Informal Credit in Tanzania: Evidence from a Case Study in Northern Tanzania

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Abstract
The aim of this paper has been to examine the scope of informal credit sources, uses and the size in Arusha region, Northern Tanzania. The main questions addressed by the study are threefold. First, is whether informal credit in rural areas is accounted for the inadequacy or absence of formal credit. Second, is whether informal credit sources is influenced by social and cultural factors rather than mere economic factors. Thirdly, is whether informal credit use are complements rather rather than substitute for formal credit. The data used in this paper were collected in a survey that covered 256 households in three districts in Arusha region. The data analysis reveals the important role played by the informal credit sources, particularly friends, neighbours and relatives. However, the survey results failed to establish the existence of the classical informal lenders, including the landlords and moneylenders, though existed in some of the areas studied, were found to be of little importance. the study also established that the peasants viewed the informal financial institutions (IFIs) as the traditional financial institutions that need remain, the informal loans extended appears to complement the formal loans extended by the formal financial sector (FFS). This is evident from the composition of the items financed by the informal loans, which include consumption expenditures and other indirectly productive expenditures, that are traditionally not financed by the FFIs in Tanzania. By their very nature the informal loans are small and of short-term natures and, as peasants argue, for large sums of funds one has to recourse to the FFIs. The survey evidence shows that the existence of the IFIs in the areas surveyed is explained by three main factors. First, penchant of the peasants to borrow or lend informally. Second, is easy accessibility and timely delivery of the informal loans. A third factor is the inaccessibility to formal loans. In this respect complicated procedures and lack of security were reported as contributory factors.