

# INDIGENOUS AFRICAN INSTITUTIONS AND ECONOMIC DEVELOPMENT

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## Introduction

In the attempt to establish institutions which foster economic development in the third world, economists often look to the West as a model. This indeed has been the case in Ghana, West Africa. In Ghana's urban centers, the large buildings which house Barclay's Bank, Standard Charter Bank, and Ghana Commercial Bank loom over the traditional market stalls and street traders. This sight might be heartening to those who recognize third world entrepreneurs' limited access to capital as the primary constraint in advancing economic development. Indeed, these institutions play an important role in financing large scale industry and high volume import and export exchange. But this is only a small proportion of market activity in Ghana. The majority of business people never enter the doors of such institutions.

The most striking feature of West African markets is the overwhelming proportion of female traders. While a few items will traditionally be sold by men, most of the trading activity is conducted by women. For example, the United Nations Development Fund estimates that 80 percent of all food production, processing, and marketing in West Africa is carried out by women. While limited access to capital is of general concern to development theorists, the limits facing female entrepreneurs are considered to be particularly severe (Simms 1981). The presence of formal Western-style credit institutions has done little to alter the situation.

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The observations presented here are three-fold. First, the reasons why Western-type credit institutions have not reached the average West African entrepreneur will be explored. It will be argued that formal banking procedures have evolved to fit a Western cultural context and cannot be expected to fill the same role in the West African context. Second, indigenous credit and mutual assistance institutions which could potentially fulfill this role will be identified. Such institutions will be shown to reflect the cultural context in which they emerged, and how they in turn can accommodate specific credit needs. Third, the obstacles facing such indigenous institutions will be identified, with the purpose of suggesting shifts in policy. The analysis presented here is primarily based on findings from interviews of 49 market women conducted in the central markets of Accra and Kumasi, two prominent trading centers in Ghana, and the smaller market Madina, which is outside of Accra.<sup>1</sup>

## Western Credit Institutions and the Local Entrepreneur

Recognizing the inability of Western credit institutions to reach the small entrepreneur is not to suggest a case of market failure or that such institutions were not as important a part of Western economic development as we had thought. Rather, these institutions are quite successful when operating within a specific cultural context. While it is easy to recognize the impact a certain cultural context has in general, the fact that formal Western institutions also emerge out of and reflect a particular culture is often lost, when analyzing third world institutions.

Western or Western-type financial institutions have emerged in a setting where the entrepreneurs are for the most part educated, literate, and male (so entrepreneurs are not at risk of being locked out of the process simply for the reason of gender). Entrepreneurs demonstrate their credit worthiness with a documented credit history, and the cultural setting she lives in supports this method of accountability with rules of record keeping and documentation. Thus, it is not surprising that institutions which have emerged in this context are not successful in providing financial services to the bulk of the population in the West African context, given that small entrepreneurs are for the most part illiterate women, the least educated members of society. It is a matter both of the small business person not

<sup>1</sup>In Accra, interviews consisted of 15 street vendors, 12 stall traders, and 9 lock-up shop traders. In Kumasi, interviews consisted of 4 street vendors, 3 stall traders, and 3 lock-up shop traders. In Madina, 3 stall traders were interviewed.

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accepting the practices of the formal banking institutions as well as the formal banking institutions not having much interest in reaching out to this section of the market. In short, it is simply too costly for the formal institutions to offer lending services to the small entrepreneur.

Market women are not likely to be familiar with complicated bank procedures, particularly the written forms. Many women, even in the urban markets speak only their local language and not the official language, English. For the banks' part, the only gauge of credit worthiness of potential borrowers is to require a long term savings account. The majority of market women could scarcely dream of acquiring the sum needed for an initial deposit (Lycette 1985). This is not to say that a credit history does not exist, rather that the formal institutions have no way of acquiring this information, as it is embedded within the kinship and "sororital" alliances. Even if they are able to establish a savings account, any loan amount for which they would be eligible would not be worth the bank's time to process and administer. Having evolved in a Western context, formal banking institutions have developed a corporate culture and a system of rules into which Ghanaian market women simply do not fit.

### Indigenous Solutions to Acquiring Credit

Indigenous financial arrangements provide an alternative to the formal banking system. The potential of these alternative arrangements is not widely considered to be promising, however, given that the amount of credit most often extended is no more than a few dollars (Robertson 1984). Yet, there are still reasons not to dismiss the indigenous arrangements out of hand. First, we must recognize that the bulk of investment activity is financed through indigenous arrangements and not the formal banking institutions. Thus, even if the indigenous sector faces strict constraints, they are nevertheless serving a valued function in the market that is not met elsewhere. Secondly, it is not necessarily the case that larger loans are needed. The relative success of development programs such as the micro-loans project in Bangladesh and other areas indicate that small loans of just a few dollars can make a substantial difference. Thirdly, to the extent that the indigenous arrangements are stunted, it is often the result of state regulation and restrictions on trade. Thus, an investigation into the operations of indigenous financial solutions will help us identify which regulatory practices cause the most disruption to their ability to function.

The size, scope, and function of indigenous credit and mutual assistance societies will first be detailed, indicating the essential

features for their proper functioning. Then, the major obstacles attenuating the progress such societies might deliver will be discussed. Lastly, the relevant institutional and policy shifts which ought to be considered if the indigenous solutions are to provide the maximum possible benefits will be addressed.

Women's associations vary in size, scope and function. Such societies are traditionally based in kinship and tribal structures. It might be said that migration both into the city by those from the rural areas, and out of the city to the suburban areas has caused irreparable damage to the kinship and tribal systems such that they can no longer perform the advisory and credit functions to the degree that they once did. But to the extent that these structures provide less support for those in the urban environment, other culturally based support systems are evolving to fill the void.

Christian churches, particularly in Accra, provide another layer of community involvement. Almost all the Christian church organizations provide some form of mutual aid on a regular basis. Many also play an advisory role for traders looking to expand their business.<sup>2</sup> Some even provide an opportunity to acquire credit through church programs specifically designed to start people in business. Thus, to the extent that the ability for kinship and tribal structures to provide these services is faltering in the urban areas, the religious institutions are stepping in with similar services of their own. As Western religious institutions replace traditional forms, they have had to adapt and expand their role in the new context. Specifically, they have had to take on at least some of the functions previously performed by traditional structures.

The second important support system that is filling the void left by the decline of tribal and kinship structures in the urban areas is the formation of female societies which cut across tribal and kinship lines. These can range from small clusters of 3 to 5 women who trade near one another on the street to the elaborate trade organizations of several hundred women in the established markets. Inclusion in the clusters or organizations is not solely determined by tribal affiliation or kinship ties, (though these are still important when they exist). Successful face to face interaction which is repeated daily engenders the trust necessary for the formation of close bonds. Physical proximity allows traders in a specific area to observe one another's

<sup>2</sup>Of the 25 women who were asked about their religious affiliation, 4 were Muslim, 2 were agnostic, and the rest were Christian. Among the Christians, 14 different churches were represented. Of those, only the Assemblies of God, Central Gospel Church, and Deeper Life Ministries did not offer mutual assistance for funerals, births and marriages. All but the Anglican Church and the Central Gospel Church offered regular opportunities to receive business advice.

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behavior, as well as establish a reputation for themselves. The question arises: can we not then speak of these clusters or organizations of women as a *culturally* based phenomenon? In other words, does gender constitute a cultural structure as, for instance, tribal affiliation does?

The answer is "yes" when we recognize that in the West African context, gender itself provides the basis for cultural specificity. West African women indeed have a culture distinct from that of West African men. The same is the case for children in the West. Deborah Tannen's (1990) work demonstrates that same-sex play groups during childhood lead boys and girls to develop distinct cultures from one another, and this explains many of the systematic differences between the ways in which adult men and women relate to one another. Tannen's argument is that as children establish same sex peer groups, boys and girls develop separate language patterns. Besides communication, male peer groups use language to establish status, or hierarchical relationships. Female peer groups, on the other hand, use language to establish connection, or more lateral relationships. As these different language patterns develop, so do distinct cultures. As Western children enter into adulthood, the male-female relationship tends to replace the same sex peer group as the primary relationship. Yet each retains the behavioral and linguistic patterns learned as children. Thus, communication between men and women is essentially cross cultural communication.

Given that this is the case in the West, consider the importance a female specific culture is likely to play in the traditional West African context. The conjugal unit, while not incidental, rarely replaces gender specific groupings as the primary relationship. The mother-daughter relationship, for instance, plays a primary role throughout a woman's life, even as the daughter marries. The strict division of labor across gender perpetuates the importance of same sex peer groups into adulthood as women work side by side with one another. The traditional role female cooperation plays in production, child rearing and the enforcement of social norms (Sudarkasa 1981, Wipper 1984) also perpetuates the influence of a gender specific culture into adulthood. The most dramatic instance lies in the traditional compound system which separates living quarters for men and women (Robertson 1984).

Most of the market women, particularly those at the more marginal levels of operation exhibit a strong sense of camaraderie with the women who trade in their immediate area. The traders form themselves into close-knit groupings, or clusters, sometimes as small as three to five women. These connections serve a vital economic function of mutual support. Even direct competitors will sell for one

another in the case of sickness. Most traders are socially, as well as financially linked with other traders.

Anthony Kronman (1985) describes this method of reciprocal behavior as "union," whereby individuals seek to "reduce divergence (of interests) by promoting a spirit of identification or fellow-feeling between the parties. . ." (Kronman 1985: 21). As opposed to other arrangements designed to combat opportunism, "union" does not assume opposition of interests. Rather "[union] seeks to eliminate the condition of separateness that makes the opposition of interests possible in the first place" (Kronman 1985: 22). Thus, casual chat, gossip, and in-depth discussions which involve traders in one another's lives serve more than just a social function, but are also an important prerequisite for securing mutually supportive financial relationships.

Robert Axelrod (1981) describes how a high probability of repeated interaction generates cooperation under conditions where (1) there is no sanction for breaking the rules of cooperation, (2) there is no way to gauge the behavior of other players outside of the game, and (3) there is no way to change the other players' utility function. While Axelrod's analysis is internally consistent, it is not as applicable to the specific case of West African market women as Kronman's "union." First, West African market women do indeed have sanctions for breaking the rules of a credit society. Indigenous arbitration methods (discussed below) and the threat of ostracization are time honored methods of minimizing such opportunistic behavior when it does occur.

Second, the ability of traders to gauge one another's behavior in their day to day trading activities is a vitally important source of information. Simply bumping into another trader day after day is not enough to ensure a successful cooperative link. Trust, of which repeated interaction is only a part, must also be established. Trust involves careful assessment of another's character, not simply calculating the probability of seeing the same person again. A trader may faithfully return to the market day after day, but if she is frequently rude to her customers, is a spendthrift, or is drunk on a regular basis, other traders are not likely to see her as a good risk. The repeated interaction enables this assessment, but by no means constitutes trust in and of itself. Third, Axelrod's condition that the players cannot interact outside of the game, or in other words, cannot influence the feelings one has for the other, is clearly not applicable in this case. The bonds of friendship are paramount in establishing the financial support networks.<sup>3</sup>

<sup>3</sup>Klein and Leffler's (1981) discussion concerning the role advertising (or investment

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Women at the upper end of the scale who have been financed by their husbands, however, often do not show as much interest in joining together with other women. One relatively prosperous batik trader refused to take part in any of the trade or credit associations. In fact, she reported that she did not gossip or go out of her way to be sociable with the neighboring traders. She resented the thought that illiterate women would try to tell her how to run a business. She thought that the associations were more for the illiterate traders, not for someone as well educated as she. This woman's business was financed, however, by her husband who held a prominent civil service position. Further, the fact that her husband was able to buy a large house gave her the opportunity to produce the batik herself as the process requires a large protected space. This gives further indication that the female camaraderie plays more than just a social role, but serves a financial function of which relatively wealthy women need less.<sup>4</sup>

### *Hawkers (Street Vendors)*

The smallest forms of indigenous credit and mutual assistance occur among clusters of women who sell in the same area. Such clusters will gather to engage in group "susu." Members of a group susu association make either daily or weekly contributions to a common pot. The pot is then distributed to members in turn, usually on a monthly basis.<sup>5</sup> These arrangements can be on-going or for specific purposes. Engaging in group susu has the advantage over saving with a "susu man" as he charges a commission of one day's savings per month. Further, depending on the rules the group wishes to follow, the women who receive the pot first have a source of free credit.

While the susu arrangement offers a financial resource, credit can also come in the form of goods. Women who have lost their capital will often rely on friends to advance them produce or other goods

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in one's reputation) plays in the success of contractual performance is also illuminating here. According to Klein and Leffler, such investment is like posting a bond, signaling a credible commitment to fulfilling the contract. Kronman's "union" still seems more applicable, however, in the case of West African market women, given the emphasis placed on shared interests in the "sororital" order.

<sup>4</sup>Fifteen out of the 18 stall traders interviewed (about 83 percent) belonged to trading associations, whereas only 5 out of 12 (about 42 percent) of the more prosperous lock-up shop operators belonged.

<sup>5</sup>Hawkers who have no fixed trading position tend to save anywhere from C200-C500 (\$.47- \$1.18) per week. Thus, if there are four members in the group, each will receive C300-C2000 (\$1.88-\$4.71) once a month. See Little (1965) and Little (1973) for details of rotating credit associations in other areas.

for which they will pay at the end of the day or the week. One woman who lost her capital through fines levied by the city council helps her friend sell rice in return for a small sum at the end of the day. This amounts to a transfer, as there is no benefit to the rice seller for “hiring” her friend, yet the ethic of mutual support is reinforced so that the rice seller could rely upon similar support if such a situation were to befall her. Besides financial support, this arrangement also affords the opportunity for the woman who has lost her capital to maintain her position in the peer group, so that when she is able to secure her own goods for sale, she will be able to ease back into the market culture.

Generally, among street vendors, there is little opportunity to belong to an on-going mutual assistance society,<sup>6</sup> as they do not have the financial capital necessary to make regular contributions, but the “hat will be passed” as needed to aid friends who have given birth, are getting married, or who must provide funeral arrangements for a family member.

Since trading on the street is officially illegal, a system of *de facto* property rights has emerged on the sidewalk. As the city council guards make their way down the street, the hawkers pass an audible signal to alert each other to the guards’ presence. As if choreographed by Busby Berkeley himself, the traders hoist large trays of fruit, vegetables, fish, utensils, and other goods atop their heads. Women who sell goods too heavy to place on their heads need to secure a position close to the entrance of the established market. Once the signal is heard, she can quickly move her goods inside the market and lose the city guards in the maze of the market, (a maze far more familiar to women than the male guards). Many women “inherit” these positions in the market from their mother, an aunt, or a sister. When a position is well established, any woman who attempted to encroach upon this space would be harassed out of the spot by the surrounding women with a barrage of insults. This *de facto* property rights system enables larger groupings, as women can count on their peers returning to the same spot in the market.

Let me point out, however, that *de facto* property rights are not as efficient as full rights of ownership. Following Armen Alchian and Harold Demsetz’s (1973) identification of the essential elements of private ownership, *de facto* property rights fall short of the mark.

<sup>6</sup>Some women will still have such support within their home village. But access to such support would most likely require returning to the village, as much of the assistance is given in-kind rather than in cash. Women are reluctant to take advantage of this source of support if it means they must give up the independence and financial prospects the urban setting offers.

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Specifically, while *de facto* private property rights provide some level of stability and excludeability, the element of transferability is significantly stunted. Stability is maintained as long as a trader consistently returns to the same location. Further, neighbors will often exclude would-be interlopers from taking over a selling position in the case of the limited absence of another trader. But the efficient allocation of the resource depends on the ability of a trader to smoothly transfer it to another. While selling positions can be "handed down" from mother to daughter<sup>7</sup>, for example, generally, traders cannot sell the space to the highest bidder. Among her neighbors, a trader's legitimate claim to a selling position only holds as long as she maintains that position. Thus, while the *de facto* property rights system works remarkably well, it cannot guarantee the efficient allocation of resources.

Many women are fortunate enough to have established a contact with a store-front shop owner, with the agreement that the owner will allow the street vendor to hide in the shop when the city guards pass by. While there is an opportunity for side payments here, most women who have such a position acquired the favor through personal contacts. The lack of payment, however, should not be seen as a sign that such permission does not represent a valuable resource to the street vendors, as it enables them to engage in more substantial credit relationships, again, because of the decreased flight risk. Further, the stable position enhances profits as the trader is able to establish a regular clientele.

Among the hawkers who secure stable trading positions at the entrance of a store, the group *susu* societies grow from about 4 to about 12 members. The monthly pot for a four member group where each contributes C200 per week is C3,200 (\$7.53) while the monthly pot of a 12 member group with the same contribution is C9,600 (\$22.59). The annual return per member does not change as the size of the group grows, but the larger monthly pot will be more helpful in acquiring costly pieces of equipment or a move into selling a more lucrative product. Further, because of the combined effect of the reduced flight risk and the benefits of building a regular clientele, the contributions tend to increase among traders who have established trading positions. Thus, we see that a well established trading posi-

<sup>7</sup>This process happens over time. The mother, for instance, will begin by bringing her daughter to the market. The daughter will circulate goods on the street, returning to her mother's position for more supplies when needed. Eventually, the daughter may sit with her mother, establishing a rapport with the other traders. By the time the mother quits the market, the daughter has already established her legitimate claim to her mother's selling space.

tion translates into substantial financial gain when we consider the difference between a C9,600 (\$22.59) *per capita* annual return for a susu association with contributions of C200 per week, and a C28,800 (\$67.76) *per capita* annual return where the contributions increase to C600 per week. Below I will discuss some of the particular obstacles hawkers face in acquiring even more stable trading positions.

### *Market Stalls*

Credit and savings associations and mutual assistance societies take on a different character once inside the established market stalls. Though the market stalls officially belong to the city council, the *de facto* property right in the market stall allows for more complex credit and mutual assistance associations to develop. The number of participants in even the informal arrangements often increase to 20 or 30. The amount of contributions also increases, partly because these women have more money to save, but also because a woman is very unlikely to abandon a stall to avoid contributing to a group susu organization. Trust still plays an extremely important role here, as newcomers are not quickly included in such arrangements. A trader's behavior is carefully observed and her character closely assessed before she is given a chance to prove her trustworthiness. If she drinks too much or comes to the market late, her neighboring traders are likely to conclude that she will not last long in the market, and thus she is a risk to the rest of them if she were to be included in any financial arrangements.

Within the established markets, a separate trade association exists for almost every type of good sold. The functions performed generally do not include credit, though informal side arrangements are facilitated by the frequent contact made between members in the associations. They also serve a quasi-political function as grievances to the city council will be made through these organizations. They serve a regulatory function by reinforcing behavioral norms. Consistently rude or dishonest behavior can be met with termination from the association. In turn, the association provides financial security in the form of mutual assistance benefits for funerals, marriages and births. Health benefits are also often provided out of the fund of regular contributions. Membership within the association is not required, though it is particularly advantageous for those far from their home villages and separated from the family support system.

Though sometimes there are attempts made by a particular association to restrict the number of sellers and enforce cartel prices, these efforts have been largely unsuccessful. The general feeling in the market is that such anti-competitive behavior is not a legitimate role

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of the associations.<sup>8</sup> The hair stylists' association recently tried to prohibit any non-member from practicing inside Makola market in central Accra. The issue was brought before the market queen who ruled in favor of the hairstylists who wished not to be a part of the association.

The other major functions these associations fill are giving business advice to those having financial difficulty and providing arbitration services. Disputes between members of the same association can usually be handled internally. If the dispute involves traders of two different associations, the case can then be brought to the market queen.<sup>9</sup> Each major market chooses a market queen. Traditionally, the market queen is chosen by consensus. Through sustained face-to-face interaction in the market, the most trustworthy and experienced traders were easily identifiable. In the larger urban markets, there is the possibility for more than one choice, thus an election process has been implemented. The results are essentially the same, however. As long as a leader maintains the respect of the traders, a market queen is likely to serve many terms.<sup>10</sup>

### *Lock-up Shops*

The next level of market activity is the lock-up shops, concrete structures in which traders can leave their goods overnight. These

<sup>8</sup>Of the 30 women interviewed inside the established markets, 20 were members of a trading association. The traders who did belong were asked if their association regulated the prices they charged. Virtually all said that their association (16 represented in all) did not. Most traders indicated that they would quit the association if it attempted to put such controls on their business.

<sup>9</sup>Officially, the case could ultimately be appealed to the city council. According to Francis Eshun, the public relations officer of the Accra city council, these disputes are often simply "petty female squabbles" and the council is reluctant to become involved. If the city council must pass down a judgement, they generally support the decision of the market leaders so as to discourage future requests for intervention by the council. Though it is a misconception that these disputes and their resolution have no real economic consequences, it is on the other hand a fortuitous one. By endorsing a policy of staying out of "petty female squabbles," the integrity of the system of conflict resolution is not undermined by bureaucratic tinkering.

<sup>10</sup>There is also a market queen who presides over the collection of all the smaller markets in the urban areas. In Accra, this position has been held by a woman named Manan Lokko since the early 1950's. Since she is too old to come to the market every day, her role is primarily symbolic. However, she is an extremely important symbol, as is demonstrated by her ability to mobilize opposition to city policies. When the city council announced they were moving the market women away from the Rex Cinema, a central location in Accra, in order to start construction of new office space, the market queen was able to summon thousands of women to the steps of the city council. The administrators inside the city council reported many staff problems during this time, because all the workers in the office had some tie, either a sister, a mother, an aunt, or wife in the market, who was pressuring them to use their influence in the city council to stop the policy from being implemented.

women have all the options open to them for acquiring credit that the stall traders do, but will frequently have further opportunities for acquiring credit. Some cloth manufacturers, for example, put high volume traders in contact with one another, the hope being that by pooling their resources they will be able to purchase even larger quantities. This is also a way for the manufacturer to share the risk, and thereby grant more cloth on credit. If a member of the cluster is short on her share of a payment, the other members will cover it knowing that they may need the favor returned at some future time. These clusters often form the basis for expanded business ventures, and are a trusted source of business advice.

The capital needed by a trader to secure a lock-up shop is considerable. To be assigned use of the space, she must pay the city council C26,000 (\$61.18). She is also responsible for the construction of the structure itself, (a structure which still officially belongs to the city council even though she pays for its construction). A simple 8' x 12' concrete structure costs about C550,000 (\$1,294). In addition to this, she pays an annual rent to the city council of C20,000 (\$47).<sup>11</sup> If she has this kind of working capital, she is far more likely to be able to secure a loan through one of the official banking institutions. Once she is operating at this level, it is generally not a problem acquiring credit in this way. The problem is in reaching that level. The minimum savings and deposit requirements for starting and maintaining a savings account (the only way to prove one's credit worthiness to the official banking establishment) is a distant possibility for most traders in the market.<sup>12</sup>

## Impediments to Indigenous Institutions Fostering Economic Development

What is stopping the evolved indigenous institutions from fostering more economic development? In her study of Ivorian market

<sup>11</sup>Note that these figures do not include taxes, the magnitudes of which will depend on the particular good sold and the volume of trade. The operating taxes range from C40 per day (about \$.10) for small scale street vendors to C100,000 per year (\$235) for larger scale cloth sellers in lock-up shops.

<sup>12</sup>Both Standard Charter and Ghana Commercial Bank require an initial deposit of C10,000 (\$23.53) to open a saving account. They will not consider a loan for less than C100,000 (\$235). For a first time loan, they require cash collateral of half the amount of the loan, plus property or a guarantor. In addition, the borrower must insure the shop and goods such that the loan will be paid off in the event of extensive accidental damage or theft. Barclay's Bank requires a minimum initial deposit of C50,000 (\$118) to open a savings account and will not consider lending less than C1,000,000 (\$2,353). Again, the first time borrower must provide cash collateral of half the amount of the loan, plus property or a guarantor. Barclay's Bank requires the borrower to purchase life insurance in order to secure the loan. A policy for a healthy 30 year old will cost

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women, Barbara Lewis (1976) cites the erosion of tight kinship ties and particularly the individualist character of the market as the reasons for the decline of the rotating credit associations and indigenous mutual assistance societies. It seems unlikely, however, that after centuries of competitive markets, individualism is the cause of these relatively recent problems. She does not seriously consider the role government policies have played in stunting the effectiveness of indigenous arrangements of credit and mutual assistance, a line of inquiry essential to understanding the Ghanaian context. More than any other influence, state and municipal control of resources and market mechanisms has inhibited indigenous institutions from providing credit and mutual assistance and thus has retarded the development of the local economy.

### *Criminalizing Market Activity*

In 1979, Flight Lieutenant J.J. Rawlings staged a military coup to oust the corrupt head of state Acheampong. Rawlings promoted his regime with an anti-corruption campaign, ordering the incarceration (and sometimes death) of bureaucratic elites who hoarded consumer goods and dealt in political favors. The rhetoric of the military regime struck a popular chord with the average citizen who had been locked out of the system of privilege yet was spending more and more for basic requirements. Rather than seen as a reflection of perverse incentives introduced by the marketing board structure, the relatively high prices of corn, cassava, yam, and other basic items were unfortunately seen as part of the general graft and corruption.

In retaliation for selling above the state-controlled prices, the major markets of Accra were destroyed. In central Accra, government soldiers flattened Makola Market Number One with dynamite. Many women were beaten and publicly flogged, their heads shaven, and often imprisoned. This contributed considerably to the general decay of indigenous markets in the early 1980s, where even produce which grows abundantly in the Ghanaian climate could not be found for sale in the urban areas.<sup>13</sup>

For a short period, government control was turned over to civilian rule, but conditions did not improve, as the President Dr. Hilla Limann, retained the policy of stringent price controls. On December 31, 1981 Rawlings staged another coup, this time stepping up his

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around C150,000 (\$353). Barclay's Bank also requires potential borrowers to carry out the bulk of their transactions in the form of checks. Small entrepreneurs deal only in cash both when purchasing supplies as well as in accepting payments.

<sup>13</sup>Many women abandoned the urban areas to return to their rural villages, as subsistence farming was more lucrative than urban trade under such circumstances.

anti-capitalist rhetoric. Drawing on a mixture of dependency theory, anti-Westernism, and Nkrumah's neo-colonialism, Rawlings favored at least a partial withdrawal from the global economic system (Haynes 1989: 109). Never did Rawlings blame his own interventionist policies for the continued economic decline. Only in 1983, when he was in considerable danger of losing political control, did he grudgingly release the price controls as a condition of an IMF Economic Recovery Program (ERP). Since the controls were lifted, the local economy has slowly improved, but the experience has left deep scars.

Currently, the illegality of trading on the street is still a major barrier to the most marginal of all traders from accumulating the capital necessary to secure a market stall, cooking equipment, or any other means of expanding a business. While officially, trading on the street is illegal, unofficially it is tolerated. This does not mean, however, that the city council simply turns a blind eye. Rather, the ambiguous status of hawkers places them in the precarious position of being hit from both sides.<sup>14</sup>

The most cautious strategy a street vendor can take is to always keep moving, as the general rule is that city guards will not fine a trader as long as she does not loiter in one spot. This however means that she cannot establish a predictable trading position and therefore cannot build a regular clientele. On the other hand, hawkers who establish a consistent trading position run a greater risk of being fined or at least pressured for a bribe. Evidently, the guards are keen enough to price discriminate. The bribes can be a token C200 (about \$.50) or bag of rice or tomatoes every couple of weeks, or can be a more substantial amount of C1,000 to C2,000 (\$2.35 to \$4.71) a week if the city council guard chooses to target a trader he knows is running a profitable enterprise.

While these kinds of costs are imposed upon hawkers because of their officially illegal status, the fact that it is unofficially tolerated means that the city expects a daily tax from each trader. Thus, the ambiguous status of the street vendor is as much a curse as it is a

<sup>14</sup>The ambiguous status of these women is demonstrated by the attitudes of the city council guards. At midday, guards can be seen carrying on polite conversation with and purchasing *kenkey* or small meat pies from the same women to whom they are meant to be issuing a citation. Yet, once or twice a week, guards can also be seen making their way up a street violently smashing the stools and tables upon which women will sit or set their wares. During these demonstrations, no fines are issued, no bribes are solicited. There is no purpose here other than to send a clear message that the street traders are in fact criminals.

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blessing. The daily tax<sup>15</sup> paid to the city council guards, the fines levied when a trader is caught setting her wares down on the sidewalk,<sup>16</sup> the loss taken when supplies are confiscated by the city council, and the regular tributes paid to the city council guards to avoid citation, when added together represent a substantial burden upon street vendors.

In Accra, about 1,500 traders per month have their goods confiscated and must pay at least C5,000 to the city. A single C5,000 citation can mean the difference between being able to feed a family and economic ruin. Besides the taxes and fines, there are implicit costs as well. Even if the fine is paid and the goods are returned, perishable supplies are often spoiled as it may take several days to borrow the money from friends and family. Further, once confiscated, the goods are in considerable danger of disappearing into the pockets of city council employees. In turn, the trader is likely to lose a valuable source of credit if because of the financial burden of the fines and the loss of her goods she is unable to or late in paying her suppliers.

Monthly incomes of street vendors have a wide variance, anywhere from C7,000 (\$16) to C28,000 (\$66). Thus, the daily tax and two small tributes of C250 translates into 23 percent of a C7,000 monthly income. Nearly 95 percent of a C7,000 monthly income is lost to the city council if the trader is unfortunate enough to be issued a single C5,000 fine. As the city guards tend to extract more from successful traders, those at the upper end of the income scale also lose a considerable amount of their income to the city council and the pockets of the city guards. The daily taxes, regular tributes of C3,000 per month and one C5,000 fine translates into 33 percent of a C28,000 monthly income. This percentage increases if her goods are spoiled or stolen while in the custody of the city council. For instance, if a trader also loses half of a C10,000 stock of goods, the effective rate rises to just over 50 percent. A trader is not likely to be fined every month, yet two to three fines a year can devastate any savings a trader may have accumulated, dashing chances of establishing a stationary selling position, a prerequisite for substantial levels of both formal and indigenous credit.

Fortunately, the city council no longer controls prices. However, a considerable amount of waste and inefficiency is still introduced

<sup>15</sup>The daily tax is C40 or about \$.10. The irony that trading on the street is illegal, yet taxable, is not lost on the street vendors. One such woman proclaimed that if the city guards were all fired, hawkers would then be able to save enough of their money to build their own market stalls and not have to trade on the sidewalk.

<sup>16</sup>Usually the fine is C5,000 (about \$12), but if the trader is a repeat offender or if the volume of goods she trades is unusually large, the fine can be doubled or even tripled.

by other restrictions on market activity. As valuable resources are diverted from the productive market sector to the unproductive bureaucratic sector, the potential of the local economy to enhance the financial prospects of the most marginal entrepreneurs is mitigated.

*Unintended Consequences of Bureaucratic Intervention*

While legal sanctions against street vending have the obvious and intended consequence of frustrating this sort of market activity, bureaucratic maneuvering often erects systematic, though unintended barriers to successful market interaction. Finally recognizing the deleterious effects of price controls, all was to be remedied as the city council began to rebuild the markets after 1983 when the ERP was under way. Yet, all was not remedied. The market traders were compensated with new stalls, but the city council could not rebuild the trust relationships which had developed over decades of face to face interaction among neighboring traders. Market women were given new stalls, but not the same neighbors. The potential benefits from forging new relationships have been dampened given the general atmosphere of uncertainty. No trader is sure when another similar occurrence will happen.

Since the inception of the ERP, other reasons have been found to relocate traders, either to make room for a parking lot (the result of a successful lobbying campaign by the taxi companies), or to thin out the market to help the flow of traffic. No matter what the motivation, the result is the same: the destruction of the credit and mutual assistance societies that had emerged over years of interaction with the same people. Further, such disruptions particularly frustrate elderly traders, such that they do not return to the new locations. This is a devastating blow to the indigenous credit institutions, as a vacuum of experience and trust is left, rather than a gradual transition of authority.<sup>17</sup>

Currently, the Accra city council is planning to spread the markets out to alleviate traffic problems in the most central part of the city. The criterion by which the city council decides who gets moved to the new location will be according to the size of the delivery trucks involved. For example, yams are delivered in large vehicles which block traffic, thus yam sellers will be removed to the new more distant location. Tomatoes, on the other hand, are delivered in

<sup>17</sup>The effects of these policies can be seen in the differences between the markets in Accra and Kumasi and other areas more distant from such political upheaval. The described indigenous institutions in Kumasi are more stable and offer more substantial opportunities for support than in Accra, where most of the political and bureaucratic maneuvering has taken place.

smaller vehicles, so tomato vendors would be allowed to remain in the central markets. This proposal demonstrates the inherent danger of allowing market decisions to be made solely on the basis of bureaucratic concerns.

This is not to say that traffic congestion is not a problem in central Accra, but overriding market considerations is not the solution. If the campaign is successful, the move will once again wrench traders from their network of trust and support, and thereby undermine the evolved system of indigenous credit. If entrepreneurs anticipate the move and shift their behavior in response to such a policy measure (e.g., yam sellers may switch to selling tomatoes), this will in turn increase the costs and risks associated with buying and selling yam, an important dietary staple.<sup>18</sup> The solution lies not in overriding the market process, but rather, in allowing it to work. The congestion problem will be best addressed by a system of market, not state set prices for selling space. Below, I will return to the issue of privatization.

#### *Lack of Scarcity-Indicating Prices for Selling Space*

On any given day, a market trader could walk into the city council offices and acquire selling space within the market. According to the city council, many spaces are currently vacant. For C25,000 (\$59), a trader can secure an assignment to a market stall. Yet, many street vendors will tell you that there are no available spaces in the market. Others will say that there are spaces available, but the prices are too high. When asked how much they would have to pay to acquire space in the market, they quote prices two to sometimes three times higher than the price quoted by the city council. This is particularly puzzling, given that during the previous year, the city council provided new market stalls at no cost to which street traders could move. However, the women stubbornly refused to stay and returned to trading on the street.

Was this a case of the hawkers acting irrationally or at the very least belligerently? Are city council officials simply lying when they say that spaces are available? Or are the market traders simply confused, not realizing that the stalls are available and less expensive than they think? The answer is "none of the above." The fact is that spaces are available in the market. Further, the city council did (unsuccessfully) attempt to move traders from the street by providing

<sup>18</sup>This proposed "solution" also reflects the male bias at the bureaucratic level. Only someone who has never done the shopping for the family at the end of a long day of selling in the market would see separating the items needed for the traditional daily meals across distant ends of the city as a solution.

free selling space. Yet, the traders are not confused, nor was their response to the offer of free selling space irrational or simply belligerent. The confusion stems solely from the fact that the stall prices do not reflect relative scarcity or desirability.

As the state officially owns the market stalls, it is incapable of reflecting their true value in the price structure. The fact that some spaces are available at the prevailing rate, should not lead to conclude that the rent charged by the city council comes close to reflecting scarcity conditions. In charging a single rate, the city council assumes that a homogeneous good, "market stall space", is being offered. But not all market stalls are created equally. The market stalls span a wide heterogeneous array in terms of location, access to facilities, sanitary conditions, and customer appeal.

Some stalls are near the openings of the market and attract a significant amount of traffic. Yet, the same price will be charged for a stall which is tucked away in an obscure part of the market which sees little traffic. Some stalls are on a dirt surface, yet it will cost as much as another stall on concrete, which will attract customers even during the rainy season and will not ruin a trader's goods with mud stains. The case mentioned above, when hawkers were offered stall space at no cost only to return to the street, was again a situation where the selling space was inappropriately priced. In fact, the "free" selling space was placed in an obscure corner of the city and attracted little traffic. Thus, the zero price charged was simply too high, as the opportunities for profit were more abundant on the street.

Likewise, the differences between the accounts as to the prices and availability of selling space reflect, not confusion on the part of the traders, but the city council's inability to appropriately price heterogeneous resources. Most street traders know that some stalls are available at the set price of C25,000. But they are quick to point out that the only stalls available at this price are in a poor location and will not attract customers. The prices that they quote which are two to three times higher than the official price are the prices in the secondary market. As a trader leaves the market, she will pass on the stall space at a price which reflects the true value of the resource.<sup>19</sup> However, the secondary market is officially illegal, and therefore

<sup>19</sup>Note that stall space in a good location is a valuable resource which is often passed from one generation to the next. A well placed market stall acts as both a source of venture capital for a daughter or niece expanding a business (or perhaps a grand-daughter starting out), as well as a source of social security for the retiring trader. As an older woman makes a gift of the space to a daughter, niece, or grand-daughter, she can expect some form of support (either financial or in-kind) from the recipient.

ownership cannot be guaranteed if a stall is acquired through a black market transaction.

It is not being argued that the city council officials are simply too simple-minded to see the obvious. In fact, on the surface, the market stalls do seem to all look alike. If we only look at their structure and design, they are more alike than different. Their heterogeneity is only manifest as the market process unfolds. In other words, it is only through market activity that one can discover what the true value of such resources are. Thus, merely encouraging greater attentiveness on the part of the city council will not produce a price structure which appropriately reflects relative scarcity. As it is absent a mechanism for discovering what the value of these resources are, the bureaucratic process has no means of acquiring this sort of particularized knowledge. Prices which reflect the relative scarcity and desirability of a resource can only be discovered through a market process.

### Policy Implications

Full scale privatization of the marketplace stalls and shops would solve or at least mitigate the most debilitating obstacles facing indigenous trade. By affording the occupants of market stalls private ownership rights, the pricing and allocation of stall space would fully reflect market conditions rather than arbitrary state set prices. Private ownership would also afford the opportunity to un-bundle the resource by allowing owners of stalls to rent to more than one occupant. Traders could then either divide the space, split the selling day or week or invoke a combination of the two. This would reduce the per person cost of acquiring space in the market and thus reduce the crowding on the street.

Privatization would also open the way for private developers to erect new structures which would likewise reduce the level of crowding. A private developer would price the spaces in a new structure according to market conditions and not need to rely on a rigid set price structure as is the case under municipal management. Further, by allowing private developers the opportunity to erect new markets, they will have to compete for occupants, not only by pricing the stall space according to market conditions, but through services as well. Once entrepreneurs have a choice as to who they rent or buy from, as opposed to having to rent from the state, the market will reward those developers who provide services seen as essential to the marketplace, such as toilet and locker facilities, security, or shelter from

the rain; all cited as serious drawbacks to the current marketplace environment.

This is not to say that all developments will necessarily provide these services. Some may offer only the barest elements of a marketplace structure. But the prices of such stalls would then reflect the lack of services and would allow the opportunity for those on the lower end of the income scale to establish a fixed location in order to trade. This is an essential move for the most marginal of the traders, as this is a clear indication of a person's credit worthiness to a potential lender (either to formal banking institution or indigenous sources of credit). Thus, an array of quality will allow for an array of prices, such that the move from street vending to a fixed location is not such a cataclysmic jump.

Private rather than municipal management of the marketplace is likely to result in fewer cases of full scale upheaval, and the resulting loss of valuable credit and mutual support networks. The allocation of stall space and location will be based on market conditions, not political or bureaucratic considerations. If a marketplace is the most profitable venture, political maneuvering will not override market conditions as they do in the case of municipal management. If market conditions were to shift dramatically, however, at least in the private context, the traders would have the option of establishing themselves in a new space as a block, by renting a row of stalls, for instance. This option is a virtual impossibility under current municipal management. Further, in the private context, there is the opportunity for long term leasing and purchasing arrangements to emerge, such that traders would have to be compensated if they are to be enticed to move; again, an option which is clearly not available under municipal management.

Thus, privatization efforts will have both the expected benefits of rational market pricing and allocation of resources, but it will also have some not so obvious benefits as well. Private development would supply new market space at prices which reflect scarcity conditions. The array of rental rates or prices likely to emerge would provide opportunities for the most marginal traders to establish a fixed location and therefore access to greater sources of credit. The private context would allow the un-bundling of resources, providing even further opportunities for the small scale entrepreneur. Perhaps most importantly, by fostering stable property rights, privatization efforts would support and enhance the performance of indigenous credit and mutual assistance networks.

Clearly the economics profession is aware of the advantages market coordination affords over bureaucratic control, yet sound policy

conclusions seem to consistently elude us in third world contexts. The arguments made here suggest that we have missed opportunities for promoting economic development because we have ignored the cultural specificity in which institutions emerge. Specifically, we have tended to assume that one model, the Western model, of a credit is the only path towards development. Rather than forcing West African culture into the mould of Western institutions, we are likely to meet with more success if we advocate policies which allow indigenous institutions to work to their full potential.

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