BRIDGING THE LIVELIHOOD INSECURITY GAP: THE ROLE OF INFORMAL CREDIT IN TANZANIA

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ABSTRACT: Informal credit arrangements have been perceived as being exploitative because they charge high interest rates thus subjecting the poor to perpetual situation of indebtedness. Notwithstanding such perceptions, empirical evidence from selected low income settlements of urban Tanzania shows that informal credit arrangements provide insurance against livelihood insecurity to the urban poor. This article makes a case about how informal credit arrangements are able to provide the urban poor with livelihood security.

INTRODUCTION

Informal credit providers, including merchants, landlords, money lenders, relatives, neighbors, shop and stall-owners have been perceived to compound the problems of livelihood insecurity of the urban poor in developing countries of which Tanzania is no exception (Bottomley, 1983; Braverman and Guasch, 1986; Meyer, 1991). It is contended that rather than assisting the urban poor, informal credit providers have been exploiting them by charging them exorbitant interest rates. By paying these exorbitant rates, the poor remain poor passing this burden, and often the debt, on to future generations (Results, 1996).

While not playing down the possibility of exploitative relationships between the informal credit providers and the urban poor, informal credit arrangements in a number of developing countries have performed the legitimate function of providing livelihood security to the urban poor. In Tanzania, it is estimated that informal credit arrangements including shop and stall owners, relatives, money lenders and neighbors provide productive and consumptive credit for more than 82.6 per cent of the rural households (BoT, 1997). This paper shows the way in which shop and stall owners in select poor areas of Dar es Salaam, have established institutions, which not only respond to the credit demand of the low income groups but also address their problem of livelihood insecurity. The term institutions in this paper refers to the rules of the game which require, prohibit or permit particular actions (Gibson, 1998). Understanding the way informal credit arrangements work might help in designing micro-finance programmes which are defined as finance against poverty, to fit in better.

CREDIT AND LIVELIHOOD INSECURITY IN DEVELOPING COUNTRIES: THE DEBATE

Lack of access to credit as a factor contributing to livelihood insecurity of the poor in developing countries is well documented in the development discourse (World bank 1992: 218; Yaron 1992; Adams and Douglas, 1984). This lack of accessibility though a result of many factors, was perceived to be a consequence of institutional factors of formal credit institutions including stringent lending conditions. Such conditions, including demand for land title deeds and immovable assets as collateral for accessing loans ignored the circumstances of the poor. Since, the majority of the poor in developing countries do not possess land title deeds as well as immovable assets, they could not access credit. This prompted international development agencies and governments of developing countries to establish specialized state run credit institutions for the purpose of supplying production credit to smallholder farmers. For example the Agricultural Finance Corporation in Kenya, Zimbabwe and Zambia; Cooperative and Rural Development Bank (CRDB) in Tanzania, Agricultural and Industrial Bank (Ethiopia and Nigeria) and Agricultural Development Bank in Ghana.

State controlled and run credit schemes of the 1970s and 1980s aimed at reaching the poor failed because they introduced conditions, which alienated the very poor they intended to assist. These were conditions such as legal title to land, secure income and a deposit of a certain percentage of the loan sought. Even where governments of developing countries attempted to reform these financial institutions in order to assist the targeted groups socio-economic conditions, the dependent nature of such institutions rendered them unsustainable. This is because rather than mobilizing savings, state-run financial institutions for assisting the poor depended on the central banks or treasuries of their countries and donors for their lending activities (Belshaw, 1988).

Despite their good intentions, state-run financial institutions have had disma performance in helping the intendec beneficiaries (Adams 1980; Hella, 1987 Braverman and Huppi, 1991; Yaron, 1992 1994). It is evident that state-run credi schemes, as a form of intervention tc address the problem of poor people's access to credit, were flawed in design and had systemic weaknesses which prevented them from achieving the intended objective (Adams et al, 1984). Most of them had conditions which prevented the poor from accessing credit. In addition a number of them were not viable because of low (subsidized) lending rates. The subsidized below-market ceiling rates of interest often led to the crowding out of the intended beneficiaries (the poor) because the subsidies were captured by wealthier, and better-connected income groups.

Beginning the early 1980s, there was a realization on the part of international aid organizations and governments of developing countries of the need for new forms of interventions which would, in a sustainable manner, take into consideration the contextual factors contributing to the poors' inability to access credit from state-run financial institutions. Influenced by the innovation of Grameen Bank of Bangladesh in the early 1980s, generically termed-micro-finance credit schemes noted for the first time that with appropriate institutions the poor are capable of repaying their loans. Differentiated from the former rural development finance and formal special credit schemes, the micro-finance credit schemes have been perceived as finance against livelihood insecurity. This is particularly so in terms of its institutions including new and less stringent borrowing conditions and reliance on borrowers savings as the basis for credit extension.

One of the conditions, which differentiates many micro-finance credit schemes from other credit schemes is a shift from individualized lending to group based lending. This model developed by the Grameen Bank has been emulated by a number of micro-finance schemes aimed at helping the economically disadvantaged groups in developing and some relatively middle income countries. To mention a few, these include Pride International, and the Group Credit Company of South Africa.

In principle a group based lending is a system whereby loan finance is offered to low-income residents who are organized into small groups with collateral being provided by other savers within the group. The group members receive their loans at different times, with loans for second and subsequent members being dependent on the repayments of the first members being maintained.

The 1980s interventions in the form of micro-finance are commendable, however, there is a lot more to be done for them to realize their intended objectives. As has been the case for with micro-finance credit schemes in Tanzania, their credit allocation policies while well intended, tend to exclude the poorer, less influential unorganized poor, mainly youth and women (Ryne and Otero, 1997; Toroka and Wenga, 1997, Kaare, 1998). In this paper the poorest amongst the poor are those who have incomes of less than an absolute poverty line of $1 per day per person. In Tanzania 51 per cent of the population have incomes less than the absolute poverty line of $ 1 per day per person. 42 per cent have incomes of less than $0.75 per day per person (World Bank 1995: xv). Resumption of economic growth over the past decade has substantially improved the lot of the poor in Tanzania as a result of which the percentage of the population living below $0.75 is lower today than in 1983 (World Bank, 1995). However, the Urban Livelihood Security Assessment (ULSA) conducted by CARE-Tanzania between 1997 and 1998 confirms that a large proportion of the urban poor of selected areas of Dar es Salaam had incomes less than $0.75 per day per person. This is a clear indication that poverty is still one of the major challenges of the urban population of Tanzania.

Another fundamental problem of the group based lending system preferred by the micro-finance credit schemes is the fact that these groups are brought together purely for purposes of obtaining loans with little previous contact between group members. As was noted for the Group Credit Company of South Africa and the Building Together Programme in Namibia, the lack of cohesive links between the group members resulted into groups falling apart, making it difficult for the credit scheme to recover costs (Mitlin, 1996: 17).

Other problems of group based lending schemes relate to inadequate understanding of the dynamics of the economic activities of the informal sector which constitute a major source of livelihood security for the poor. For example, the demand for organized groups as a condition for obtaining credit from Pride International (Tanzania) attempts to formalize the already informal and flexible structures within which the informal sector operates. These conditionalities do not address the circumstances, which give rise to the informal economic activities. For instance, the organization of economic activities of the informal sector in urban Tanzania puts demand on the time of its residents that they hardly remain with time to organize communal or group based activities. As observed in the ULSA survey, low incomes obtained from informal economic activities have driven residents of Bustani Street in Mtoni Dar es Salaam to embark on more than one income generating activities, thus leaving them with no time for community participation and organization (ULSA, 1998: 185). This has created a high level of individualism in the community. In view of increasing individualism in Bustani Street in Mtoni Dar es Salaam, it is pertinent to suggest that individualized loans are perhaps the appropriate option in providing loans to low income groups of this area.

INFORMAL CREDIT ARRANGEMENTS AS INSURANCE AGAINST LIVELIHOOD INSECURITY

Despite reservations raised about informal credit arrangements, they provide insurance against livelihood insecurity to the urban poor of developing countries (Shipton, 1995: 173). With reference to selected low-income areas of urban Dar es Salaam, the following section details the working of the informal credit arrangements and the way in which they provide insurance against livelihood insecurity.

METHODOLOGY

In studying the role of shopkeepers and stall-owners in the delivery of credit facilities to the poor in selected urban areas of Dar es Salaam, the author relied on primary data that was collected during the Urban Livelihood Security Assessment (ULSA) conducted by CARE-Tanzania between October and November 1997. Twelve sites (*mitaa*) were selected in six wards (two sites in each ward) as shown in Table 1.1. Only wards with generally low levels of income were considered for selection, and the assessment identified a mixture of wards that represented a number of characteristics including squatter areas; peri-urban areas; high, low and middle population areas; and areas with low level of services (ULSA, 1997: 6).

Table 1.1: ***Wards Selected for the Dar es Salaam, ULSA Survey***

WARD	SITE (MTAA)
Jangwani	Jangwani Mzizima
Vingunguti	Kombo Mtakuja
Ukonga	Mogo (Majumba Sita) Guluga Kwalala
Mtoni	Bustani Mtoni Relini
Tandale	Mtogole Kwatumbo
Charambe	Majimatitu Machinjioni

Source: Rutahakana, R., and M. D. DeVries, 1997 CARE-Tanzania, Dar es Salaam Urban Livelihoo Security Assessment. Data Document (A Compilation of Data Gathered in the Quantitativ and Qualitative Surveys) Vol. 1, November 1997 p.11.

ULSA involved gathering qualitative dat from each site surveyed, to obtai information on livelihood security an coping strategies, including access t informal credit. In each survey a random sample of 50 households was selected. A total of 600 households were selected.

CHARACTERISTICS OF SHOP AND STALL-OWNERS

Shop-owners and stall-owners in the areas surveyed represent a group of small business people who provide credit facilities to the low-income groups. In this study, low income groups compose those people whose earnings are below or Tshs 10,000 a month, reside in planned or unplanned areas characterized by unsanitary conditions, poor hygiene, high-room densities, insecure land tenure, inadequate tenancy protection, and inadequate social services such as schools, health centers and water.

The two groups, shop-owners and stall-owners are different in terms of their economic activities, and the manner in which they run their business. However, the credit services that they provide to the low-income groups are somehow similar.

Shop-owners

These are owners of small shops, which provide non-perishable commodities that have a ready market in the areas in which they are located. They range from rice, sugar, maize, wheat and millet flour; kerosene; cooking oil; sugar; soft drinks sweets and the like.

The shops are in most cases of small size with working capital of between Tshs 300,000 and Tshs. 400,0000. Many shop-keepers receive their start-up capital as loans or grants from relatives or friends or their own savings.

The shops are a mixture of small rooms rented (mainly one room) from one of the houses in the community; a container grounded in an open space in the area; or a modern concrete-hut built in a vacant space. The majority of shop-owners are residents and indigenous to the communities where their shops are located.

The shop-owners own the shops, which is their major source of livelihood. The shops are attended by the owners (majority of whom are men) or family members (wife, children and relatives).

Purchases for the shops are done by the shop-owners themselves, so are decisions on the manner of managing the shop including opening and closing hours, price and lending policies.

Stall-owners

Stall-owners are of two categories: those who own a table in a market and those who own a table anywhere in the community, but not in the market area. The market in which stall-owners have their tables may have evolved spontaneously as a petty-food trading area owned by few individuals who invaded the empty space or in authorized local authority market premises. The non-market-based stalls could be located outside the owners' place of domicile or in a rented space outside or close to a house in the area. In all cases, the tables are owned by the stall-owners.

Stall-owners provide a number of perishable goods and at times non-perishable (for market based stalls) goods including potatoes, vegetables, rice, fruits, wheat, maize and millet flour, salt, fresh tomatoes, onions etc. Stall-owners buy their commodities from Dar es Salaam's major city market-Kariakoo, and from small producers in the areas. This is particularly so for locally consumed vegetables such as *mchicha*, pumpkin leaves sweet potatoes leaves and *matembele*.

The stall-owners sell the foodstuff themselves or rely on the labor of family members, relatives or friends or colleagues/ mates at the market. Family based labor offered to the shop and stall owners is mainly paid in kind in various forms including free lodging and boarding at the residence of the shop and stall owners.

CHARACTERISTICS OF BORROWERS

In the surveyed areas, petty-traders both men and women are the major groups of people relying on shop and stall-owners for credit. Despite this variation, the borrowers earn income, which cannot sustain their daily livelihood. Their level of education is also low (standard seven leavers or no-education at all) preventing them from accessing formal employment when such an opportunity arises in the labor market. Although some may have housing of their own, the houses do not have formal title deeds. Very few have possessions such as television sets, radio cassette, and refrigerators.

The type of economic activities for which credit is sought are many including food vending (*mama and baba ntilie*), vegetable and fruits vending and second hand clothes vending (*machingas*). However, more than 70 per cent of the people interviewed in the areas surveyed sought credit to embark on food vending. Regardless of the economic activities for which the credit is sought, the aim of the credit facility obtained from shop and stall owners is maintenance of the family labor force in terms of food, education, security, housing and social integration.

Although shop and stall owners in the areas surveyed have extended credit to all eligible members of low-income category, it is mainly women who are the major clients of shop-owners and stall-owners when it comes to accessing loans. This is mainly attributed to the fact the type of economic activities for which credit is sought for, especially in food vending, attracts women because of the traditional culture which conventionalize the activity as a women's area of specialization. Compared to men, shop and stall owners perceive women to be more reliable in terms of loan repayment.

SHOP-OWNERS AND STALL-OWNERS LENDING SYSTEM

The lending system designed by the shop-owners and stall-owners operates as follows:

Nature of the Loan

In the 12 sites visited loans were in the form of consumable items both perishable and non-perishable and at times, monetary form (see Table 1.2).

The amount lent to the borrower is the sum total of the value of the commodities borrowed. If a borrower collected rice, two cups of cooking-oil, a spoon of super-ghee, the loan will be the sum total of the price of each of the three items.

A typical loan for a first-time borrower from a shop owner would amount to T.shs 2,940. The amount of loans shop and stall owners offer are small compared to those offered by formal financial institutions such as banks and micro-finance institutions (e.g., a minimum loan from Pride Tanzania is Tshs 50,000). However, the amount is large compared with the majority of low-income earners income.

Table 1.2: *A Typical Loan from a Shop-Owner to a Food Vender*

Item	Unit	Unit Price (Normal) Tshs per kilo	Unit Price (Lending) Tshs	Total
Rice	5 kilograms	300	320	1,600
Beans	Half a kilo	360	380	190
Cooking oil	14 measuring cups	60	75	1,050
Salt	One 50 gram pack		100	100
Total				2,940

Source: Compiled by the author from interviews with some shopkeepers in surveyed areas

Borrowing from stall-owners is also in the form of perishable and at times non-perishable goods (see Table 1.2). Thus, a typical loan from a stall-owner would amount to Tshs 1,630[00].

Table 1.3: *A Typical Loan from a Stall-owner to a Food Vender*

Item	Unit	Unit Price (Normal) Tshs per kilo	Unit Price (Lending) Tshs	Total
Charcoal	1 tin (empty 5kg sadolin paint container)	250	260	260
Onions	1 bundle	100(per bundle)	110	110
Tomatoes	1 bundle (containing 3 medium sized round tomatoes)	100 (per bundle)	110	110
Spices	14 measuring cups	60	75	1,050
Salt	One 50 gram pack		100	100
Total				1,630

Source: Compiled by the author from interviews with some stall-owners in the surveyed areas.

Pricing Procedures

Shop and stall-owners offer different prices for commodities bought on cash or credit. Commodities bought on cash are available at obtaining/normal price, whereas those bought on loan are offered at a price slightly higher than normal. In one locality(an administrative unit ideally comprising 10 houses under the headship of a locality chairperson) a kilogram of rice bought on loan cost Tshs 350 (17% more than normal price) while on cash it cost Tshs 300. Clearly the idea of interest on loan is very much employed by the shop and stall-owners as is employed by formal financial institutions.

The extra amount (interest) that is charged for items sold on credit is in actual sense the price charged for the services offered by the shop and stall owners. It is an essential element if the shop and stall owner has to recover costs. However, compared with the interest rates charged by formal financial institutions, the interest rates charged on credit by stall and shop owners is lower (see Table 1.4). The Lending rates are lower than those offered. YDF is an exceptional case.

Table 1.4: *Lending Rates Applied by Formal Financial Institutions, September-November, 1997*

Financial Institutions/ Banks	**Type Institution**	**Lending Rates % Six Months**	**Lending Rates % Twelve Months**
Pride (Tanzania)	Micro-finance-Private	15	30
National Bank of Commerce (NBC)	Banks-Public	-	27
Presidential Trust Fund (PTF)	Non Governmental Organization	15	30
Youth Development Fund (YDF)	Ministry of Labor	-	13-15
Cooperative and Rural Development Bank (CRDB)	Public/Private	-	27
Finance and Enterprise Development Associates (FEDA)*	Non Governmental Organization-	20	30

*FEDA is a business development initiative supported by the United States of Agency for International Development to assist small businesses through the introduction of market oriented approaches to business development. However, FEDA's lending program commenced early 1998.

Source: Compiled by the Author from various sources including various issues of Business Times of the Business Center of Tanzania; discussion with officials of the mentioned financial institutions specifically those of Pride Tanzania, NBC, and CRDB.

Lending Procedures

There are no written procedures for accessing credit in the form of commodity items, but there exist customary practices commonly observed by both borrowers and lenders. There are at least four related major conditions applied by the shop and stall owners to determine, credit worthiness of a borrower. These are character, intimate knowledge of the borrower, collateral, and trust (cf. Shipton, 1997).

The first-time borrower will access credit facility through a character test achieved by *(Social guarantee and flexible ties between the members)* way of introduction from a relative or friend who is a regular and reliable borrower. Sometimes respected members of the community can stand as guarantors for a first-time borrower. The person who introduces the first-time borrower to the shop and stall owner is believed by the lender to have an intimate knowledge of the borrower. Essentially, it is the trust, which the shop and stall owner has on the person who introduces the borrower that influences his/her decision to extend credit. This trust has been built over a period of time through constant interactions between these trusted people and the shop and stall owners. In most cases trusted members in the community include relatives or very close friends of the shop and stall owners. In some instances trusted individuals have included leaders of the formal political institutions in the area including the chairperson of the ruling party and the head of the locality in the area in which the shop and stall is located. These people are trusted and respected because in most cases they provide an enabling environment for the shop and stall owners to carry out their activities. For example, in many unplanned areas of Dar es Salaam, chairpersons of the ruling party (CCM) have played a role of allocating vacant land to individuals seeking such land (Kaare, 1998; Kironde, 1989).

A collateral which is different from that obtained in formal credit systems complements an introduction by a notable member. A collateral in the formal credit system is a security provided by the borrower against a loan. Under informal credit arrangements, collateral operates under a porn system whereby the borrower is asked to deposit valuable items like a new pair of *khanga* or *kitenge*, golden-jewelry as collateral used by shop-owners to cover the risk for non-repayment by the first-time borrower. The shop and stall owner will hold onto deposited assets for a fixed period of time, if a borrower cannot repay the loan, the deposited assets will be sold by the shop and stall owners to recover the loan. Permanent selling of deposited assets (collateral) by lenders, were not wide spread in the surveyed areas. This is because although the deposited assets may have small monetary value, borrowers always attempt to recover their property because of the social value they attach to them. It is evident from the discussion, that possession of such assets is essential for consideration for loan by shop and stall owners.

The demand for collateral as a condition for assessing credit offered by shop and stall owners suggests that saving on the part of would - be - borrower is an integral part of the informal credit system as operated by the shop and stall-owners in selected areas of Dar es Salaam. However, unlike the saving system that operates in the formal credit systems whereby the person is required to possess an account with a financial institution which the credit is sought from, in the informal credit systems saving takes a different form. As was found during interviews, saving by the urban poor includes purchasing non-perishable goods which can be accepted as collateral by lenders such as shop and stall owners. In determining the value of porn goods, the lender focuses on the goods' marketability. That is, a pair of Khanga given as porn to the shop owner will only be accepted if the owner perceives that it can fetch a price in the market should the borrower fail to repay the loan.

Record Keeping

Shop and stall owners maintain an exercise book commonly known as 'daftari' that keep records of all borrowers and the items borrowed. There are no forms for borrowers to fill. As such, paperwork and information gathering activities are very minimal reducing the lender's cost of lending in terms of paper and associated printing costs.

Motivation/Incentives Available for Loan Repayment

There are a number of factors that motivate borrowers to repay their loans. As mentioned earlier, items used as porn for loans are considered as valuable assets by the borrowers. Once such items are deposited with the shop or stall owners it is in most cases in the borrowers interest to repay the loan to recover the items.

Shaming - a process whereby the shop or stall owner passes to community information about a dishonest borrower - has also been used as one method of getting borrowers to repay their loans. Borrowers fear that such information, when disclosed to the community damages their reputation by portraying them as bad debtors, hence eliminating any possibility of obtaining credit from any one in the community.

Motivation for Shop and Stall Owners to Extend Credit

While it is true that shop and stall owners are making profit through charging interest rates to the borrowers, but by extending credit to the poor urban residents, the shop and stall owners increase their volume of sale thus making it even more profitable.

Internal Organization of the Shop

As indicated in previous sections, shops and stall owns are run by individuals who make all decisions. Even where relatives or friends are given responsibility to run the shops or stalls, non-routine decisions (such as lending to a first-time borrower) have to be made by the owners. Understandably, the volume of work in terms of demand for credit, is not enormous and hence this highly centralized decision making system seems to work and does not cause unnecessary delays or extra transaction costs. The shop and stall owners also see as an essential mechanism for controllii the flow of credit and places the onus f accountability for debt management on tl owners.

INFORMAL CREDIT AND LIVELIHOOD SECURITY

Perhaps the most important question ask at this stage is, does credit fro shop and stall owners addre problems of livelihood insecurity of the lo income groups of urban Tanzania? Clearl a typical loan from a stall and shop own amounting to Tshs 4,570^{00} per borrowe does make a difference to the low-incon family's livelihood security. It was lean from the surveys that a typical loan of Tsl 4,570^{00} enables the borrower - in this case a food vendor - to obtain foc items which when prepared can produce least 30 plates of rice and beans. Tt normal price of a plate of food from a foc vendor (*mama* or *baba ntilie*) in lo income areas of Dar es Salaam costs Tshs 300 (three hundred). At such a price th borrower is capable of earning Tshs 9000 from a single loan. The amount earned (i Tshs 9000^{00}) enables the borrower to repa the loan and retain an amount that can b used to finance other social welfai activities such as house rent, clothing, foo and at times school fees for children.

It is evident from this study therefoi that those informal schemes raise th security profiles of the poor who coul have otherwise gone without any form c credit necessary for their livelihoods.

CONCLUSION

It has been suggested in this paper that informal credit arrangements rather than compounding the poors' problems of access to both productive and consumptive credit provide insurance against livelihood insecurity. Informal credit arrangements have been successful in addressing credit problems of the urban poor of Tanzania because they have established institutions which not only respond to the credit demand of the poor but also address their problem of livelihood insecurity. As shown in this paper, previous interventions in the form of government managed credit schemes as well as the recent interventions of micro-finance schemes although well intentioned, have established institutions, which exclude the very people they want to help.

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