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SCOPE, STRUCTURE AND POLICY IMPLICATIONS OF INFORMAL FINANCIAL MARKETS IN TANZANIA

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Scope, structure and policy implications of informal financial markets in Tanzania



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Scope, structure and policy implications of informal financial markets in Tanzania

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List of abbreviations

CRDB	Co-operative and Rural Development Bank
FFI	Formal financial institutions
FFS	Formal financial sector
IFI	Informal financial institutions
IFS	Informal financial sector
NBC	National Bank of Commerce
NIC	National Insurance Corporation
NPF	National Provident Fund
POSB	Tanganyika Post Office Savings Bank
PBZ	People's Bank of Zanzibar
ROSCA	Rotating savings and credit associations
THB	Tanzania Housing Bank

Preface

Studies of financial superstructures in developing countries have shown that financial structures in these countries are *dualistic* in nature. On the one hand, there exists a set of institutions comprising the *formal financial sector* (FFS). This is the legally-regulated part of the financial system, and consists of institutions like the central and commercial banks (i.e., the banking system), near-banks, insurance companies, and development banks, to mention a few. Normally, the rest of these *formal financial institutions* (FFIs) are by law under the direct control of the central bank.

On the other hand, there are institutions that are virtually outside the control of the established legal framework. These are the *informal financial institutions* (IFIs) such as moneylenders, rotating savings and credit associations (ROSCAs), landlords, neighbours, traders, etc. The basic feature of these institutions is that they participate in the saving-investment process on an informal basis, and are the financial part of what is commonly known as the informal sector. The nature, scope, role and technologies of the IFIs appear to differ fundamentally from those of the FFIs, as will become clearer later on in this study.

This study sets out to examine the nature and scope of informal financial sources and institutions in Tanzania. The study investigated four main hypotheses, namely:

1. Informal credit is an important complement, rather than substitute, for formal credit;
2. Both small-scale and large-scale production units depend on informal credit;
3. Credit in the informal sector is more expensive, with higher interest rates and other charges, than credit from the formal sector; and
4. The simple process of obtaining loans in the informal sector (devoid of red tape) compared with the time-consuming and impersonal process in the formal sector, is one of the major attractions of clients to the informal sector.

A survey of 262 households in seven administrative regions of Tanzania was carried out to test the above hypotheses. The results of the survey, detailed below, confirm the existence of the *informal financial sector* (IFS) operations, and also demonstrate the important role played by informal financial sources in the saving-investment process in the country. In general, our findings on the supply-side and demand-side of the informal loans appear to be in line with other comparable findings in less-developed countries. We show that the IFS in Tanzania consists of a number of diverse informal financial institutions. Of these, the most predominant have non-commercial financing arrangements, including those with family members, friends, neighbours and other households in a village.

The factors which prompt the use of the informal financial sources, coupled with the socio-cultural environment, provide a *raison d'être* for the informal financial sector in Tanzania. Thus, the IFS and FFS in Tanzania are sister business organizations sharing the market on a mutual basis while supplying differentiated financial services to their clientele. Within this duality of the financial structure, the microeconomic model of imperfect competition with differentiated products appears to apply.

It is evident from this study that the respondents in all the study areas did not borrow or lend solely to finance consumption expenditures. Although it is evident that much financing of consumption activities takes place in the IFS, some investment is also catered for. In fact, the use of informal financial sources ranges from short-term to long-term investments in income-generating activities. This reinforces our belief that the IFS complements the FFS in development financing. However, more work is called for to provide detailed and further evidence on the terms and conditions of the informal financial sources in Tanzania.

In the course of carrying out this study we have benefited from the financial, material and intellectual support of various people and institutions. In particular, however, we wish to acknowledge first the African Economic Research Consortium (AERC) for funding this study. We also feel indebted to the intellectual knowledge gained from our colleagues in the AERC's series of workshops. Their ideas have enabled us to improve this study since its conception. Second, our gratitude is due to the Research Assistants, particularly Mr F.S.G. Chawinga, Ms Dorosella Blasius, Mr Johnson J. Nyela and Ms Chiku Y. Kawina for conducting the interviews and the Regional and District authorities, including the respondents, for enabling this survey to materialize.

Further, we are indebted to Mr G. Naimani of the Department of Statistics at the University of Dar-es-Salaam for processing the data; and Ms Amina Karuma for secretarial services. However, none of these individuals and institutions are accountable for the views expressed or their interpretation, or the short-comings, of this study. For these the authors remain solely responsible.

I Introduction

Available evidence shows that financial structures in developing countries are dualistic in the sense that formal (organized) financial structures exist side by side with informal (unorganized) financial structures. This duality has been in existence for a very long time, yet there are few studies on the nature of the duality, its causes, its relationship to other sectors, its stability and sustenance over the long run. Hence, the impact of the informal sector on macroeconomic policies focused on the formal sector is not clearly understood by policy makers; the informal sector is, in a way, still a 'black box' in many economies. That little is known about the informal sector in developing countries is also true in the case of Tanzania.

The purpose of this paper is, therefore, to present evidence on the nature and scope of the informal (unorganized) financial sector in Tanzania. The evidence is based primarily on a sample survey covering 262 households in seven regions of the country, namely, Dar-es-Salaam, Coast, Morogoro, Arusha, Dodoma, Mbeya and Mara.

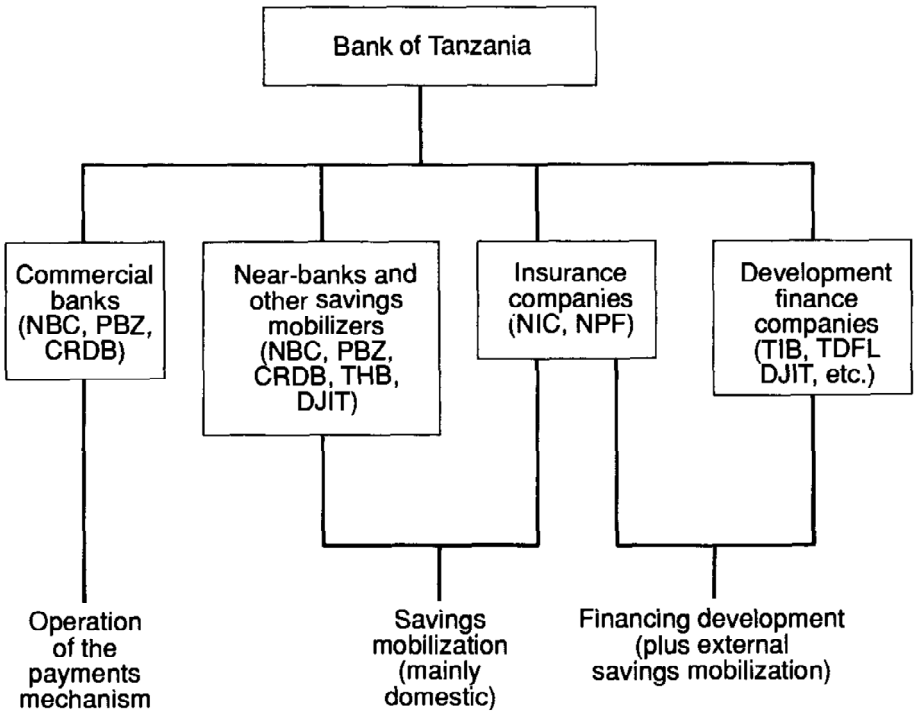
Capital is still regarded as one of the crucial prerequisites for economic development. Hence, access to credit as far as producers are concerned is an important factor since it provides external finance (finance or capital from outside the economic unit) to producers. Short of being 'balanced budget' units (using the terminology of Gurley and Shaw, 1955, 1960), even consumers need ample credit to bridge the gap between income receipts and expenditures, or to obtain assets that they cannot afford at that time. Many rural and urban households in Tanzania and other developing countries depend on both formal and informal credit to fulfil their consumption and investment needs. Entrepreneurs specializing in small-scale industries also depend on credit.

The orthodox explanation of the need for credit on the part of small-scale entrepreneurs and peasant farmers hinges on two factors: poverty and the alleged exploitative nature of informal credit. First, the majority of people in developing countries are considered to be very poor and unable to accumulate substantial savings; they need external finance to break away from the vicious circle of poverty. An external 'push' is, therefore, necessary for the economic development of these developing countries. Second, informal finance is

considered to be exploitative: interest rates and other charges on loans are considered to be much higher and usurious compared with those in the formal sector. Hence, there is a need to rescue small-scale borrowers from the clutches of rapacious lenders in the informal sector by providing formal finance at reasonable rates and charges.

In line with this orthodox wisdom, many formal financial institutions have been set up to provide the required external finance. In Tanzania, these FFIs include the National Bank of Commerce (NBC), the People's Bank of Zanzibar (PBZ), the Co-operative and Rural Development Bank (CRDB) and the Tanzania Housing Bank (THB). Figure 1 details the structure of the formal financial sector. The NBC, the PBZ and the CRDB are the commercial banks: the CRDB mainly extends credit to co-operatives and the rural sector, while the THB is a near-bank that finances building construction and related activities.

Figure 1 Tanzania's financial superstructure



Key:

NBC	= National Bank of Commerce	NIC	= National Insurance Corporation
PBZ	= People's Bank of Zanzibar	NPF	= National Provident Fund
CRDB	= Co-operative and Rural Development Bank	TIB	= Tanzania Investment Bank
		TDFL	= Tanganyika Development Finance Co. Ltd
THB	= Tanzania Housing Bank		
POSB	= Tanganyika Post Office Savings Bank	KARADHA is a subsidiary of the NBC	
DJIT	= Diamond Jubilee Investment Trust		

Many developing countries have set up similar FFIs as well as other thrift institutions. However, the organized financial superstructure in most less-developed countries is quite infant in most cases and usually biased in favour of urban centres and large entities. As such, the superstructure is *ipso facto* beyond the reach of the ordinary peasant farmers and small-scale entrepreneurs. In most African countries, the distance between the urban-based formal financial institutions and the peasants is further aggravated by poor transport and communications networks. The bureaucratic nature of the FFIs exacerbates the lack of familiarity and interaction between them and the peasants.

Before a serious crisis in agricultural credit programmes in less-developed countries emerged, the supply-side of the FFIs was hardly considered as a bottleneck to rural development. These programmes were based on the orthodox assumption that the peasants are too poor to save, and that capital breakthroughs were the only avenue to development. Because of this theory, FFIs, like the CRDB in Tanzania and the Co-operative Bank in Uganda, were founded to extend credit to the peasant farmers in order to foster rural development. This is the 'traditional agricultural bank model' referred to by Bathrick (1981).

As in the cases summarized by Donald (1976), the demand for credit has always far exceeded its supply. Further, credit has been virtually beyond the reach of the targeted group, the peasants. Instead, large-scale farmers and industrial and commercial businesses have made gainful use of the credit. Formal loans, which were subsidized until 1984, have been disbursed mainly to finance export crop (coffee, cotton, tea and tobacco) production. It is worth noting that the loans from rural development banks have often been in kind (such as fertilizers, insecticides, and other farm inputs).

The problems associated with the administration and disbursement of formal agricultural credit are not new or unique in Tanzania and other developing countries. Various studies have pointed out the short-comings of formal credit to agriculture and other sectors in Tanzania (see Collinson, 1968; Loxley, 1975; Msambichaka and Mabele, 1979; Due, 1980; and Musatta, 1985; among others).

Formal credit in Tanzania is inadequate; it does not normally reach the targeted group, is associated with bureaucratic procedures, and, among other problems, is urban-based. What then has been the survival strategy for the credit-starved small peasant farmers, or small-scale business enterprises, or ordinary consumers in rural and urban areas who are deficit-spending units? It appears that these economic units resort to informal finance to meet their ever-growing need for loans to finance consumption and investment requirements.

II Statement of the problem

Peasant farmers seem to be too poor to generate funds from their internal savings to finance their investment needs in agriculture, such as purchasing new seeds, fertilizers and other agricultural inputs. There is, therefore, a need to provide external finance to the farmers, to use Gurley and Shaw's (1960) terminology. This external finance can be formal, informal or both. In our view, it is very likely that informal finance or credit complements formal credit in Tanzania. The formal credit is provided to peasants by the Credit and Rural Development Bank. However, little information is available on informal financial sources of credit to peasant farmers in the country. The informal financial sector in Tanzania, as in other countries, may include private moneylenders, relatives, friends, neighbours, landlords, rotating savings and credit associations and other private financial brokers in the country. Planning for the provision of rural finance in Tanzania must take into account the existence and role of informal sources of finance, herein considered to constitute the informal financial sector.

As will be seen in Section IV, the role of the IFS in various developing countries has already been studied extensively. In general, however, there is a need to study the sector in each country to establish its role, and whether it should be upgraded to the formal sector (i.e., formalized) or integrated with it (Seibel, 1986).

Through research, the informal financial sources will not remain a 'black box'. The role played by the sector in financing development can then be incorporated into economic planning, policy formulation and policy implementation and monitoring. In the underlying study, we set out to probe the scope, structure, role and policy implications of informal (unorganized) financial markets in Tanzania. Aspects of the markets investigated include:

- The nature of borrowers and lenders and loans in the markets, including sources of funds;
- The volume and direction of credit;
- The structure and functions of the markets;
- The relationship between formal and informal financial sources;

- The terms and conditions of loans such as interest rate, structure and determination; and
- The differences in technologies employed in the two sectors.

We use the data we collected from household budget surveys and previous studies to qualify our results. We hope that our analysis of the data — mainly using statistical and financial analysis techniques — will shed ample light on the role of the unorganized financial markets in Tanzania by highlighting the above aspects of the markets.

III Objective and significance of the study

Our aim in this study is to investigate the nature and role of informal financial sources in Tanzania. What is the size and structure of the informal markets? Do we need to free the Tanzanian peasants from 'the clutches of the rapacious moneylenders', to use the terminology of Nyirabu (1981), if they are rapacious at all? What are the basic links between the formal and informal financial sectors? According to the evidence from the survey we strongly believe that the unorganized financial sector complements the organized sector, rather than being a substitute for it, in the provision of credit to small-scale producers, including peasant farmers. This appears to be true in Tanzania and many other African countries.

We contend that better policy could be formulated and promulgated on the basis of the results of further research, the need for which is established by this study. Reasonable credit schemes for small-scale producers would be worked out and implemented. Thus, the policy package for rural development and other packages for boosting the productivity of small-scale producers would be better articulated by taking the role of the unorganized financial markets into account.

IV The role of informal finance in the saving-investment process

Literature review

Traditional forms of finance (such as informal credit and savings) have been of increasing interest to researchers, development technicians and policy-makers. This has not only been because anthropologists and sociologists need to shed light on the structure and operation of rural communities in low-income countries, but also because of the apparent failure of many modernization models adopted for the rural poor. This has led to studies on the causes of the failures or impacts of the models adopted for the rural areas as well as entire national economies.

Rural informal finance has, in the past, attracted a considerable number of such studies. Literature in this area comprises studies on modern finance and also traditional forms of finance in the rural areas. These studies can be sub-grouped as follows:

- Surveys based on the evaluation of formal credit extended under a given programme or project;
- Surveys focusing on the supply-side of informal (unorganized) financial or credit markets; and
- Surveys on both informal and formal credit markets using comparative approach.

As noted by Hyuha, Ndanshau and Kipokola (1987) most of the studies have been carried out in Latin America, South-east Asia and, to a lesser extent, in Africa.

Notable studies are by Nisbet (1969, 1971) for rural Chile and Columbia; Samson (1970) for the Upper Delta in Vietnam; Harris (1980) and Chinnapata (1977) for the North-Ascot district of Southern India; Burton (1973) for the Mekong Delta of South Vietnam; Roberts (1973b) for the southern province of Zambia; Lele (1975) for the Digela and Yeloma areas in Ethiopia; Ahmed (1975) for Sudan; Miller (1977) for Nigeria; Sharpe (1977) for the Jaida Arriba

area in the Dominican Republic; Tapsoba (1981) for Eastern Upper Volta; Pollard and Heffernan (1983) for the districts of St Catherine and St Elizabeth in Jamaica; Bouman (1984) for the district of Kandy in Sri Lanka and Stringer (1984) for the reformed Campensios in Honduras. Detailed reviews of each of the above studies were done by Hyuha, Ndanshau and Kipokola (1987).

Five key insights on the nature and the role of rural IFIs can be drawn from the above literature. First, credit sources in the IFS are heterogeneous. Besides institutional credit sources, peasant farmers and small-scale business firms obtain credit from landlords, moneylenders, crop buyers, shopkeepers, traders, ROSCAs — known in different countries by different names, such as *susu*, *cheetu*, *ekub*, *tontines*, *kuu*, *upatu* — relatives, and friends, among others. Second, the terms and conditions attached to the informal loans are very simple and free from red tape. Applications for credit are considered promptly. In the words of Wai (1957-58), 'loans are made against no better security than the farmer's verbal promise to discharge his obligations'. This is in contrast to the bureaucratic and time-consuming lending procedures in the formal sector.

Third, informal credit sources appear to complement formal sources, rather than act as their substitute. The studies by the FAO (1974), Amani *et al.*, (1987) and Ndanshau (1990) on Tanzania appear to support this view. Fourth, credit in the informal sector is not entirely used on 'provident expenditures' or 'wasteful consumption' alone. A large part of the credit goes into financing productive agricultural expenditures and even real investment. Fifth, informal financial markets appear to be used by both small-scale and large-scale farmers; and there is a good interaction between the FFS and IFS.

This survey of the empirical evidence demonstrates the role of the IFS in the development process. Despite this evidence, however, there has been a debate over the role of informal finance and its *raison d'être*. Does the informal sector exist simply because of the inefficiency and bureaucratic nature of the FFIs? Would the informal sector sink into oblivion if the formal sector attained maximum efficiency in a *pareto-optimal* sense? What is the role of informal finance in the saving-investment process? Is most of the credit in the informal sector used for 'wasteful consumption'?

Answers to a number of these questions can be found in the evidence from previous studies. In the following theoretical explanation we argue that formal and informal financial institutions are sister business organizations supplying essential financial services to the economy; they complement each other in the saving-investment process. In fact, in many countries such as Ghana, Malawi, Senegal and Zaire, there are interflows of customers and funds between the two (see Aryeetey and Gockel, 1989; Chipeta and Mkandawire, 1989; USAID, 1989; and Hyuha, Ndanshau and Kipokola, 1987; among others). For instance

in Ghana, the moneylenders deposit their mobilized savings with formal banks (Aryeetey and Gockel, 1989).

In Tanzania, there are only three surveys that have focused indirectly or directly on informal credit and savings. First, is an agricultural credit survey by the FAO (1974) in North and North-eastern Tanzania which covered Kibosho, Umbwe and Lyamungu villages in Moshi; Chome and Makanya villages in Pare district; and Kwamngumi and Kilole villages in Korogwe district.

The FAO survey found that from the sampled small-scale farmers who had received any form of credit, 40% of the loans were from a personal friend. In Korogwe district, almost all loans were found to be on a personal basis from a friendly neighbour. Many of the respondents in the surveyed village had very little systematic and regular savings and were not willing to take formal loans at any cost because they were inadequately informed about why credit was offered and how it should be utilized. Under these circumstances, credit given to individual farmers has even been regarded as a burden rather than an asset.

Moneylenders, as established in most of the surveys reviewed above, were found to be non-existent in all districts covered by the FAO survey. Furthermore, small-scale farmers, as well as medium and large-scale farmers, borrowed informally; and the loans were mainly used to hire labour, rent tractors, build new houses or finance new or expand old businesses. Interest charged on the personal loans was found to be low, and not time-bound. A time limit only existed for the repayment of the principal amount loaned. In the cases of default, however, informal lenders considered the loans involved to be a form of aid to their neighbours. This created a permanent dependency relationship of a patron-client-type between the lender and the borrower.

In the FAO survey, the motivating factors for obtaining informal credit were found to be the wide income distribution and difficulty on the part of the farmers to secure institutional credit. In the Kilimanjaro region, where income was more widely distributed than in Tanga region, the *patron* relationship was found to be much more pronounced. From the samples covered in both regions, personal loans were found to be more accessible than the institutional loans.

The second survey on rural finance was by Amani *et al.* (1987) and covered ten peasant farmers in each of the 24 villages selected from the Dodoma, Iringa, and Morogoro regions. Unlike most of the studies reviewed above, this survey also covered the private savings of the peasants. Individuals used informal credit, but to varying extents in each of the regions and villages. In villages sampled in the Dodoma region, personal loans were found to be more common, while they were less common in Iringa and moderately common in Morogoro. The survey found that in Dodoma, which is considered to be a

relatively poor region, the majority of the loans were used for consumption, while in Iringa formal credit for tea was dominant.

A quarter of the respondents in Amani's survey reported having obtained a loan during the year preceding the survey (December 1983 to December 1984). Of the reported 64 loans, 42% were taken from private individuals, usually relatives. As in the FAO study, moneylenders were non-existent. This was also made apparent by the fact that 47% of the interviewed farmers had no knowledge of any credit sources within the village and 49% knew of no exterior sources. Moreover, more people knew of official lending sources than private ones outside their own village. Of the total respondents, 60% preferred official sources, while 25% preferred to deal with private lenders. Private loans were preferred as they lacked strict conditions and had easy payment procedures. As the survey notes, 'many respondents pointed at trust, understanding and flexibility, and some also said this was the only way to get a loan on short notice' (p. 32). The respondents who preferred formal credit gave reliability, availability of funds, and duration of loans as the main motivating factors. In the Morogoro and Iringa regions, guidance for the use of formal credit and easy payment terms were given as the attractions for using official loans.

In conclusion, Amani noted that private lending was found to be important, as the FAO study had established. Its relative share in total rural credit was found to vary considerably between the regions, depending on the extent to which official lending agencies were present in the neighbourhood. However, these two studies failed to cover the historical aspects of rural finance and did not explain the absence of moneylenders in most of the low-income countries.

The last survey is by Ndanshau (1990). This covered 90 respondents in 49 ROSCA groups known as *upatu* and referred to as *mchezo* in Dar-es-Salaam. *Upatu* groups circulated a substantial volume of savings amongst their members. The main motive for forming such thrift groups was connected with the economic hardships resulting from an increased cost of living and inaccessible FFIs. The funds from participation in *upatu* groups were largely used to finance the consumption and purchase of costly items, such as furniture. The survey also established a limited use of the savings in *upatu* to purchase hedges against inflation, such as gold bangles and necklaces.

The *raison d'être* of the informal sector

Research into the existence and sustained growth of the informal sector must go beyond the inefficiency and bureaucratic nature of the formal sector. Informal sources of finance must offer a particular service, otherwise they

would not have survived. How do they reproduce themselves so that they exist even in developed countries?

Our contention is that both formal and informal sectors share the credit market. Entry and exit in both sectors is theoretically free if one assumes there are no legal financial regulations and start-up costs. The two forms of organization offer different financial services exemplifying monopolistic competition. On the one hand, the services of the formal sector are wrapped in bureaucratic procedures, such as the need for mortgageable collateral security, time-consuming processes and the impersonal processing of applications. On the other hand, services from the informal finance sources are characterized by an absence of red tape, a relatively higher degree of access to the institutions by their users, little or no need for mortgageable collateral security and the existence of the human factor in credit allocation. Table 1 summarizes the differences associated with the services from the two forms of business organizations.

Table 1 Summary of characteristics of the formal and informal financial institutions and markets

Formal financial markets	Informal financial markets
High fixed, low variable cost	No fixed, but high variable costs
Highly structured	Relatively flexible
Controlled by legal system	Uncontrolled by legal system
High degree of security	Low degree of security
High in static efficiency	High in dynamic efficiency
Broad spatial resource base	Narrow spatial resource base
Well defined	Poorly defined
Impersonal	Personal
Emphasis on private property rights	Emphasis on communal property rights
Use of bank accounts and currency	Use of currency and physical goods
Complex organizations	Simple organizations
Large transactions	Small transactions
Profit-motivated in general	Security-motivated
Economic focus	High social content in focus
Universalistic	Particularistic

Source: USAID (1989), Exhibit 1, p. 9.

Seibel (1986) also lists the main differences between FFIs and IFIs as follows:

> Each of the two sectors has its particular strengths. FFIs excel in modernity, in access to national and international refinancing and other supporting institutions, none of which applies to IFIs. IFIs excel in accessibility, popular participation, organizational flexibility, local adaptability, situational appropriateness and social cultural integration at local or regional levels, none of which applies to FFIs.

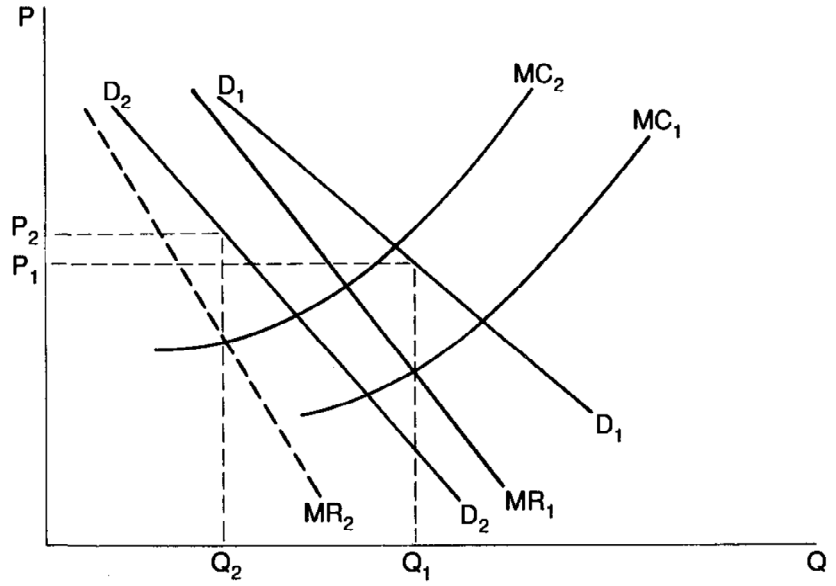
The informal sector will tend to grow at a faster rate if the formal sector is inefficient as customers will switch from one to the other. The converse is also true. But the fact that the informal sector offers a differentiated financial service whose demand is also ever-increasing, given the general paucity of financial resources in developing countries, implies that it has a momentum of its own. As USAID (1989) points out, a 'major difference between the two markets ... is where the focus of trust resides'. That is:

> In formal financial markets, the focus of trust is primarily on the system — ideally, it is sufficiently established and organized to allow savers to entrust their funds to it and to impersonally screen out unsafe borrowers while allowing safe borrowers access to loan funds. In informal financial markets, on the other hand, the primary focus of trust is on the person, rather than the system — the saver's personal knowledge of the safekeeper or borrower acts as a substitute for the formal procedure of evaluation of that person's collateral value and capacity to pay debts.

The different characteristics of formal and informal finance sources imply that the two sectors face different average and marginal cost curves, and hence charge different prices for their respective services.

In Figure 2, an attempt is made to explain price and quantity determination in the two sectors. Given that MC is the marginal cost curve for the sector, MC_1 is the curve for the low-cost business organization (supposedly the informal sources in view of low direct operating costs) and MC_2 is the curve for the high-cost firm. The D_1 and D_2 curves are the corresponding perceived demand curves, with MR_1 and MR_2 being marginal revenue curves. These curves reflect some kind of monopolistic competition between the two sectors, although some elements of price leadership — a characteristic of oligopolistic markets — can be discerned in such markets in developing countries. The equilibrium levels of output of financial services are then Q_1 for the informal and Q_2 for the formal sector, with corresponding prices P_1 and P_2.

Figure 2 Price and quantity determination in formal and informal credit markets



It is thus shown that the informal sector does not thrive on the deficiencies of the formal sector alone. Consequently, financial policy should take cognizance of this non-orthodox phenomenon. This adds extra weight to the importance of studying the informal financial sector in any developing country. Further research is needed to examine the precise reasons for the existence of the informal finance institutions. (That is, the theoretical underpinnings of the informal sector also justify the need to extend our frontiers of knowledge as far as the IFS is concerned).

The IFS and financial policy

Ndanshau and Hyuha (1990) argue that the IFS plays a crucial role in the policy transmission mechanism and in the saving-investment processes in developing countries. The new structuralists also contend that financial liberalization, along the lines suggested by McKinnon (1973) and Shaw (1973), may not succeed if the IFS is not taken into account (see, for example, Van Wijnbergen, 1982, 1983a, 1983b, 1985; and Taylor, 1983).

However, Owen and Solis-Fallas (1989) appear to support the view that interest rate liberalization will be successful in bringing about growth. Believing that the IFS is large and virtually unaffected by central bank financial policy actions, Park (1973) supports the view that the IFS has a

perverse, yet pervasive, impact on the efficacy of financial policy directed at the FFS.

To date, the most comprehensive analysis of the likely impact of the IFS on the FFS in a policy framework is that of the new structuralists. They examine the main assets of households in the IFS including cash (hoardings), jewellery and stocks of physical goods. Their argument is that financial liberalization will be effective in raising output depending on the substitutability between the demand deposits of commercial banks and the unproductive assets of the IFS (i.e., cash, gold and commodity stocks). There is no study that has verified or tested this thesis empirically, but the new structuralists and their opponents have brought to light once again the fact that the IFS matters in economic development.

V Hypotheses and data

The main hypotheses used in the survey on the role of the unorganized financial markets are that:

- Informal credit is an important complement rather than substitute for formal credit;
- The formal sector is more associated with time-consuming, bureaucratic lending procedures than the informal financial sector;
- Both small-scale and large-scale production units depend on informal credit;
- Informal credit is more expensive because of high interest rates and other charges than formal credit.

The data used in this paper was collected by research assistants using a questionnaire discussed earlier (Hyuha, Ndanshau and Kipokola, 1989), from 262 households in seven dispersed regions of Tanzania.

Sampled households by regions

The distribution of the sampled households in each region is presented in Table 2. Note that the number of households sampled are not evenly distributed in the regions. This is partly because of incomplete data from Mbeya, and partly because the Dar-es-Salaam region was included in the sample at a later stage in order to capture aspects of informal finance in a purely urban setting.

Table 3 shows that the income distribution in the sampled households differs across the regions surveyed. Dar-es-Salaam, Dodoma and the Coast regions had the largest proportion of the respondents with very low income (below 10,000 Tanzanian shillings (TShs)), while Arusha and Mbeya regions had a high proportion of the respondents in the high-income groups. Arusha, Mbeya and Musoma regions had more than 50% of the sampled households in the high income groups. This can be explained by the wealth of these regions, from coffee in Arusha and Mbeya, and livestock in Musoma.

Table 2 Distribution of the sampled households by region

Region	Number of households	Sampled households as percentage of total
Dar-es-Salaam	20	7.6
Mbeya	11	4.2
Arusha	42	16.0
Morogoro	52	19.8
Dodoma	48	18.3
Musoma	52	19.8
Coast	37	14.1
Total	262	100.0

Sampled households by districts and villages

The sampled districts in each region were identified at random by the principal researchers; the sampled villages were picked at random by the research assistants, provided one of the villages was in the neighbourhood of a town and the other in the hinterland of the district. The distribution of the villages by district is presented in Table 4.

In each of the villages sampled at least 25 households were selected at random for interview purposes. However, some of the selected households were not interviewed for one technical reason or another despite several attempts. This explains why, except Dar-es-Salaam and Mbeya, the distribution of the households interviewed varies across districts. Further, because some households provided doubtful or inadequate information, they were dropped from the data at the analysis stage.

Sampled households by sex and age

Table 5 shows that, of the total number of households that responded adequately, about 88% were males and most of the household heads interviewed were in the age range 26-50 years.

Table 3 Household incomes across the surveyed regions (in percentages)

Income group (Tanzanian shillings)	Region							Income groups (total sample) in percentage
	Dar-es-Salaam	Mbeya	Arusha	Dodoma	Morogoro	Musoma	Coast	
Below 10,000	90.0	9.1	7.2	39.6	71.1	9.6	100.0	45.8
10,001-50,000	-	9.1	2.4	4.2	15.4	11.5	-	6.9
50,001-100,000	-	18.2	2.4	10.4	5.8	11.5	-	6.5
100,001-200,000	-	9.1	21.4	8.3	5.8	40.4	-	14.5
Over 200,000	10.0	54.5	66.7	37.5	1.9	26.9	-	26.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 4 Distribution of sample by district and village

Region	District	Ward	Village	Households sampled (1)	(1) as percentage of total sample
Dar-es-Salaam	Temeke	Miburani	TTC	10	3.8
		Mbagala	DSA	9	3.4
Dodoma	Dodoma (urban)	Mbabala	Mbabala B	23	8.8
		Msalato	Mbabala A	24	9.2
Mara	Bunda	Mugeta	Salama A	22	8.4
		Kibara	Bunere	31	11.4
Morogoro	Kilosa	Rudewa	Batini	20	7.6
		Rudewa	Peapea	17	6.5
Coast	Kibaha	Tumbi	Maili-moja	20	7.6
	Bagamoyo	Dunda	Dunda	17	6.5
Mbeya	Rungwe			11	4.2
Arusha	Arumeru	Akheri	Patandi	21	8.0
		Loruvani	Moivo	21	8.0
Total				262	100.0

Table 5 Distribution of sample by sex and age

Sex	Age (years)					Percentage
	1-25	26-50	51-70	71-99	Total	of total
Male	12	133	76	11	232	88.5
Female	2	26	2	0	30	11.5
Total	14	159	78	11	262	100.0
Percentage of total sample	5.3	60.7	29.8	4.2	100.0	-

VI Empirical evidence obtained from the survey

In this section, empirical evidence based on the sample of 262 households is presented and discussed, covering both formal and informal financial sources. We begin with an examination of the sources and uses of income in the sampled households.

Sources and uses of income by the sampled households

Table 6 shows the composition of the main sources and uses of income in the 262 households. Cash crops (coffee, tea, tobacco, cotton, etc.) accounted for the largest single source of income for the sampled households. Other items are food crops such as maize, rice and millet, trade and commerce, and employment income in that order. The most important component of expenditure, as expected in a low-income country, is the expenditure on food (52.9%), followed by building construction and maintenance (10.4%) and purchase of farm machinery (10.1%). Households require finance for both consumption and investment as the table shows; and savings take the form of consumer durables or physical goods (buying livestock) and financialized savings (5.4%). It should be noted further that only 36 households (that is, 14% of the sampled households) had saved in money terms out of their previous year's incomes. From the evidence available, the amount saved averaged TShs 14,565 per household per year. Taking into account savings in physical form and loans extended to others, total savings by the sampled households is quite substantial by developing countries' standards.

The relative importance of each of the items financed by informal loans in each region surveyed is presented in Table 7.

It is interesting to note that over 40% of the respondents in Dar-es-Salaam and Morogoro reported using informal loans for consumption purposes; about 36% of the respondents in Mbeya and 67.3% in the Coast region used informal loans to purchase livestock and finance business. Only Dar-es-Salaam and Musoma regions showed that more than 20% of the population sampled

Table 6 Sources and uses of income in the sampled households

Sources		Uses	
Item of income	Percentage of total	Item of expenditure	Percentage of total
Cash crops	33.6	Food	52.9
Food crops	9.6	Farm machinery	10.1
Off-farm labour	0.8	Purchase farm	1.4
Wages/salaries	7.3	Purchase of livestock	5.4
Trade	8.0	New/maintenance of buildings	10.4
Shop	1.1	Children's education	6.2
Brewing beer	3.2	Health	3.4
Remittances	0.6	Wedding or funeral ceremonies	2.1
Others	35.8	Savings	5.4
Totals	100.0		100.0

reported using informal loans to finance children's education. From the overall sample surveyed it is evident that most of the households borrowed informally to finance crop harvest (24.5%), consumption (20.2%) and purchase of farms (13.5%). Ironically, however, for all the households surveyed the mean income exceeds the mean expenditure by about 35%.

Use of FFIs by sampled households

Out of the 262 households sampled, 169 (that is, about 65% per cent of the total) were found to have used formal or informal financial sources. This implies that about 35% of the households surveyed had not been using external finance at all. Taking 169 households as the valid sample for analysis, it can be seen that about 47% had used formal finance while 77% had used informal finance. The two statistics imply that, as expected, some households had used both formal and informal finance. Only about 8% of the 169 households using external finance made use of savings and credit societies (SCS). SCSs were used in only five of the seven regions covered.

Table 7 Deployment of informal loans in the sampled regions (in percentages)

Items financed	Reported cases by region							Reported cases in total sample
	Dar-es-Salaam	Mbeya	Arusha	Dodoma	Morogoro	Musoma	Coast	
Consumption	51.4	2.2	5.4	8.6	40.9	6.6	3.0	20.3
Crop harvest	-	5.5	0.9	7.1	21.1	22.5	-	24.5
Farm purchase	-	13.3	21.2	6.4	-	4.2	7.9	13.5
Livestock purchase	-	36.5	6.0	23.6	-	5.2	-	3.7
Trade	-	-	17.9	8.8	21.1	5.8	21.8	9.8
Business	26.0	-	27.2	21.8	-	9.5	67.3	8.0
Buildings	-	18.2	17.9	-	-	7.8	-	4.9
Children's education	22.6	9.7	-	9.5	-	22.8	-	9.2
Wedding	-	14.6	3.5	14.2	16.9	15.5	-	6.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The degree of utilization of the services of FFIs by the 47% of the 262 sampled households is given in Table 8. The most important reason for using FFIs was the saving motive (35.7%). The NBC was used for saving in all of the regions covered by the survey, while the POSB was also used for saving by respondents in all the regions except Mbeya and Arusha.

The predominance of the NBC in savings mobilization is also borne out by the 1978 Household Budget Survey. Table 9 shows that the largest proportion of the total income earned by the households surveyed with different incomes was saved with the NBC, reflecting its extensive branch network and its monopoly as the only commercial bank in Tanzania.

The use of FFIs for saving purposes also differed across age groups. Respondents between the ages of 26 and 50 years accounted for 8.4% of the total borrowers and savers, and below 25 years accounted for 0.4%, while the age group 51-70 years accounted for 4.6%. According to the evidence, the respondents over 70 years old had no financialized savings.

Table 8 Use of FFIs (percentage)

Purpose of finance	POSB	NBC	THB	CRDB	NIC	NPF
Saving	8.8	22.1	1.9	0.8	0.8	1.9
Borrowing	0.0	2.3	1.5	1.9	1.5	0.8
Pension	0.0	0.0	0.0	0.0	0.0	3.1
Life assurance	0.0	0.0	0.0	0.0	3.1	0.0
Salary	0.0	0.0	0.0	0.0	0.0	0.0
Security	0.0	0.4	0.0	0.0	1.9	0.0
Total users	8.8	25.8	3.4	1.7	7.3	5.8

The survey results indicate that the use of FFIs is a new phenomenon to many peasants. First, peasants explained that as most of the FFIs are located in urban centres, usually a considerable distance away, only minimal use was made of them. The FFIs campaign messages also failed to reach peasants because of poor transport and communication facilities; the peasants tended to believe that the FFIs were meant only for urban dwellers.

Second, some respondents, especially in Dodoma and Morogoro, appeared to think, erroneously, that the FFIs are meant for the well-to-do people rather than for peasants with low incomes and simple agricultural implements. By and large, these peasants asserted that they needed FFIs mainly for borrowing

Table 9 Institutions used for savings shown in the 1978 Household Budget Survey (HBS) (percentage of total income per household category)

	Employer or own account worker	Employee wage earner	Family work	Unemployed but looking for work	Other not employed	Total stated by all households
Household cash income (Tanzanian shillings)	2,635	6,227	2,794	6,158	1,569	2,837
Percentage saved in						
NBC	1.6	3.7	0.0	9.1	0.3	1.9
THB	0.0	1.1	0.0	0.0	0.0	0.1
POSB	0.5	1.2	0.0	0.0	1.1	0.6
Credit unions	0.0	0.4	0.0	0.0	0.2	0.1
Co-operatives	0.2	0.0	0.0	0.0	0.0	0.1
Village development fund	0.3	0.0	0.0	0.0	0.0	0.2
Life insurance	0.0	0.2	0.0	0.0	0.0	0.0
Others[1]	5.8	7.3	0.0	0.3	13.2	6.1

Source: Household Budget Survey, 1978.

[1] The item 'others' includes a proportion of income given as loans.

purposes, as they were too poor to save or to financialize their savings. Third, ignorance of loan procedures in FFIs prohibited peasants and small-scale business enterprises from applying. Many less educated respondents believed that even if they knew the procedures, their loan applications would stand no chance of being considered positively by FFIs.

Most of the fairly well-educated respondents had heard of the existing loan facilities of the FFIs. However, over 40% of the respondents had not used these facilities as they associated the FFIs with complex loan procedures. Of the sample, 32% reported that dealing with FFIs was too time-consuming. About 34% specified the insistence on collateral security by the FFIs as one of the prohibitive factors in loan applications. In addition, some respondents accused the FFIs of engaging in corrupt practices, whereby loans are granted to applicants not necessarily on the basis of merit. Some respondents who had once applied for loans claimed that they had been discouraged from trying again by the lack of response of the FFIs to their previous applications.

The major obstacles to the use of FFIs for savings purposes were given as lack of their services in villages, locational disadvantages, low incomes and poverty. Specifically, 41% claimed that they were unable to save because of low incomes, and 30% categorically stated that they were too poor to save. A total of 19% claimed that they could not save because the FFIs were too far away.

Surprisingly, interest rate charges were not given as a reason for not borrowing from the FFIs. In particular, only 5.3% of the sampled respondents gave high interest as an inhibiting factor to the use of formal loans. None of the respondents explained that the failure to save was owing to low interest rates paid by the FFIs on savings or other deposits.

Use of IFIs by sampled households

As pointed out earlier, out of the 262 households interviewed, about 45% reported that they had used informal credit. Out of the households surveyed, about 42% had given a loan to either a neighbour, relative, friend, or to a household outside the village. Households in each region surveyed had had extended loans informally. Musoma and Morogoro accounted for the largest number (56%) of the reported cases; and Dar-es-Salaam, Mbeya and Dodoma regions each had the lowest number (less than 10%).

Table 10 shows different sources of loans granted to the sampled households. Apart from co-operative societies, which can be termed semi-informal institutions, it was found that the most commonly used informal finance sources were friends and family members. It was also revealed that

moneylenders did not appear to be common in the sampled villages. Respondents used co-operative societies for saving rather than borrowing since these societies are essentially conveyor belts; in any case, formal loans from the societies take the form of agricultural inputs to peasants. Not many respondents could tell how much inputs supplied by the societies cost, or the rate of interest charged by co-operatives, or the input loans recovered by way of deductions from crop sales.

Table 10 Types of informal finance sources used by the sampled households

Type of IFI	Percentage of users
Moneylenders	1.6
Co-operative societies	35.7
Landlords	2.2
Shopkeepers/traders	4.9
Family members	19.9
Neighbour	11.1
Household in the village	9.5
Household outside the village	4.5
Church/mosque	0.6
Other	10.0
Total	100.0

It was found that the importance of the different informal finance sources across the regions surveyed varies, as shown in Table 11. Friends are especially important in the sampled areas, their use is more predominant in the Coast region where they provided credit to 49.4% of the respondents. Similarly, the use of family members as a source of informal finance is particularly predominant in the Coast and Musoma regions which reported respectively 15.4 and 11.0% of the total uses. It can been seen from Table 11 that the use of the various informal finance sources is more pronounced in Musoma region. This can be explained by the fact that about 55 and 50% of respondents who reported lack of knowledge on the FFIs and uses of other sources of finance, respectively, were from Musoma region.

The predominance of family and friends as important sources of finance in the surveyed regions is also underscored in Table 12, which indicates the recipients of loans financed by the sampled households at one point in time. The recipients of loans were mainly neighbours, relatives, family members and

other households in the same village. The major sources of the loans were farm income (46.3%) and business income (16%). Cases of loans financed by borrowed funds accounted for only 1.6% of the total.

Table 11 Types of informal finance sources in the surveyed regions (percentages)

Type of informal finance	Reported source by region[1]						
	Dar-es-Salaam	Mbeya	Arusha	Dodoma	Morogoro	Musoma	Coast
Co-operative society	-	11.0	24.4	-	-	16.5	-
Moneylenders	-	-	-	25.1	26.9	-	-
Landlords	26.7	-	18.7	9.4	20.2	7.3	-
Shopkeepers/traders	-	20.7	8.3	16.7	-	3.2	19.8
Family members	6.6	5.8	4.6	5.9	5.0	15.4	11.0
Friends	11.9	10.3	12.5	1.0	4.4	7.3	49.4
Neighbours	5.3	14.0	11.2	-	16.1	13.1	-
Household in village	6.3	11.0	8.8	2.2	9.5	15.4	-
Household out of village	13.4	11.6	-	-	-	21.8	-
Church	-	-	-	100.0	-	-	-
Others	29.7	15.6	12.5	2.1	17.9	-	19.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: 1. Number of households as percentage of regional total

Table 13 shows that often little or no interest is charged, underscoring a reciprocity, or practice of informal lending and borrowing, as an insurance mechanism in the surveyed regions. Even though both practices may be autonomous, they may nonetheless thrive with the unavailability of formal financial services and other factors such as structural imbalances. The evidence from Musoma and Morogoro (see Amani *et al.*, 1987) seems to support this connection.

How were the loans from informal lenders used? According to Table 13, most of the respondents had borrowed informally to finance crop production, consumption, the setting up of new, or financing existing, business activities (particularly trade, which accounted for over 6%), and to purchase farm machinery.

Table 12 Informal lending in the sampled regions (in percentages)

Recipients of loans	Region							End user/ borrower (sample total)
	Dar-es-Salaam	Mbeya	Arusha	Dodoma	Morogoro	Musoma	Coast	
Members of family	85.5	-	11.6	60.0	-	14.0	6.9	13.8
Relatives	14.5	6.8	17.4	15.0	24.5	13.1	20.9	27.5
Neighbours	-	10.3	11.6	5.7	39.7	13.8	18.5	36.5
Households in the same village	-	4.4	5.0	9.6	35.8	20.1	17.9	10.8
Households out of the village	-	-	5.0	9.7	-	30.1	-	4.8
Church	-	78.5	-	-	-	-	-	1.2
Others	-	-	49.4	-	-	8.9	35.8	5.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 13 Purpose of informal borrowing and interest charged (percentages)

Purpose of borrowing	Borrowers	Households reported to have been charged interest	
		In cash	In kind
Consumption (food)	20.1	19.0	-
Crop production[1]	24.6	27.2	8.7
Purchase of farm machinery	13.5	8.9	73.9
Purchase of livestock	3.7	4.8	8.7
Business/trade finance	17.8	14.3	-
Building of house	5.0	8.2	-
Children's education	9.1	10.1	8.7
Wedding	6.1	7.5	-
Total	100.0	100.0	100.0

Note: 1. includes financing weeding and harvesting activities such as purchase of machinery, mostly ox-ploughs and tractors.

Some of the households reported having been charged interest on informal loans both in cash and in kind. There were more cases of loans that involved payment of interest in cash than in kind. Finally, the evidence shows that informal loans were used for both consumption and investment purposes rather than for wasteful consumption.

Why have peasants used the informal sector for their financial needs? Table 14 presents the reasons peasants in the sampled areas gave for using informal finance sources. The accessibility of informal credit and the absence of delays in processing and disbursement of IFI loans were found to be the main motivating factors for their use. Only a small proportion indicated a lack of formal finance as a reason for resorting to informal finance. In our view, this proportion (7.0%) is small, basically because only about 51% of the interviewees answered this question. The lack of response could have resulted from the poor technique of the interviewers.

Repeatedly, however, respondents observed that informal finance sources tended to be unreliable and gave only small loans. Lending in the informal markets over-stresses inter-personal relationships, such as belonging to the same ethnic group. Further, decline in moral values has led to increased defaults on loans in the informal sector. Some respondents explained that this is why ROSCAs have declined over time.

Table 14 Motivation for using IFIs in the sampled households

Factors	Respondents as percentage of total
No interest charged	6.8
Easy to reach	17.6
No delay/waiting	30.0
Security not required	11.2
Travel not necessary	6.7
No paper-work	5.0
Habitual	9.9
Lack of formal finance	7.0
Others	5.8
Total	100.0

VII Conclusion

Summary

In this study we set out to examine the scope and nature of IFIs in Tanzania. A sample survey covering 262 households in seven regions of the country was carried out. An analysis of the data gathered by the use of a questionnaire highlighted first, the type of informal sources of finance existing in Tanzania; second, the types of assets available to savers and borrowers in the IFS; and third, the reasons behind peasants' use of the informal finance services.

Although our findings are from an exploratory type of study, they are nonetheless indicative. In particular, we confirm the existence of the IFS operations, and point to the important role the sector plays in the saving-investment process in Tanzania. Our findings on the supply-side and demand-side of the informal loans appear to be generally in line with those in other less-developed countries as discussed above. However, though the IFS is a reality rather than a myth in Tanzania, we did not get affirmative evidence in support of either the orthodox or the neo-structuralist view on the role of the non-institutional credit sources.

Main findings

The evidence from our study reveals that informal finance in Tanzania consists of a number of diverse informal financial institutions. The most predominant are non-commercial, including family members, friends, neighbours and other households in the village. The commercial lenders are of little importance in informal lending, given the small proportion of respondents who reported to have borrowed from moneylenders.

The factors which have prompted the use of informal finance and which differentiate the IFS and the FFS, are first, their accessibility and the prompt delivery of the informal loans, and second, the lack of collateral security. The last predominant factor is the peasants' habit of using informal rather than formal sources of finance, even where the latter are available.

Thus, as in many other less-developed countries, the factors which prompt the use of the IFIs coupled with the socio-cultural environment — signified by the peasants' conception of informal lending/borrowing as a mutual aid arrangement — provide a *raison d'être* for the informal financial sector in Tanzania. It appears to us that both the IFS and FFS have to exist in Tanzania for, as Seibel (1986) points out, each has a role to play.

As Ndanshau and Hyuha (1990) claim, the IFS and FFS in Tanzania are sister business organizations sharing the market on a mutual basis while supplying differentiated financial services to their clientele. Within this duality of the financial structure, the microeconomic model of imperfect competition with differentiated products applies.

Our study also shows that borrowing/lending amongst the respondents in all the surveyed areas was not solely for financing consumption expenditures. Thus, and contrary to the orthodox conviction, some of the informal loans were used to finance business/trade, agricultural production and children's education. Within this context, the use of the informal financial institutions in the sampled population or areas ranges from short-term to long-term investment in income-generating activities. We need to emphasize, however, that short-term investment predominates over long-term investment. This fact reinforces out belief that the IFS complements the FFS in development financing. For this reason, existence of the IFS is, as Hyden (1983) notes, a blessing in disguise.

Policy implications

The positive role played by the IFIs established by this study casts some doubt on the applicability of the orthodox thinking and policy prescriptions which emphasize the importance of the FFS in Tanzania. The supply of formal financial services is perceived as the only approach to enhance development finance in the less-developed countries like Tanzania, while the IFS is associated with a lack of adequate loanable funds, expensive loans and wasteful expenditures, such as the financing of consumption.

Our findings point to the opposite and reveal implicitly that the role of the FFS in development finance in Tanzania is not as gigantic as has been believed. An important role is also played by the IFS. We also indicate that some of the informal loans of the IFS are free from interest rates while others are not; it is assumed that IFS interest rates are exploitative. Pending a further investigation of the IFS to establish the rate of interest charged, we are inclined to argue against direct government intervention using legal measures to check its operations (the IFS is not legally recognized in Tanzania). The

FFS and the IFS have differing uses, as Seibel (1986) argues; government intervention designed to eliminate the IFS is, therefore, likely to be unrewarding.

Limitations of the study

A number of methodological and technical problems were encountered during our study. The first problem is a conceptual one and concerns the definition of a loan. The term loan had different connotations amongst the respondents. To some, the term is defined only as external resources given in the form of cash. Since some of the cash loans are very small in size and of a short-term nature — ranging from some hours to one day, to one week — some respondents disregard this form of borrowing, as a loan. 'How can you refer to this small amount payable in such a short time as a loan?' asked one of the interviewees. Most respondents considered this type of borrowing (and lending) as a mutual aid arrangement. Across the regions covered, this mutual aid arrangement was variably referred to in Swahili as *Kusaidiana* or *Kuhemea*; and involved giving (and receiving) food cereals, farm implements and labour time on a farm (not akin to work and dance parties). Given the peasants' narrow conception of a loan, coupled with a lack of record of the loans extended or received, the importance of the IFS is undoubtedly under-estimated by under-reporting of the respondents covered by this study.

Second, since this study was preliminary, a number of secondary but fundamental questions were not included in the questionnaire. These include the amount of interest charged (where established), quantification of the borrowing costs of the IFS, a sharper focus on type and size of collateral used, and coverage of the supply-side of the IFS.

Third, it was discovered that the questionnaire should have included more crucial questions on household expenditure on items such as clothing, utensils and locally made alcohol, for in some regions these were established to have quite a significant bearing on the sources and uses of income of the households.

Fourth, the interviewees should have been briefed on the purpose and intended use of the study. On the one hand, the respondents often wanted to know how useful the study would be to them; and on the other hand, they were found to be sensitive in giving correct or adequate information on their assets and income. The data reported in this study included a number of intelligent guess-estimates either by the respondents or the interviewers. As in most other less-developed countries, many households had not kept records on lending, borrowing, expenditures or incomes. Therefore, we strongly believe

that the data on informal loans reported by the respondents are under-estimates of the actual amounts, especially in connection with the excess of household income over expenditure and the respondents' lack of understanding of the concept of a loan.

As a study to get to know what is in the 'black box' of the IFS in Tanzania, the results established are adequately informative and indicative. For a deeper and more rigorous survey, it remains our task to widen our knowledge on the scope, structure and policy implications of the IFS in Tanzania.

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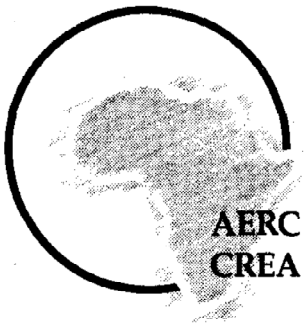
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