residual cost component as the monopoly profit.

Empirical evidence from the SEACEN countries on this lending cost studies are few and the findings are still inconlusive. In a study conducted by R.J.G. Wells in the Muda River Irrigation Scheme in Kedah, Malaysia, the empirical result on the cost structure of informal lenders in the rural areas indicates that the monopoly profit extracted by moneylenders constitutes

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3/ Including possible corruption money paid to bank officers to obtain bank loans as well as the furnishing of collateral securities and guarantee to apply for a small loan.

only 6 per cent at the maximum. For those loans obtained from rice millers, relatives and friends, the interest rates charged were significantly below the actual lending cost incurred (See Table 11). R.J.G. Wells therefore concluded that "... there is little evidence of monopolistic - monopsonistic exploitation in the rural credit market..." (R.J.G. Wells, 1980).

The empirical evidence from the Philippines on the same type of study, however, showed a different picture. As indicated by a study on the informal financial markets in three selected provinces in the Philippines conducted by the Technical Board for Agricultural Credit in 1978, the monopoly profit element constituted only 3.6 per cent of the total annual interest rate charged at the time of granting loans by the informal lenders. As most of the informal moneylenders were able to reduce their risks by lending only to their acquaintances within certain localities, their actual profit extracted at the time of loan repayment turned out to be as high as 33.44 per cent. Slightly more than two-thirds of the total number of loans carried interest rates higher than this actual lending costs at the time of loan repayments (See Table 12).

However, the empirical evidence derived from the Bottomley approach is not without any weakness. The most obvious one is the artificial separation of various components of cost structure in the IFS. Secondly, the same approach has deliberately ignored the intricate relationship among the four cost components. For instance, the monopolistic - monopsonistic powers of the moneylenders may have overwhelming influence on the determination of risk premium and monopoly profit. Moreover, the Bottomley approach does not take into account the interdependent relationship between interest rates and its components. For instance, the high interest rate is partly due to the high risk premium arising from potentially high default rate of the borrowers. It is equally true that the high default rate is also a positive function of high interest rate (Bhaduri, 1977). Lastly, the Bottomley approach is a partial equilibrium analysis, ignoring totally the determinants from the demand side.

As in other LDC, the SEACEN countries do not have consistent data to provide evidence that over time, interest rates in the IFS are on the declining trend. However, indications are that interest rates in the IFS declined generally in most of the LDC over the period 1950 to 1972 (U Tun Wai, 1977). The intrusion of institutional credit in the rural area, the rapid monetisation and the financial deepening in LDC were the three major contributory factors for the erosion of IFS, hence the decline of interest rates in this market. Data from the SEACEN countries as shown in Table 13, however, does not indicate such a discernibly declining trend as in other LDC. Only Malaysia did indicate a distinctly declining trend in interest rates in the IFS. Most of the SEACEN countries showed a general increase in the nominal rates of interest. It is observed that with the increase of inflation especially in 1970s, the real rates of interest in the IFS were expected to decline appreciably over time.

Some Observations and Conclusion

In the last two decades or so, the SEACEN countries have implemented several measures to contain activities of the IFS and promote simultaneously their financial development. These measures include the setting up of development finance institutions, the promotion of co-operative movement, the implementation of supervised credit programme and seed-fertiliser revolution, as well as the imposition of regulations and controls to restrict the activities of the IFS. Despite all these efforts, the IFS continues to exist and even stages a comeback in the rural areas. In the towns and cities, the IFS activities also become more rampant in recent years threatening in some cases, the traditional ambit of banking business belonging to the formal financial institutions.

Several studies on the IFS have indicated that the conspicuous presence of IFS reflects essentially the increase in effective demand for the IFS services, and also the inadequacies of the formal financial institutions to fulfill their clients' needs. More importantly, the IFS has certain peculiar attributes which appeal generally to its customers but can hardly be emulated by the formal financial institutions. Among these attributes, the most prominent are the following:

(a) Easy to approach, and readily accessible at any time and any place;

(b) Informal arrangement and no paper work;

(c) Interlocking factors and close interlink with input, credit and product markets;

(d) Mutual trust, normally verbal pledge with less emphasis on collateral securities.

(e) Low transactions costs to the borrowers;

(f) Outright disbursement of loans to meet urgent needs;

(g) Provision of consumption loans; and

(h) Provision of investment opportunities to earn higher rates of return.

With these attributes, the IFS performs various important economic functions which cannot be easily replaced by the formal financial institutions. More often than not, the IFS plays a complementary role to the formal financial institutions in extending multifarious financial services to the small borrowers.

In recent years, there have been significant changes in the structure of the IFS in the SEACEN countries. These structural changes arise mainly from the impact of technological change in the agricultural sector, the emergence of numerous formal financial institutions, the rapid pace of urbanisation as well as the experience of inflation in the 1970s and early 1980s. Against this background, the IFS has underwent several structural changes which might have serious implications on the financial development in the region.

Of these changes, the impact of technological change through the planting of high-yielding seeds, the rapid pace of mechanisation and the implementation of double to triple cropping exert a profound change in the structure of the IFS in most of the SEACEN countries. These technological changes were carried out under various supervised credit programmes such as the BIMAS programme in Indonesia, the Short-term Padi Production Credit Scheme in Malaysia and the Masagana 99 in the Philippines. The immediate impact of these supervised credit programmes was the dampening of IFS activities in providing rural credit to the farmers. Almost all the new increase in demand for production credit was readily met by the supervised credit programmes at low interest rates. This provided a direct competition to the IFS.

In the face of such competition, the informal lenders had to confine their financial activities in extending mostly consumption loans which were not covered in the supervised credit programmes. The overall share of the IFS as a source of rural credit was subsequently reduced during this period.

The introduction of double to triple cropping in rice farming also reduced the demand for consumption credit through shortening of gestation periods as well as increases in farm incomes. However, the success story of the supervised credit programmes was shortlived. By mid 1970s, the problem of high deliquencies in loan repayments began to surface. This setback was followed by a significant drop in the number of participants in the supervised credit programme as most of the borrowers especially the smaller ones became disqualified for new credit for they were not able to repay their overdue loans. The informal lenders especially the new comers took the opportunity to provide these drop-out both their production and consumption credit needs. The IFS has, in fact, staged a comeback in the beginning of the 1980s.

The introduction of new technology also brought about changes in the composition of informal lenders. Prior to 1960s, the professional moneylenders, landlords, provision shops and friends and relatives provided the major source of farm credit in the rural area. With the technological change and the rapid pace of commercialisation, this group of moneylenders with the exception of storeowners, became less important as a source of farm credit. As the technological change involved heavily the injection of agricultural inputs such as high-yielding seeds and fertilisers, the input dealers finally emerged as an important group of moneylenders in the IFS. Crop buyers especially retail storeowners also strengthened their position as moneylenders. The underlying factor which brought about the prominence of input dealers and crop buyers as the major moneylenders is the interlocking relationship among the input market, the credit market and the product market.

Another recent development is the emergence of ROSCA as a significant source of business finance in a number of SEACEN countries. This is particularly so in Thailand, Malaysia, Singapore and Indonesia. The striking features of this type of organisations are that: a) it provides a ready source of finance for business working capital through the mean of self help; b) it provides an investment avenue to small-time investors who may arbitrage among various ROSCA to earn higher rates of returns; and c) it provides a more disciplinary way of saving habit which is induced basically by the higher rates of return compared to deposit rates offered by formal financial institutions.

These ROSCA are mainly set up for the purpose of financing short-term working capital rather than long-term investment. Their emergence was due partly to the businessmen's failure to furnish adequate collateral securities in loan applications from formal financial institutions.

Over the last two decades or so, friends and relatives are becoming less of a reliable source of credit in both rural and urban areas. Apart from the monetisation and commercialisation process, the mushrooming of formal credit institutions to provide deposit facilities have attracted people to place deposits with these institutions to earn interest, rather than lying idle or lending to friends and relatives. The bitter experience of inflation in the 1970s also alerted people not to hoard money or lend to friends and relatives at no interest. In view of this development, people organised themselves into numerous personal ROSCA to meet their multipurpose credit needs.

Despite several changes that have occurred in the financial system in general and IFS in particular, interest rates in the IFS in the SEACEN countries over a period of two decades or so did not show a distinctly declining trend and instead, exhibited a downward rigidity in the movement of interest rates. This finding is in direct contrast to the empirical evidence put forward by U Tun Wai (Wai, 1977). The persistence of high interest rates reflects a generally high demand for such type of informal credit and also general inaccessibility to formal credit without incurring prohibitive transactions costs such as furnishing of adequate collateral securities. The relatively high interest rates charged also reflect the conscious effort by informal lenders to cushion off future inflationary effect.

In the light of the above developments, the SEACEN governments may have to design a new strategy to deal with the IFS. As indicated earlier, the interlocking of funds between the IFS and the formal financial sector, and also within the IFS itself is bound to have serious implications on the long-term stability of the financial system. The immediate concern of the central banks and monetary authorities in this connection is the increasingly complicated task of supervision and the general protection of depositors. Of equal significance is the possible diluting effect of these IFS activities on the efficacy of monetary policy. On the longer run, the persistence of IFS may even deter or delay the process of monetisation and financial deepening of a country. The central bank and monetary authorities in their efforts to prommote financial development might have to take the IFS into consideration. In this respect, the issue as to replace the IFS with the development of more formal financial institutions or to further develop the existing IFS to play a complementary role in the financial system merits in-depth study especially in the context of political, economic and social environment.

Table 1

SHARES OF FORMAL AND INFORMAL
CREDIT TO THE RURAL SECTOR IN SELECTED
SEACEN COUNTRIES

(Per Cent)

	Formal Sources	Informal Sources
Nepal (1982) a/	42.9	57.1
Philippines (1978) b/	32.0	68.0
Sri Lanka (1981/82) c/	40.0	60.0
Thailand (1972/73) d/	47.5	52.5
Malaysia (1979) e/	25.0	75.0

Sources:

a/ Nepal Rastra Bank, An Evaluation Study of Small Farmers Development Projects of Nepal, 1982.

b/ Technical Board for Agricultural Credit, A Study on the Informal Rural Financial Markets in Three Selected Provinces of the Philippines, 1981.

c/ Central Bank of Ceylon, Consumer Finance Survey Report.

d/ Bank of Thailand, Task Force on Agricultural Development

e/ R.J.G. Wells, "The Informal Rural Credit Market in Peninsular Malaysia."

Table 2

FINANCIAL DEEPENING IN SRI LANKA

(Per Cent)

Indicators	1950	1960	1970	1980
Marginal Rate of Financialisation of National Wealth 1/	1	2	8	27
Financial Intermediation Ratio 2/	46	63	64	85

1/ Defined as change in financial assets over GDP.

2/ Defined as gross credit over expenditure.

Source:

Computed by Dr. A.G. Karunasena of the Central Bank of Ceylon.

Table 3

THE PHILIPPINES: SHARE OF INFORMAL LOANS TO TOTAL VALUE OF LOANS OBTAINED BY FARM HOUSEHOLDS, VARIOUS YEARS, VARIOUS SURVEYS
(In Percent of Total Value of Loans)

Reference Year of Study	Survey Area	Farm Types	Formal	Informal
1950s				
1. 1957/58	Munoz, N. Ecija	Rice	25	75
2. 1957/58	27 municipalities 8 provinces	Rice, Tobacco	20	80
1960s				
3. 1960/61	Philippines	All types, majority rice	45	55
4. 1965/66	Central Luzon	Rice	57	43
5. 1966/67	Philippines	Rice	37	63
6. 1968/69	Philippines	Rice	42	54
1970s				
7. 1970/71	Philippines	Rice	53	47
8. 1971/72	Philippines	Rice	46	54
9. 1973	Central Luzon	Rice	64	36
10. 1976	Laguna	Rice	67	33
11. 1976a/	N. Ecija, Laguna Camarines Sur, Lloilo, Surigao del Norte	Rice, Coconut, Others	69	31
12. 1977a/	- do -	- do -	46	54
13. 1978a/	- do -	- do -	46	54
14. 1978	Bulacan, Camarines Sur Isabela	Rice	32	68

a/ Study covered 127 farmer-respondents who participated in BAEcon's daily farm record-keeping project continuously for 3 years, 1976 to 1978.

Source: Agabin, Meliza H., Informal Financial Market in the Countryside, Manila, Central Bank of the Philippines, 1983, pp.12.

Table 4

SOURCES OF INFORMAL RURAL
CREDIT IN SELECTED SEACEN COUNTRIES

(As a percentage to total informal rural credits)

	Thailand a/ 1972/73	Sri Lanka b/ 1969	Philippines c/ 1978	Nepal d/ 1969/70	Malaysia e/ 1979
Professional Moneylenders	8.0	14.7	0.6	2.1	3.3
Semi-professional Moneylenders	42.5	45.7	79.5	64.2	70.0
Friends and relatives	45.1	34.4	19.9	32.5	10.0
Others	4.4	5.2	-	1.2	16.7
Total	100.0	100.0	100.0	100.0	100.0

Sources:

a/ Bank of Thailand, Task Force on Agricultural Credit Development.

b/ Central Bank of Ceylon, Survey of Rural Credit and Indebtedness, 1969.

c/ Technical Board for Agricultural Credit, 1981.

d/ Agricultural Credit Survey, Nepal.

e/ R.J.G. Wells, "The Informal Rural Credit Market in Peninsular Malaysia".

Table 5

MAJOR SOURCES OF INFORMAL CREDIT
IN THE URBAN AREAS IN THE SEACEN REGION

1. Professional moneylenders
2. Semi-professional moneylenders
    a) Compradores
    b) Bank officers
    c) Merchants
    d) Retail traders
    e) Housewives
3. Chit funds and pyramid schemes
4. Licensed financial institutions
5. Pawnshops
6. Rotating Savings and Credit Associations
7. Friends and relatives

Table 6

ROTATING SAVINGS AND CREDIT ASSOCIATIONS
IN THE SEACEN COUNTRIES

Countries	Name
Indonesia	Arisan
Malaysia	Tontine Hui 1/ Kuthu
Philippines	Paluwagan
Singapore	Tontine Hui 1/ Kuthu
Sri Lanka	Cheetu
Thailand	Pia huey 1/ Len chaer

1/ "Hui" or "Huey" is a general term for ROSCA in Chinese. The most common types are "Lun-hui" (輪会), "Pia huey" (标会), and "Yao-hui" (摇会). Less common varieties include "Large Head-Small Tail" (大头细尾), "Equal Shares" (平头平尾), "Dragon's Head" (龍头会) and "Tu Kan" (都幹). See Gamba, 1958.

Table 7

CHARACTERISTICS OF "PIA HUEY" IN THAILAND

	All Firms No.	%	By tender %	By drawing %	By rotation1/ %
Big industry	-	-	-	-	-
Medium industry	127	100	85.0	11.8	3.2
Small industry	1800	100	97.2	1.4	1.4
Wholesale	200	100	100.0	-	-
Big retail & service	2450	100	100.0	-	-
Small retail & service	13750	100	81.8	18.2	-
Luxury service establishment	50	100	100.0	-	-
Total	18377	100	86.0	13.8	0.2

1/ Include two medium industry firms using methods other than mentioned in the table.

Source: Urban Credit Survey conducted principally by Bank of Thailand under the supervision of Rozental, 1970.

Table 8

UTILISATION OF RURAL CREDIT IN SELECTED SEACEN COUNTRIES1/
(Per cent of the total borrowings)

	Malaysia 1980	Nepal 1982	Sri Lanka 1976	Philippines 1978
Farm production	72.2	59.6	55.9	74.1
Operating expenses	(64.6)	(8.3)	(53.1)	(72.4)
Capital investment	(7.6)	(51.3)	(2.8)	(1.7)
Consumption	19.9	25.1	25.2	25.9
Non-farm activities2/	1.0)	15.3	11.4	...
Other3/	6.9)		7.5	...
Total	100.0	100.0	100.0	100.0

1/ A significant portion of the rural credit were obtained from informal source.

2/ Refer mainly to business activities in trade and industry.

3/ Refers mainly to housing construction, repair of houses and settlement of debts.

Sources: a) R.J.G. Wells, "The Informal Rural Credit Market in Peninsular Malaysia".

b) Nepal Rastra Bank, An Evaluation Study of Small Farmers Development Projects of Nepal, 1982.

c) N. Sanderatne, "A Profile of the Informal Rural Credit Market in the Mid-Seventies".

d) Technical Board for Agricultural Credit, A Study on the Informal Rural Financial Markets in Three Selected Provinces of the Philippines, 1981.

Table 9

IFS IN THE URBAN AREAS IN THAILAND

Types of Markets	Supply	Demand	Interest Rate (% p.a.)
"Penumbra" of commercial banks	Compradores, bank officers, branch managers agency partners	Businessmen	18-24
Wholesalers	Landlords, rich merchants, highly placed individuals	Traders	24-36
Trade credit	Foreign exporters large corporations and others	Manufacturers	12-48
Rotating credit societies	Members	Members	36-60
Retailers	Individuals (often wives of officials and traders)	Small businessmen	60-120
Small loans	"Unofficial" pawnshops, gold shops, night watchmen	Households	120 and over

Source: A. Rozental, Finance and Development in Thailand, 1970.

Table 10

LOAN TERMS OF INFORMAL LENDERS IN
THE RURAL CREDIT MARKET IN MALAYSIA

Types of informal lenders	Range of nominal interest rates (%)	Average nominal interest (%)	Collateral
Pawnshop	0-100	14.07	Gold and jewellery
Shopkeeper	0-140	16.38	Unsecured, land title, buffalo, licence, or forward sale
Moneylender	0-83	27.44	Unsecured
Rice-miller	0-40	11.74	Forward sale
Relatives	0-60	4.62	Unsecured
Friends	0-50	6.84	Unsecured

Source: R.J.G. Wells, "The informal credit market in Peninsular Malaysia," 1980.

Table 11

LENDING COST STRUCTURE OF INFORMAL
RURAL LENDERS IN MALAYSIA (%)

Lender	Opportunity Cost 1	Average Administrative Cost 2	Risk Premium 3	Monopoly Profit 4	Weighted Average Interest Rate 1+2+3+4=5
Pawnshops	7	3	2.64	1.43	14.07
Shopkeepers	7	3	2.64	3.74	16.38
Moneylenders	7	3	11.40	6.04	27.44
Rice millers	7	3	5.30	-3.56	11.74
Relatives	7	2	5.40	-9.78	4.62
Friends	7	2	5.40	-7.56	6.84

Source: R.J.G. Wells, "The informal rural credit market in Peninsular Malaysia," 1980.

Table 12

THE PHILIPPINES: INTEREST RATE COMPONENTS OF INFORMAL LOANS AND THE EXTENT OF "USURIOUS" LENDING

	At the time of granting loan	At the time of loand repayment
	per cent per annum	
Administrative	3.47	4.12
Risk premium	14.56	2.97
Opportunity cost	15.00	15.00
	-----	-----
Total cost	33.03	22.09
	-----	-----
Annual interest rate	36.63	55.53
Extra profit	3.60	33.44

	Per cent of number of total loans (1,260)
1. In excess of legal rate	72.0
2. In excess of actual lending cost (22.1%)	67.9
3. In excess of anticipated cost (36.6%)	57.9
4. In excess of borrowing cost with banks (34%)	60.0

Source: Technical Board for Agricultural Credit, 1981.

Table 13

INTEREST RATES IN THE IFS IN
SELECTED SEACEN COUNTRIES

(Per cent per annum)

Country	Interest Rate
Malaysia	
1968 (mode)	24-36
1979 (weighted average)	4.62-27.44
Nepal	
1969-71 (mode)	25
1982 (range)	10-150
Philippines	
1954-55 (mode)	25-30
1969-70 (mode)	5-14
1978 (mean)	0-96
Sri Lanka	
1969 (weighted average)	26
1976 (weighted average)	27.28
Thailand	
1962-63 (mode)	22-35
1970 (mean)	21.6-42
1984 (mean)	13.3-75.0

Source: Wai, "A Revisit to Interest Rates Outside the Organised Money Markets of Underdeveloped Countries" and sources cited earlier.

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THE SEACEN CENTRE

The SEACEN Research and Training Centre was set up by the South-East Asian Central Banks (SEACEN) comprising the Union of Burma Bank, Bank Indonesia, Bank Negara Malaysia, Nepal Rastra Bank, the Central Bank of the Philippines, the Monetary Authority of Singapore, the Central Bank of Ceylon and the Bank of Thailand.

The basic objective of the SEACEN Centre is to promote closer collaboration and better understanding among member central banks and monetary authorities by undertaking research activities, conducting training courses and organising seminars and meetings.

Research activities of the SEACEN Centre are undertaken to have a better understanding of the monetary, foreign exchange, fiscal and other economic issues and developments affecting the member countries.

Training courses are conducted to provide an opportunity for officials of the member central banks and monetary authorities to acquire, refresh and expand their knowledge of the basic concepts and techniques necessary in the performance of their tasks as well as to widen their understanding of the issues related to policy formulation and implementation.

Seminars and meetings are organised to provide a regional forum for exchange of views and experience on selected aspects of central banking from the operational and policy standpoint.

Although the SEACEN Centre acquired its formal legal status only in 1982 when it was registered as a corporation in Malaysia and agreements to that effect were signed by the Governors and Managing Director of the member central banks and monetary authorities, collaborative efforts started as early as 1972. These undertakings initially consisted of training courses and eventually expanded to research activities and holding of seminars and meetings.