

**THE IMPACT OF INTEREST RATES ON POVERTY
REDUCTION: A CASE OF CRDB DAR ES SALAM**

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**A Dissertation Submitted in Partial / Fulfillment of the Degree of Master of
Business Administration (MBA) Cooperate Management of Mzumbe University**

2014

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **The Impact of Interest Rates on Poverty Reduction: A Case of CRDB Dar Es Salam** in partial/fulfillment of the requirements for award of the degree of **Master of Business Administration (MBA) Cooperate Management** of Mzumbe University.

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I, **Florence Kassela** declare that this is my original work and has not been presented for a degree in any other university or any other award

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Foremost, I am grateful to God for seeing me through my years of University education.

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DEDICATION

I dedicate this scholarly work to my parent who invested all their effort into seeing me inherit the real wealth education. It is by their inspiration that, I decided to pursue this course so as to honour their sacrifices throughout my schooling days.

LIST OF ABBREVIATIONS

MFI	:	Micro Finance Institution
NGO	:	Non Government Organization
LIF	:	Life Insurance Fund
MEC	:	Market Enterprise Committee
EG	:	Enterprise Group

ABSTRACT

This study will be conducted in Ilala municipality, Dar es Salaam. CRDB Bank PLC (AZIKIWE) and more of microfinance department will be involved.

The study intends to analyze the effect of interest rate on poverty reduction, and the findings of this study will help in one way or another to give out solutions or ways for Tanzanians to be helped out in this area.

Different methods were used in obtaining the data. The researcher obtained a sample of 20 clients by using random sampling which is 50% of the targeted population.

Both primary and secondary method of data was used. Data was collected through questionnaires, interviews and documentary reviews. The study is qualitative research design which used case study.

Findings of the study show that all of the CRDB clients in the study were already in the business before applying for the loan. Many of them engaged before applying for loan. Many of them engaged on different types of businesses immediately after standard VII or O 'level education. Some of them got skills of the business from by inheriting from their parents while others were due to life hardship.

The study recommends that interest rate charged by CRDB is very high compared to profitability of her clients business, make change method of repayment and introduce

another repayment period because weekly repayment seems to affect majority of her clients. According to the CRDB mission is to create a sustainable financial and information service for small and micro entrepreneurs in order to promote their business growth, enhance their income and create employment in Tanzania. It seems the policy rejects many poor people who could participate in the whole exercise of poverty reduction.

TABLE OF CONTENTS

CERTIFICATION	i
DECLARATION AND COPYRIGHT	ii
AKNOWLEDGMENT	ii
DEDICATION.....	iii
LIST OF ABBREVIATIONS	iv
ABSTRACT	v
TABLE OF CONTENTS.....	vi
LIST OF TABLES	viii
CHAPTER ONE	10
INTRODUCTION.....	10
1.0 The Historical Background	10
1.1 The concept of Micro-finance Institution	10
1.2 Some reflections of poor people in Tanzania.....	2
1.3 Statement of the Problem	4

CHAPTER TWO	6
LITERATURE REVIEW	6
2.0 Introduction.....	6
2.1 Theoretical Literature Review.....	10
2.2 The religious View of Charging Interest Rate:	12
2.3 Empirical Literature Review	14
2.3.1Some more thought of charging high interest rate:	14
2.4 Conceptual Frame work	18
CHAPTER THREE	19
RESEARCH METHODOLOGY	19
3.0 Research Approach	19
3.1 Introduction:.....	19
3.2 Study area:.....	20
3.3 Research Design:.....	20
3.4 Sources of Data	20
3.4.1 Secondary Data:	20
3.4.2 Primary Data:	20
3.4.3 Unit of Inquiry:	21
3.4.4 Sampling Procedures:.....	21
3.4.5 Methods of Data Collections:	22
3.5 Data Processing and Analysis:	23
CHAPTER FOUR	23
RESEARCH FINDINGS AND ANALYSIS	23
4.0 Introduction	23
4.1 Brief history, credit model and its operations:	23
4.2 CRDB Credit Model and its Operation.	23
4.2 Case Studies of CRDB Clients.....	27
CHAPTER FIVE	54

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

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5.1 Recommendation : **Error! Bookmark not defined.**

5.2 Conclusion: **Error! Bookmark not defined.**

REFERENCE..... 59

APPENDIX I..... 60

QUESTIONNAIRE1 60

QUESTIONNAIRES FOR MICRO FINANCE CLIENTS..... 60

APPENDIX II 63

QUESTIONNAIRE2 63

QUESTIONNAIRES FOR MICRO FINANCE CLIENTS (SWAHILI VERSION) 63

APPENDIX III..... 64

QUESTIONNAIRE3 64

QUESTIONNAIRES TO MANAGEMENT/ADMINISTRATION OF
MICROFINANCE INSTITUTION: 64

APPENDIX

IV.....

SUMMARY OF 20 CASES OF

CLIENTS.....

....

LIST OF TABLES

Table 3.1: Business Strata..... 21

Table 4.1 Loan levels 25

Table 4.1: Summary of Pride Credit **Error! Bookmark not defined.**

Table 4.2: summary of clients Indicators 51

Table 4.3 Loan Levels Disbursed..... 53

LIST OF FIGURE

Figure 4.1 Loan levels disbursed 53

CHAPTER ONE

INTRODUCTION

1.0 The Historical Background

1.1 The concept of Micro-finance Institution

To most, Micro- finance means providing very poor families with very small loans (Micro-credit) to help them engage in productive activities or grow their tin businesses. Overtime, Micro-finance has come to include a broader range of services (credit, savings, insurance etc). as we have come to realize that the poor and the very poor who lack access to traditional formal financial Institutions require a variety of financial products (CGAP)

According to Robinson (1998:55-56) Micro- finance refers to small –Scale Financial Services for both credit and deposits- that are provided to people who form or fish or herd, operated small or micro-enterprises where goods are produced, recycled, repaired or traded, provide services, work for wages or commissions, gain income from renting but small amounts of land, vehicles, draft animals or machinery and tools and to other individuals and local groups in developing countries, in both rural and urban areas.

The motive behind Micro- finance is to reduce poverty through financial services to poor and very poor who are neglected from traditional way of lending, this financial services help them to carry their own projects and social economic development. Therefore the roles of Micro- finance Institutions in community are as follows.

First, they encourage poor people participation through saving. They are very important to providing financial service to poor in a sustainable ways at a cost that is perceived lower than the traditional money lende (chijoringa, 1997:16)

Secondly, create employment to poor urban and rural, as Kuzilwa and Mushi (1997) argued that access to credit to small enterprise lead to employment creation.

Thirdly, Micro- finance provides necessary skills to Micro- entrepreneur such as training, business plan etc.

Despite the roles of Micro- finance Institution mentioned above, Micro-finance Institutions have failed to achieve the objective of reducing poverty. According to Njau (2001:8) Micro –finance providers in Tanzania were charging higher lending rates, where most of them were ranging from 30 to 40 percent which retards poverty reduction efforts.

The concept of Interest rate and poverty:

Under normal conditions the interest rate is a cost of borrowing to the borrower and opportunity cost to the lender.

But what then is poverty? Two major categories of definitions of poverty have been given. They are “absolute” and “relative” poverty approach definitions .The world bank etc all (1991) defined absolute poverty as the inability to attain a specified (minimum) standard of living. The definition focuses on the absolute economic well being of the poor. In isolation from the welfare distribution of entire society. This means that the living. The latter is commonly expressed in real terms and is normally held constant in the short run. However, it is adjusted in the medium to long-term to reflect changes in a country’s priorities and level of development (World Bank, 1991).

On the study the researcher will use absolute poverty approach. The advantage of using the approach is that changes in the welfare position of the poor can be traced and the extent of poverty eradications can be measured (Mutagwaba 1996:44)

1.2 Some reflections of poor people in Tanzania

The majority of Tanzanians whose incomes are very low particularly in rural areas, require access to financial services to empower them towards efficient management

of scarce household resources, protection against social risks, provision for future provident and taking advantage of small- scale Investment opportunities for economic returns (Janeth, 1995;6)

Though the poor collectively considered being powerless and unable to help themselves, but the poor has managed to survive because they have something and if they have something, then they can save. This is due to the fact that, poor people found to be with hope, happiness and willing to improve themselves because of strong spirit enabling them to be creative and imaginative no matter how poor they are. However, poor people are productive, that is they put reasonable amounts of work which are target oriented and know how to make proper use of existing limited resources. In this regard, poor people can save; this means that they are therefore credit worth and can economize and manage money with a new perspective to the future (Ruhman, 1994)

Therefore, it is this context that poor people in both Urban and Rural areas made efforts of reducing poverty given the social and economic environment in which they live, this is so because, rural poor families on the other hand, are the chief actors in a more directive approach of promoting socio-economic change in the rural areas. Infarct, over three quarter of the rural population in Tanzania is fighting with need, which is constrained by vicious circled such as single parents without property, disable, the young untrained, those in low paid jobs, landless families in rural areas with non-possession of production means as well as material and social deprivation among people in the society. Thus deprivation is made viable through a set of indicators of basic need, which include nutrition, health, housing, clothing water supply and basic education (Ford 1991)

It is now, over forty years after Independence and Tanzania still fighting the three national enemies which are poverty, ignorance and diseases and yet have been improved much, as such it is difficult to conclude the poverty reduction efforts will be successful in the near future as it is left in the hands of poor Tanzania own efforts via internal pressure over financial services in the society (Theo, 2002)

In 1991 the government initiated financial sector reforms in order to create an effective and efficient financial system. To implement this commitment, the principal (Mushi, 2001). For community bank up to now there were, Cooperative Rural Development Bank (CRDB), the Kilimanjaro Cooperative Bank , the Mwanga Community Bank- both in the Kilimanjaro Region-the Mufindi Community Bank in Iringa Region and Dar Community Bank. Meanwhile, plans were underway to establish a Zanzibar Community Bank too (Mwakalebela 20001).

For NGOs and CBOs, they included PRIDE, FINCA SEDA , MEDA etc.

1.3 Statement of the Problem

According to the United Nations with the designation of 2005 as the International Year of credit financing, ‘there is extensive evidence that microfinance has a positive impact on the first Millennium Goal: that the number of people living in extreme poverty (defined as those living on less than \$1 per day) will be reduced by half between 1990 and 2015’.

This implies that essence of Micro-finance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients are: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group (Wikipedia, 14 June 2014).

Among the economically active poor of the developing world, there is strong demand for smallscale commercial financial services for both credit and savings. Where available, these and other financial services help low income people improve household and enterprise management, increase productivity, smooth income flows and consumption cost, enlarge and diversify their microbusiness and increase their incomes (Robinson, Marguerite,2001).

Poverty is multi dimensional. By providing access to financial services , train the poor on how to use the credit in their businesses ,understand the environment in their businesses, understand the environment in which poorer are practicing their

businesses they play an important role in the fight against the many aspects of poverty. Income generation also contributes to household income and its attendant benefits on food security, children's education etc. In the Business times dated May 11,2001 with the heading "Tanzania's growth rates too low to impact on poverty" it was mentioned that despite a proliferation of financial Institutions in Tanzania, lending rates of both banks and Micro- finance Institution are exorbitant, thus denying the poor access to loans (Njau:2001). Thus, purpose of this study will be to assess the role of high interest rates charged by MFIs on poverty eradication.

1.4 Objectives of the study

The study was to attain the following objectives:

1. To establish the suitable house hold indicators of poverty.
2. To establish factors affecting household's standard of living.
3. To assess the impact of interest rate on poverty alienation.

1.5 Research Questions:

The study was guided by the following research questions which include the following.

1. What are suitable house hold indicators of poverty?
2. What factors affect house hold standard of living?
3. What is the impact of interest rate on poverty alienation?

1.6 Scope of the study

Owing to time and financial constraints, the study however was limited to customers of CRDB bank. The study was to bring about light to the impact of interest rate at the household level and the principal impediment to the acquisition of assets by the poor and effective participation in income generating activities.

1.7 Significance of the Study

To the government

Studies made on self-held Institutions in Tanzania have greatly emphasized the importance of utilizing these institutions toward improvement of living condition of the poor people in the country and ultimately enabling them to attain socio economic development at grass root level.

To the institutions

Nevertheless, the study will help the shareholders to know, understand and implement perfectly the technological innovations so as they can win and retain customers; furthermore, the study will help the bank to come up with new ideas on how to establish and connect self-service technology with their customers so as to satisfy them.

To the body of knowledge

At this era a lot of researchers have been working on the relationship between customer satisfaction and the dynamic changing technology on service delivery; in banking industry most part of the globe has be passing a phase of ascertaining what is really preferable in terms of self-service technology to their customers so as to attain a competitive advantage over other. Also research will provide knowledge to the branch level managers and other staffs the ideal plan on their daily operations creating a conducive working environment to pave a way for the prosperity of CRDB.

Findings obtained from research for a basis for other researchers who may conduct related research.

CHAPTER TWO LITERATURE REVIEW

2.0 Introduction

A literature on the role of interest rates on loan portfolio performance in indigenous commercial banks in Tanzania indicates that an attempt has been made by a few researchers. Most of the studies in this respect, however, focused on Credit management and loan portfolio performance in Commercial Banks. Moreover, a few of the studies undertaken have focused on other aspects of credit risk management other than interest rates and their effects on loan portfolio performance in commercial banks.

Nakeba (2010) conducted a study on the role of credit management in the performance of indigenous commercial banks. His study was focused on Centenary Bank Entebbe road branch covering the entire staff of the branch with a sample size of 64 respondents who comprised of Managers, Accountants, Auditors, Credit and Loan officers, Banking assistants and some other bank staff as part of his study population. He mainly used self-administered questionnaires to collect the data required and this data was processed for analysis after collection with the aid of the Statistical Package for Social Scientists version 12 for purposes of data analysis. Nakeba found out that at Centenary bank, loan portfolio performance was affected through ensuring that all staff adhere to credit and loan regulations and procedures.

The findings of his study further indicated that loan committees needed to take full responsibility of overseeing the loan acquisition process and report on the portfolio progress as a measure of careful monitoring of the loan portfolio performance in the bank. The study went ahead to indicate that problem loans in centenary bank were solved through liquidation of other assets and providing a debt structure programme to guide the bank management in enhancing the bank's loan portfolio performance. Nakeba's study mostly focused on credit management but didn't test the impact of interest rates on the loan portfolio performance in commercial banks and the current study seeks to close this research gap.

Balagadde (2010) studied the role of micro-credit institutions in the provision of financial services. The study focused on Centenary Bank Mukono Branch. The set objectives were: to establish how Centenary Bank participates in the Government's

poverty alleviation programme and help improve the living conditions of the rural poor through loan products in Mukono district, to establish how Centenary Bank has continued to explore ways to serve her rural customers in a better and more efficient manner and will also continue to strive to reinforce its position in rural banking in Mukono district, and to establish how Centenary Bank has ensured a banking network in its area of operation in Mukono district

A sample size of 61 respondents and the cross sectional design was used in the process of collecting analyzing and interpreting the data. The cross sectional design was preferred as the study was based on comparing performance over each year in the study time scope. Both qualitative and quantitative data analysis methods were used. Results of the study revealed that there was: inadequate access to credit by the rural poor, the bank is more of urban based leaving the poor in rural areas underserved, the interest rate is excessively high, there is lack of collateral as required by the bank, poor communication system, a moderate customer service culture, poor management information system, poor sensitization, and a weak banking network. The researcher recommended that Centenary Bank Mukono should ensure that; all the poor access financial services, the interest rate is low, collateral requirements are minimal, there is a better communication system, strong management information system, carry out proper sensitization, and there is a strong banking system.

Mukisa (2007) attempted to study the relationships between problem loans and cost efficiency in commercial banks, using Centenary Bank as a case study. He found that, failing banks tend to be very cost inefficient, that is, located far from the best-practice frontiers. Cost-inefficient banks tend to have loan performance problems for a number of reasons; For example, banks with poor senior management may have problems in monitoring both their cost and their loans customers, with the losses of capital generated by both these phenomena potentially leading to failure. The author refers to this as the "bad management" hypothesis. Alternatively, loan quality problems may be caused by an event exogenous to the bank, such as unanticipated regional economic downturns. The expenses associated with the nonperforming

loans that results can create the appearance, if not the reality, of low cost efficiency. Mukisa in his study did not look at how interest rates affect banking operations in Centenary Bank and the current study seeks to close this gap.

Loan Science (2012) has observed that loan portfolio performance enhancement can help an organization improve on its cash flows hence make the portfolio more profitable. It involves making accurate forecasts about the future performance of the portfolio and ensuring that there is proper management and monitoring of third party servicers who should ensure strict compliance with management policies.

Raghavan (2005) also observes that loan portfolio quality improvement can go as far as conducting independent credit audits to check for the status of compliance, review of risk rating and pick up warning signals and recommendation for corrective action taken with the objective of improving credit quality. He further notes that the need for credit portfolio management emanates from the necessity to optimize the benefits associated with diversification and reducing exposure to interest rate risk. There is therefore need for rapid portfolio reviews and proper ongoing system for identification of credit weaknesses in advance.

KPMG (2001) mentions that loans that get into trouble bring both direct and indirect losses to the bank, which reduces the returns on its portfolio. They further recommend that there should therefore be a sound credit management system with adequate control mechanisms like credit disbursement controls, credit audits and credit Management information systems that can guide proper credit pricing and adequate credit work outs before loan approval. Then the bank should develop a recovery strategy carefully analyzed according to the industry dynamics which involves determining the nature of the industry environment and the borrower's position within the industry, the borrowers' financial condition which involves determining the borrower's capacity to repay through cash flows, collateral liquidation, or other sources. The bank can thereafter come up with either portfolio exit where the decision not to issue credit to the prospective client is undertaken or come up with restructuring policies where a decision to negotiate for reducing the

principal with the client is undertaken, once restructuring policies are undertaken, a loan loss provision should be maintained to safeguard against loan losses. Loan restructuring according to HB (2012) helps the borrower reduce his administrative burdens and improve cost effectiveness, hence being able to meet his loan obligations.

The National Micro-finance policy for Tanzania identifies key practices that can develop the required capability of MFIs to deal with the poor. The pricing requirement should be adopted to ensure that MFIs set the prices (interest rates) themselves in accordance to the demands of the market and loan delinquency control requirement (loan-loss rate) which ensures loans are repaid by poor accordingly. Also the policy requires MFIS lending to customers is subject to financial disciplines, that is good governance which demands a MFIs to have sound governing structures to ensure proper and effecting management and accountability within each MFIs management framework.

The current NMFP encourages the MFIs set prices accordance to the demand of the market and loan delinquency control requirement, but the policy is silent on the effect of interest rates in eradicating poverty.

The study therefore will utilize the views from borrowers and lenders analyzed them with respect to the effect of high interest rate.

2.1 Theoretical Literature Review

Even the vocal critic Thomas Dichter admits that microfinance can help the poor smooth consumption over periods of cyclical downturns or unexpected crises. This positive role of microfinance should not be dismissed altogether. If this consumption smoothing means parents can send their children to school, or buy essential medications, and maintain nutritional in-takes of their children then microfinance is likely to have positive long-term impacts on productivity. As noted by Partha

Dasgupta (1995), “At low levels of nutrition and health care, increase in current consumption improves future labour productivity: if nothing else, morbidity is reduced. For example, Pitt and Rozenweig (1985) observed from Indonesian data that an increase in the consumption of fish, fruit, or vegetables by 10 percent reduces the chances of illness there by 9, 3 and 6 percent respectively.”

Microfinance, thus, fulfils an important safety-net task, especially in countries where there is no state-sponsored social security system. In difficult times, the poor can first turn to family and neighbours. But in a situation of generalized poverty or economy-wide crisis, the poor will have to go to money lenders or to the employer/landlord for whom she or he works. If MFIs extend lending to the very poor in these circumstances then they can help break the power and hold of such creditors who operate in the inter-locking credit and factor markets. Although high, the interest rates charged by the MFIs are lower than the rates charged by informal creditors (money lenders/employers/landlords).

Unfortunately, however, most MFIs have been found lacking when it comes to lending to the very poor. Nonetheless, it seems that microfinance has significantly dented the informal credit markets by undermining debt-bondage and usury in some agrarian societies. Thus, microfinance is having a modernizing impact, even if inadvertent, unacknowledged and unsung.

More importantly, by “democratizing” the credit market the microfinance movement has not only curtailed the power of money lenders, but also constrained MFIs’ own behaviour. Some abuses of employees of MFIs, as reported by Anisur Rahman (1999), cannot be hidden under the carpet for too long. In other words, the rapid expansion of microfinance has empowered not just women, but all small borrowers. Even if they do not participate effectively in MFIs’ decision making or management (as found by Jain and Moore), the ability of the MFIs to foreclose on any tangible property of loan defaulters seems to have shrunk significantly. So, one should not be surprised by the findings of the Wall Street Journal’s reporters that Grameen was often rolling over unpaid loans. Whether Grameen was driven by any humanitarian consideration or forced to do so to avoid bad publicity is, of course, moot.

There is also the learning-by-doing effect. Even when own labour in micro-enterprises is given a zero shadow price, the people who are involved benefit. They

learn some basic principles of business, and with luck, and perhaps some help, may be able to become more viable and even expand. This is a kin to apprenticeship where the apprentice gets a low wage, but in exchange, gets training in a trade. So, with their support and training programs, many MFIs are making some useful contributions.

Microfinance, thus, gives the unemployed and the poor some opportunities, hope and self-esteem. Being employed (whether self-employed or by an employer) gives a person a significant boost to his/her sense of self-respect and dignity. Furthermore, microcredit allows people to signal their creditworthiness. If their success makes banks more willing to lend them larger sums and leads to even more economic activity, then that should help reduce poverty in the long run.

Finally, being successful business ventures, microfinance institutions themselves have also created a large number of good paying jobs. In the words of Roodman and Qureshi (2006) “We should not lose sight of the fact that commercially successful microfinance institutions are remarkable organizations, employing hundreds or thousands of people at tasks once thought impossible”. Good jobs created by successful MFIs should have considerable multiplier effects.

Indicators of changes in standard living:

The study was based on respondent’s perception as indicators of changes in standard of living in term of changes in income, housing quality and education level collapse of business and withdrawal of membership.

Yunus (1984) and Khandker (1998) observed in the indicators to include good accommodation, availability of food, sending children to school, managing to acquire personal transport facilities, and establish other businesses like farms and livestock.

2.2 The religious View of Charging Interest Rate:

The idea of prohibiting high interest rate came into existence through religious books. Muslims for example, learn from their Holy Books that charging the interest rate over the break-even rate is strictly prohibited.

In the Quran the principal reason why it has delivered strict prohibitive verdict against interest is that Islam wishes to establish an economic system where all forms of exploitation are eliminated, and particularly, the injustice perpetuated in the form of the financiers being assured of a positive return without doing any work or sharing in the risk, ,while the entrepreneur in spite of his management and hard work, is not assured of such a positive return (Chapra, 1985)

The prohibition of riba (interest rate) appears in the Quran in four different revelations. The first of these (30:39), in Makkah, emphasized that while interest deprived wealth of God's blessings, Charity raised it manifold. The second (4:161), in the early Madinah period, severely condemned it, in line with its prohibition in the previous s scriptures. It places those who took riba in juxtaposition with those who wrongfully appropriated other people's property and threatened both with severe punishment from God. The third revelation (3:130-2), around the second or third year after Hijrah, enjoined Muslims to keep away from riba if they desired their own welfare. The fourth revelation (2:275-81), near the completion of the prophet's mission, severely censured those who take riba established a clean distinction between trade and riba , and required Muslims to annul all outstanding riba, instructing them to take only the principal amount and forego even this in case of the borrowers' hardship.

The prophet, peace is on him, also condemned, in the most Unambiguous word not only those who take riba but also those who give riba and those who record the transaction or act as witnesses to it (Hadith A.I) (Chapra 1985).

The prohibition of riba al- nusiah essentially implies that the fixing in advance of a positive return on a loan as a reward for witting is not permitted by the Shariah. It makes no difference whether the return is fixed or available percent of the principal or an absolute amount to be paid in advance or on maturity, or a gift or service to be received as a condition for the loan. The point in question is the predetermined possessiveness of the return (Chapra, 1985).

Muslim writers argue that it is an error of modern theory to treat interest as the price of or return for, capital, money, they argue, is not capital, not even representative capital, it is only "potential capital's and requires the service of the entrepreneur to

transform it into actual productive use, the lender has nothing to do with this conversion of money into capital and with using it productively (Iqbal et al, 1987)

To the closely related notion that interest arises as an inevitable consequence of the difference between the values of capital goods to day and a year hence, Muslim writers argue that the so called pure rate (or own rate) of interest, resulting from the time factor in valuation , may never enter into the calculation of the suppliers of funds and it seldom, if ever, is paid as such. When forced into a position of identifying the pure rate of interest, the theorists always refer to the rates of return on “riskless assets” such as those paid on high quality government securities or the rate of return on debentures of highly successful operations. But this is a rate of interest on debt, not rate of return on capital assets. In the case of most successful companies’ debentures, the rates of interest are determined on the basis of the long- term success of these businesses’ and if these corporations face difficulties and their profits decline, the “pure rate” ceases to prevail because their debenture are no longer considered “ riskless”. Hence the pure rate of interest is only a theoretical construct that does not correspond to the actual return on capital assets (Iqbal et al, 1987).

They maintain that a person lends money; the funds are either used to create a debt or an asset (i.e. through investment). In the first case, Islam considers that there is no justifiable reason why the lender should receive a return simply through the act of lending per se. nor is there a justification, either from the point of view of the smooth functioning of the economy or any tenable scheme of social justice; for the state to attempt to enforce an unconditional promise of interest payment regardless of the use made of the borrowed money.

2.3 Empirical Literature Review

2.3.1 Some more thought of charging high interest rate:

Knight and Farhad (2008) mentioned that micro finance directly improves quality of life and promotes poverty reduction. By getting loans the client become self employed and protect himself for the external threats. By getting employment they become raised from the poverty line and the poverty decreased. Micro finance is in the initial stages and in these stages most of the peoples do not know about the reality of micro finance. Some peoples take that example of micro finance where the

result of micro finance is negative. It is more important that the examples where the result of micro finance is more positive than negative should be highlighted so that more and more peoples get benefit from micro finance and cross the poverty line.

Seibel (2003) proved through the survey that micro finance is that chemical through which the germ of poverty can be killed. The study also showed that micro finance is equally profitable in the poor countries as in the rich countries. He rejects the concept that that Microfinance is a poor solution for poor countries. If properly regulated and supervised, they have great potential in poverty alleviation and development, both in rural and urban areas.

Matovu (2006) mentioned that without any doubt it is obvious that micro finance play an important role in poverty alleviation but the part of micro finance in poverty alleviation is like a drop of water in a sea. Micro finance helps in improving the standard of living of peoples. The main hurdle in this is the finding of relevant data. It is very difficult to find the poor people and help them. It requires a deeper analysis to find the poor people and help them through micro finance. Next hurdle was the kind of poor peoples. It was difficult to divide the poor into different portion and what be the base for this division. Along with positive role, micro finance has also a negative role because micro finance only finds out the symptoms not the real causes. Other portion that is not well developed till now is the woman empowerment by the help of micro finance. It requires much more research for the real empowerment of women by giving a chance to them to get access to the micro financial institutions. Micro- credit financing programs are expected to raise the welfare of the poor women and men. They would help the welfare by promoting human capital investment. However studies on the effect of high interest rate charged by micro-finance institution in Tanzania have been very few compared to other developing countries. Some developing countries have found that setting appropriate interest rates that cover the minimized operating and financial costs is an important strategy for a MFI to become self- sufficiency and making the poor to pool out of poverty line.

In a business times magazine dated august 30, 2002 with the heading entrepreneurial woes bed evil micro- financing, it was mentioned that lending rates of between 25 and 30 percent for repaying loans are inordinately high for short periods of 16 and 25 weeks (Mgenyi).

In the same magazine dated May 11, 2001 headed Tanzania's growth rates tool low to impact on poverty. Under this heading it was mentioned that despite a proliferation of financial institutions in Tanzania, lending rates of both banks and micro- finance institutions are exorbitant, thus denying the poor access to the loans (Njau).

One cannot speak the success brought about by MFIs to the poor especially in setting up interest rate without open the eyes to the Grameen bank. It struggled through several years to grow into a bank owned by a poor (75 percent of the shares are owned by the landless borrowers, the remaining 25 percent by the government of Bangladesh) for the poor. Today it has 400,000 borrowers, 82 percent of whom are women. Grameen bank lends out more than US\$ 2.5m each month in tiny loans averaging US\$ 67. Its recovery rate is 98 percent. Borrowers have accumulated over US\$ 7.0 million in their saving funds (Yunus 1989).

Grameen has attracted attention from all direction, from the poor countries to the richest. Countries, for good reasons. Whenever there is the problem of poverty, grameen appears like a possible solution. If the poor can improve their condition with the availability of mere credit, why not try it? (Yunus, 1989:155). It was also noted that the perception of unsatisfied demand for loans and inadequate supply of funds from the banking system has led policy makers often in conjunction with donors to develop a strategy in which increasing the supply of loans was expected to "lead" economic activities. One of these policies and programmers designed was to reduce the interest on loans made to the priority sector through: interest rate ceiling in loans with the lowest rates set for the smallest/ poor borrowers, low interest rates charged by central bank on refinance funds, encouraging banks to cross- subsidize by charging higher rates to non priority borrowers in compensation for lower rates to priority, borrowers in compensation for lower rates to priority borrowers in compensation for lower rates to priority, borrowers and direct government interest subsidies to lenders (MeyerL. 1989).

It was also mentioned that interest rates have an important impact on access. A policy of charging interest rates high enough to cover costs is frequently rejected by those who advocate lending to the poor (Meyer L. 1989).

The nominal interest rate being charged to borrowers was 2% per month on declining balance basis, collected in two equal installments in the 52st and 52nd weeks of the loan period. However, as the principal available to the borrower per month over the year's long loan period is only 54.2% of the amount borrowed (Gibbons, 1996).

In 1995 interviews carried out during the field visit particularly in the Oler Siktohan Branch confirmed borrowers who invested in milk buffaloes. As most Nirdhun loans are being used by the husbands of the borrowers, they have become fully employed and / or more gainfully employed as a result of the program, resulting in higher incomes. Paradoxically this has released some of the women from the need to do daily labour on other peoples' land. Thus employment among some poor women may have been reduced and actually they may have become more dependent upon their husbands (Gibbons, 1996).

In the oldest and largest centre in Nirdhan's first branch, Siktohan, 40 women discuss the main impact access to loans has made on their lives. In the two years since the centre was established its members have invested their loans in buffaloes for milk, oxen for ploughing, grocery shops, bicycle repair shops and cultivation. When they joined Nirdhun, most of them worked as dialy laboures on the farms of big landlords. But through their loan investments most of them have liberated themselves from daily wage labour and are now working for themselves and their families (Gibbons, 1996).

In India there is SHAPE which started disbursement of its first loans in the Kurnool District of Andhra Pradesh in May 1993 (Gibbons,1996).

SHARE'S operating cost at the time of the final evaluation visit were way beyond its income from interest earned on its loans to the members. From 1 April 1994 to 31 January, 1995, SHARE's total operating costs were about US\$, 26,000 where as its interest income actually received during that period was only about US\$ 1,700.

The interest income covered only about 7% of operating expenses (Gibbons, 1996:46). The nominal interest rate being charged to borrowers was 10% per annum.

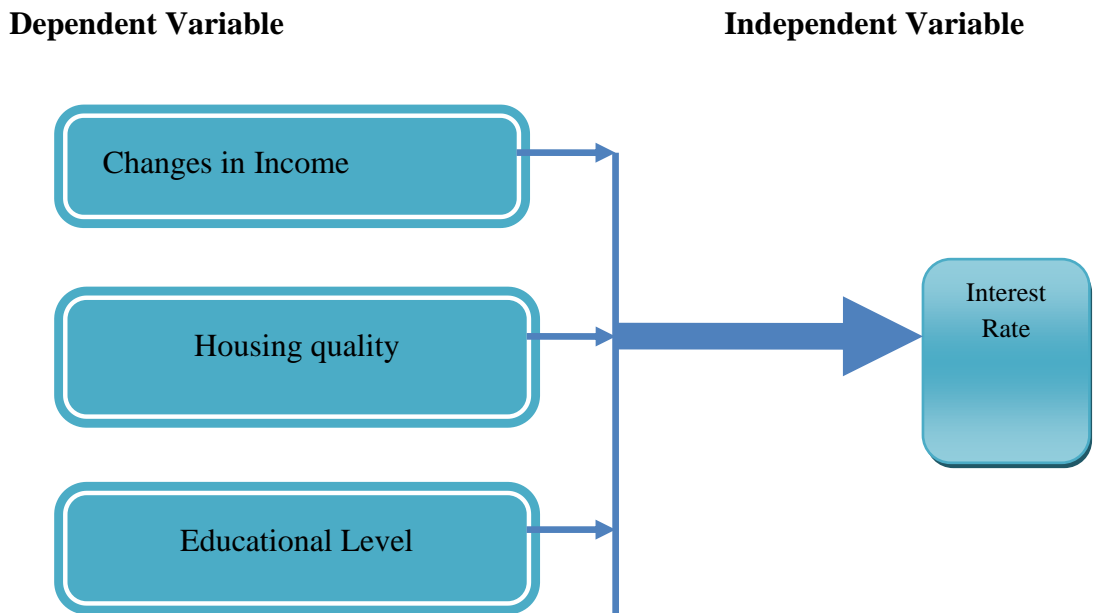
However, as interest was calculated on the principal amount of the loan, although it was repaid weekly over the yearlong loan period, the effective interest rate to borrowers was slightly more than 20% per annum. The prudence suggested a higher effective interest rate to enable SHAPE to more quickly reach operational self-sufficiency at branch level (Gibbons, 1996).

K.Samson, a 24-year-old trainee project assistant in the Dachepally Branch of SHARE said:“this is very satisfying work. I don’t find anything difficult. I know the psychology of the people because I grew up like this. Programme is good for women. We organize the centre in the village and the women can choose their own project. So that it fits in with their daily labour and their domestic work, while still raising their incomes” (Gibbons, 1996).

2.4 Conceptual Frame work

The conceptual framework established was to guide the researcher during the time of conducting research, formulating the data collection techniques and also during the data analysis, interpretation and presentation Mary (2010) cited in (Guba and Lincoln, 1989). The conceptual framework had been established by adopting the concepts guiding how the role of interest rate on poverty reduction.

Figure 2.1 Dependent and Independent Variable



Source: Cited from Guba and Lincoln, (1989).

CHAPTER THREE RESEARCH METHODOLOGY

3.0 Research Approach

3.1 Introduction:

This chapter describes how the study was designed and conducted. This research was designed to investigate impact of charging high interest rates on poverty reduction. The study was done in CRDB HEADQUATERS OFFICES. The chapter describes population, sampling technique of data needed and method of collection, units of

inquiry investigated, the research instruments utilized, research, design adopted and the research procedure.

3.2 Study area:

This study was done in CRDB bank, in Dar es salaam region since it has a micro financing department and it had the following advantages:

- It is one of the regions whose population is mainly engaged in small businesses.
- It was easy for researcher to go and collect data.

3.3 Research Design:

The study is a qualitative research design which used case study. The aim of a case study design was to obtain information on several variables from within a single geographic or administrative unit. In this case, CRDB HEADQUATERS was considered for information. Within CRDB entrepreneurs were analyzed in detail. The advantage of this case study design was to have more insights into a situation where gained and therefore conclusions were less tentative.

3.4 Sources of Data

3.4.1 Secondary Data:

Secondary data was obtained from CRDB loan policy 2006 and the loan report 2012.

The type of data collected included the following:

- The interest rate charged by CRDB in each loan level.
- Number and value of loans disbursed for each loan level.
- Repayment rates.
- Default rates
- Loan repayment made by individual members and twenty (20) loan recipients were selected from the files.

3.4.2 Primary Data:

Primary data was generated from interviewing 20 CRDB potential loan clients. This will include.

- The saving generated by customer's businesses before credit
- The saving generated by customers businesses after credit.

- The economic condition of the customers before and after MFIs involvement e.g. food security, children’s education.
- Economic conditions of customers at different interest rate charged

3.4.3 Unit of Inquiry:

Information concerning the interest rate was gathered from CRDB HEADQUATERS (Credit department) and twenty (20) CRDB clients.

3.4.4 Sampling Procedures:

The sampling frame included all clients as per CRDB HEADQUATERS OFFICES. Three sampling procedures were applied. These were judgmental, stratified and random sampling.

- **Judgmental sampling**

This was applied to the people who have taken CRDB credit. The total number of clients was 28,250, of which 250 clients files were selected by the researcher purposively due to accessibility and reliability of data.

- **Stratified sampling**

Stratified sampling was used where 250 client’s files were stratified into ten (10) strata according to the nature of the business. This was done because of different character of the business.

Table 3.1: Business Strata

S/N	TYPES OF BUSINESS	NO.OF CLIENTS
1	Saloon	20
2	Butchery	13
3	Soft drinks	20
4	Dairy farm	12
5	Tailoring	40
6	Pharmaceutical	15

7	Household general	42
8	Building materials	30
9	Carpentry	28
10	Stationeries	30
	Total	250

Source: weekly loan portfolio report (November, 2014)

- **Random sampling**

Random sampling was done according to strata. This was done by writing each name on piece of paper, put in a box and two names were drawn from each business strata randomly to make a total number of twenty (20) respondents.

3.4.5 Methods of Data Collections:

To obtain information related to the background of the client, type of business, credit model, interest rates charged, and three methods were employed. These include self-administered questionnaires, interviews and documentary reviews.

- **Self Administered Questionnaires**

Questionnaire were prepared for management, officers who had no much spare time for interviewing (see appendix)

- **Interviews**

Unstructured interviews were conducted to twenty (20) CRDB” client questions aimed at getting information about historical background of the client, level of education, experience in business, economic condition of the client before credit and economic condition after credit, opinions on interest rate, capability of the business to repay and sustainability capacity of the project.

- **Documentary Reviews**

The researcher examined various documents which had information on CRDB HEADQUARTERS and clients. These include files, business policies, weekly loan portfolio reports, and other relevant materials.

3.5 Data Processing and Analysis:

Data was presented in tables and graphs. Cases were analyzed individually followed by cross case analysis and percentage based on key research question. Then the researcher did a conclusive review to draw recommendations and conclusions.

CHAPTER FOUR RESEARCH FINDINGS AND ANALYSIS

4.0 Introduction

This chapter analyses and presents results from the study. The analysis is preceded by examination of the CRDB Credit Model and followed by a presentation and analysis of cases.

CRDB

4.1 Brief history, credit model and its operations:

CRDB established its offices in Tanzania in 1994 and became operational in January 1994. CRDB Mission statement is to create a sustainable financial and information service network for small and micro entrepreneurs in order to promote their business growth, enhance their income and create employment in Tanzania. The methodology adopted by CRDB Tanzania is modified Grameen model to meet local conditions of Tanzania.

4.2 CRDB Credit Model and its Operation.

CRDB provide loan to an individual member in a group of five people as collateral. These five members should know one another but should not be relatives. Ten of these groups of five members will form (MEC) i.e market Enterprise committee of a similar economic condition and enjoy mutual trust and confidence.

(i) Responsibilities of Members

- To become a member of an EG i.e Enterprise group a person must pay a membership fee of 1%.
- All members must complete all registration requirements.
- All members must provide information of their next of kin in the event of death.
- All members of the group must attend weekly meetings of the MEC. In the event of absence without a proxy, an attendance fine will be levied.
- All members will open savings accounts with an CRDB bank.
- At the weekly meetings members will deposit their Loan Insurance Fund (LIF) contributions. This amount is collected as weekly loan insurance and shall be deposited.
- All members will maintain individual LIF and loan records with the MEC for which forms will be issued upon registration with CRDB.
- Every member of the group must be fully aware of his/ her responsibilities and of the rules and regulations governing the activities of the group.
- Every member must maintain discipline with the group and observe the rules and regulations as provided by CRDB and MEC.
- All members shall always keep vigilance over each other regarding the proper use of CRDB credit facilities and the regular payment of each weekly installment. They shall also make sure that every member attends the weekly meetings regularly.
- Members shall guarantee loans to an individual by the group. Any delinquent loan shall be covered by the LIF of the client first, then that of the Enterprise Group (EG) and finally that of the Market Enterprise Committee (MEC) until the outstanding balance is satisfied.
- Where a member chooses to use a proxy, the name of the proxy, his/her ID details and details of the relationship with the member will be sent to the Chairman of the EG three days before the meeting so as to reach the Secretary of the MEC a day before the MEC meetings.

- Where a proxy attends a MEC meeting he/she will be required to present the member's contribution to the LIF and any loan payments (Principal and Interest) and any other dues owed by the member as required.
- In all cases, the member must satisfy the requirements for repayment of loans and payment of LIF.

(ii) Loan Levels

Nine loan cycles with small loan accounts ranging from Tsh. 500,000/= the new clients who qualify for loan should start with a loan of Tsh500,000 as a first loan level, then a second loan level of Tsh. 1,000,000/= if satisfies all conditions of the first loan. She/he will follow the order of getting large amount of loan until he/she become eligible for Tsh. 5,000,000: which is the maximum loan.

Table 4.1 Loan levels

S/No.	LOAN LEVEL IN TSHS.
1 st Loan level	500,000/=
2 nd loan level	1,000,000/=
3 rd loan level	1,500,000/=
4 th loan level	2,000,000/=
5 th loan level	2,500,000/=
6 th loan level	3,000,000/=
7 th loan level	3,500,000/=
8 th loan level	4,000,000/=
9 th loan level	5,000,000/=

Source: CRDB Tanzania Loan Menu (2014)

(iii) Life Insurance Fund (LIF) Scheme

The loan insurance fund (LIF) was made up of weekly (LIF) contributions. The fund was administered by CRDB. Each client had to contribute weekly payment of Tsh. 3,000/= as LIF: so in total each group had to contribute weekly TSh. 15,000/= where as the MEC contributed Tsh. 150,000 weekly.

(iv) Term of Loan Repayment.

It depends on the level of the loan but it ranges from 25-100 weeks.

(v) Interest Rates Grades for Loan Levels

CRDB charges a flat interest rate of 30% on all loans except for the highest, were 25% charged. When using a flat interest rate the interest is calculated on the same amount each week, no considerations are taken to repayment of the loan. The interest is calculated over a 50 weeks period, which gives an effective interest rate of 60% for the first loan.

Table 4.2 : Loan Insurance Fund (LIF) Loan Tern Principal, Weekly Payment, Interest Payable per week, Total weekly payment.

Loa n level	Loan Amount	Interes t Rate P.a	LIF Schem e	Loan Term (weeks)	Principa l Paymen t	Interest weekly paymen t	Total weekly paymen t
1	500,000/=	30%	3,000/=	25	4,000/=	6,000/=	3,800/=
2	1,000,000/ =	30%	3,000/=	40	4,500/=	7,500/=	4,600/=
3	1,500,000/ =	30%	3,000/=	50	8,000/=	15,000/ =	6,700/=
4	2,000,000/ =	30%	3,000/=	50	10,000/=	12,000/ =	9,300/=
5	2,500,000/ =	30%	3,000/=	50	14,000/=	15,000/ =	14,500/ =

6	3,000,000/ =	30%	3,000/=	50	28,000/=	18,000/ =	27,500/ =
7	3,500,000/ =	25%	3,000/=	50	56,000/=	17,500/ =	51,500/ =
8	4,000,000/ =	25%	3,000/=	50	76,000/=	20,000/ =	76,500/ =
9	5,000,000/ =	25%	3,000/=	100	66,000/=	12,500/ =	70,250/ =

Source: CRDB Tanzania Loan Menu (2014)

(vi) Method used by CRDB to calculate loan repayment.

CRDB uses straight Line- Method to calculate loan repayment. It is the method that required a client to pay the loan on equal installment of principal loan and interest throughout the loan period (see appendix1).

4.2 Case Studies of CRDB Clients

In this section detail of 20 cases are presented focusing on how the client's standard of living in terms of changes in income, housing quality and educations are after getting loan from CRDB.

CASE 1

CLIENT:A

TYPE OF THE BUSINESS: POULTRY UNIT AND A SHOP

LOCATION OF THE BUSINESS: TANDIKA

A client was born in 1950 at songea. Her late father was a farmer at Songea. She came to Dar es Salaam (Temeke) some 30 year past and live with her husband.

She started a poultry farm in 2009 with about 200 broilers using a capital of Tsh 250,000/= given by her husband who is a businessman. She started to borrow from CRDB in 2012 a loan of 500,000/= up to now she is in loan level four of about 2,000,000/=. According to client A, there are many problems which she takes in running her poultry Unit.

1. The CRDB charges high interest rate on its loan. This made it difficult to repay the loan at the required times. For that matter she started a shop business for petty things so that she can repay the loan.
2. The broiler chicks take about 6 weeks before they are sold; and in the meantime she has to repay the loan weekly, incur all the poultry expenses. Also in the 6th week the market is not available so she has to move in most of the Restaurants around Temeke to look for market. Client A said the loans that CRDB offer have very difficult terms. High interest rates and loan insurance fund charges contribute to low profit margins. She added that CRDB assures her of getting required finance because there is no bureaucracy of getting it, but if happens that other microfinance organization comes in its place with encouraging interest rate system she can diverge to it. She is forced to continue with CRDB because there is nowhere else to go. But she appreciated that CRDB is better in making follow up on loan repayment.

CASE 2

CLIENT: B

TYPE OF THE BUSINESS: STATIONERIES AND COMPUTER EQUIPMENTS

LOCATION OF THE BUSINESS: KARIAKOO

Client B was born in 1975 in Kilimanjaro. His father was a civil servant while his mother was a businessman. He is a form six leaver but he failed to continue with further education because he wanted to do business. He started business soon after completing form six in 1993 but in 2001 he established stationeries and computer equipment shop with the asset of Tsh. 350,000/= . He rented a room for his business for which he pays a monthly rent of Tsh./ 30, 000/= During the same year he heard of CRDB activities and asked for a loan to add to his capital in order to expand his volume of business up to now he has borrowed 2,000,000/=.

According to client B, there are many benefits which he takes in running the business.

- (i) Since his business has expanded, he gets high profit and managed to pay taxes eg. TRA taxes such as income Tax, Business License and Municipal Taxes.
- (ii) The interest rate is reasonable.
- (iii) Since the volume of business is expanding, he promise to get the loan up to Tsh. 5,000,000/=. The only thing is to ensure security of businesses and to compete for customers. He said he doesn't depend on any other business to repay the loan and he now has house and get food from he same business.

CASE3

CLIENT:C

TYPE OF THE BUSINESS: SALOON

LOCATION OF THE BUSINESS: TANDIKA

Client C was born in 1980 at Temeke –Dar es Salaam region. She completed standard seven in 1994. In 1999 she started to learn hair dressing to her sister who had a saloon before started her own at Tandika in 2001 after having a capital up Tsh. 250,000/= from her sister. C said, she joined CRDB in 2002 and when I met her had

borrowed four- times and amount of Tsh. 500, 000/= each. C added when the loan is covered she will no longer be a member of the CRDB. According to client C, there are many problems, which she faces in running her business.

1. She is supposed to pay a multitude of high taxes eg. TRA taxes.
2. The CRDB charges very high interest rate on its loan for a week to Tsh 3,800/= for loan repayment and having some for your home expenditure is not easy. So most of the time she has to borrow from her sister who has businesses.
3. Client C said the loans that CRDB offers are in very difficult terms. She decided to withdraw from CRDB until the following are reviewed.
 - Interest rate should be reduced
 - Insurance system should be reviewed

CASE 4

CLIENT: D

TYPE OF THE BUSINESS: FISH MONGERING

LOCATION OF THE BUSINESS: KARIAKOO MARKET

Client D was born at Tanga region in 1956. She traveled to Temeke in Dar es Salaam region with her husband some thirty years past her husband was the harbors employee. In 1998 her husband was retrenched from service and he started fish mongering at Karikoo market. She said they used their retrenchment money to build a house at Mbagala and the remaining to start up the business. She remembered they started the business with a capital of 150,000/=. They have got five children; two of them are civil servants: while three are still at home.

In 2000 she got information about CRDB through other people. In the year 2002 she borrowed and attended CRDB training, which according to her, was nothing else except the question of loan to secure CRDB loan and repay on time.

She said, she is member of CRDB but after getting the loan; she hand over the money to her husband for fish mongering. Up to now she had borrowed two times an amount of Tsh. 500,000/= each.

In everyday the husband has to give her Tsh. 2, 000/= so as to make loan repayment of 3, 800/= every week. Client D said they managed to survive in the business because her husband is well experienced in that business. But she added that she feels the pinch of repaying the loan because of high interest rate, and loan insurance charges that she is obliged to leave at the CRDB office. She suggested the borrowers should not complain about long grace period, since it depends on the type of the business one chooses. Also the system of weekly loan payment should remain as it is.

CASE 5

CLIENT: E

TYPE OF THE BUSINESS: BUTCHERY

LOCATION OF THE BUSINESS: CHANG'OMBE MADUKA MAWILI

E was born at Dodoma in 1968. His mother was a farmer while his father was a businessman. He is a standard seven lea ver. In 1993 he moved form Dodoma to Dar es Salaam where he engaged in a butchery business with a capital of 300,000/=

E said in the early 1998 the business was good since the cost of animal flesh bought at Vingunguti was lower and price per Kilo sold was reasonable. But now the cost and other expenses is very high while price per kilo is not encouraging.

He heard CRDB in 2001, and became their client in 2002. Since then has been borrowing and up to now his loan level in Tsh. 1,000,000/=.

He said that the interest rate is very high it drain much of their saving that is why he returned to the 1st loan level.

CASE 6

CLIENT: F

TYPE OF THE BUSINESS: GRILL, WELDING AND HOUSE HOLD GENERAL SHOP

LOCATION OF THE BUSINESS: MBAGALA

F was born in 1977 at Mtwara region. His parents brought her up. His level of education is form IV at Mtwara. He moved to Mbagala at Temeke District in 1990 where he started to engage himself in petty business eg. Selling cigarettes, fruits at Mbagala Rangi Tatu bus stand.

In 1996 city volunteers throwed away all of the fruits and cigarette in a city cleaning campaign. So he used the balance he had to start another business.

In the same year he changed the business. Since he had the knowledge of welding he started his welding workshop at Mbagala with a capital of 100,000/= loan from his brother. He continued with that business of making grills for windows and doors.

In 2000 he heard of CRDB from his friend, he joined the CRDB in the same year and being recruited at Lumumba Branch.

Initially he had a problem of loan repayment amount since the purchasing power of his clients was very low, and he was forced to reduce the prices of his commodities, causing a reduction in profit while at the same time the grace period was very short.

For this reason he decided to start up a house hold general shop for items like flour, sugar, cigarette, etc. so that he can get loan reimbursement of 20,000/= for a loan of 500,000/=

Client F said that he depends on his businesses to pay for the loan, but he doesn't see the reason why the interest charged is very high. His life has changed his get food, education for himself from the same businesses. He is sure in the next year he will practice marriage.

CASE 7

CLIENT: G

TYPE OF THE BUSINESS: SOFT DRINKS

LOCATION OF THE BUSINESS: KARIAKOO

G was born in 1966 at Kilimanjaro Region. His father was businessman while his mother had a diary farm. His level of education is form IV at Moshi Secondary School.

He started petty business of selling cigarettes in 1984 before he completed O'Level education. There after he became competent in this business after school.

In 1989 G moved to Dar es Salaam where he lived with his brother at Sinza and he was given a household general shop to look for at Sinza.

In 1998, his brother rented a room at Temeke Mwisho for soft drinks, soap, utensils, etc. Then G was given that business as the owner. When it started the business had assets which costs of Tsh. 250,000/= and he paid Sh. 25,000/= per month as rent.

G got information about CRDB through his friend. So in 2000 he joined as a member with other four members to make Enterprise Group. He got the training on how to repay the loan at Temeke Branch in the same year; up to now he has a loan of Tsh 1,000,000/= outstanding.

He said, sometimes he had to repay the loan from the capital especially during the rainy seasons where people do not use much of soft drinks which is the main business.

He added that for loans of big amount like Tsh 2,500,000/= it could be better if they were allowed to repay in every month an amount of Tsh 30,500/= required to be paid every week.

G continued to narrate that he uses almost all the profit in order to repay the loans and that this makes it impossible for him to go ahead with his plans of getting more education and to prepare well for his family. He suggested that if the interest become reduces and insurance is left to him, he could use hose excess money to buy more items rather than just staying idle at CRDB.

CASE 8

CLIENT: H

TYPE OF THE BUSINESS: DIARY FARM

LOCATION OF THE BUSINESS: MADUKA MAWILI-TEMEKE

H was born in 1968 at Arusha Region. Her parents were farmers. She went to school up to form IV. Immediately after marriage at Arusha town in 1994. H and her husband who is Army Officer were transferred to Dar es Salaam and they are living at Chang'ombe area.

In 1998 H was given Tsh 400,000/= by her husband to build a diary farm near their house and she managed to buy two cattle. At that time she had a problem of meeting operation cost and also market for the milk.

Even though she got the information about CRDB since 1998 when they went on leave to Arusha , she joined in 2000 at Temeke branch up to now she had borrowed six times having a loan of Tsh. 2,500,000/= outstanding.

H narrated that CRDB had helped a lot most of the problems of operation costs have been met by the loan she received and since she had assurance of the market for milk. She had managed to contribute to the day to day expenses of their house. She donated sum for their children education, she has surplus to put in the bank and she repays the loan of Tsh. 50,500/= every week without any problem.

In her views she will manage to borrow up to Tsh. 5,000,000/= and able to pay Tsh. 75,250/=. The CRDB programme is good and no need of changes.

CASE 9

CLIENT: I

TYPE OF THE BUSINESS: CHARCOAL BUSINESS

LOCATION OF THE BUSINESS: MITEJA ST. TEMEKE

I was born in 1976 at Temeke District; Dar es Salaam Region. She went to school up to standard VII. Her parents moved from Mtwara to Mbagala Village at Dar es Salaam to do business some thirty years back.

In 1998 she got married, to Hamisi and moved to Miteja Street Temeke. Her husband is carpenter at Temeke. I said the husband decided to give her money for charcoal business. She started with only two sacks of charcoal and found that she got a profit of about 5,000/= in two to five days. I continued with the business until she reached ten bags.

In 1999 some other people in the same street started the same business. So they were about four of them in the same area. I said at that time it took about a week to two to finish just a one sack.

In 2003 she got the information of CRDB from her friend who was a member. She joined group of five women members and she was selected as chairperson. They attended business training, which she said was based on loan repayment. They were given Tsh. 500,000/= each as the first loan up to now she had borrowed four (4) times an amount of Tsh. 500,000/=each.

I said, she started to meet problems during repayment of loan. She had borrowed four times an amount of Tsh. 500,000/= each. She couldn't afford to borrow at upper loan level since the repayment of loan is great and the purchasing power of his clients is very low so she is forced to remain with the charcoal for a longer period.

She added that CRDB assured her of getting required finance because there is no bureaucracy of getting it but the problem is all of the money she received from business is handed over to CRDB and many times she depend on her husband for loan repayment. She said business does not generate an amount of 10,800/= every week due to the low purchasing power of clients.

She suggested that CRDB has to reduce the repayment loan to be some Tsh. 6,500/= every week up to this time she had not moved anywhere in her life even their household food depend on her husband.

I concluded that the loan of Tsh. 500,000/= is going to be the last one and she will no longer be a member of any Microfinance institution unless the repayment loan is lowered enough about 6,500/= per week.

CASE 10

CLIENT: J

TYPE OF THE BUSINESS: TAILORING

LOCATION OF THE BUSINESS: NDALALA STREET TEMEKE

Client J was born in 1978 at Kinyatu- Tanga Region. She completed form IV in 1998 at Morogoro Region while still in school she learned tailoring in the same school. Her father who was a Civil Servant purchased her a tailoring machine for her to practice tailoring.

In 1999 after completing her O'Level education she started petty business e.g Selling cooked eggs at a price of Tsh. 400/= each tray got 7,500/= as a profit; plus soft drinks. All these businesses were conducted at her home Msasani. Her capital was 50,000/=

In 1999 she got married with her husband who is a civil servant at Ndalala Street. She decided to start the same businesses of cooked eggs and tailoring businesses. She found that eggs business was difficult in one place so she employed a street boy to sale the eggs in different areas.

In 2003 she heard of CRDB from her friend who was a businesswoman. She decided to join the CRDB at Temeke branch so as to expand her business. She borrowed three (3) times 500,000/= each.

Since she had assured fund she decided to establish her tailoring, buying vitenge and khanga for preparing different fashions for her customers. She came to realize that much of capital was tied up because most of the customers do business at the end of months and holidays seasons. So how could I get the money in the period other than month end holidays: she asked?

She added that much of the profit she received was spent on loan repayment. She can do nothing for her development rather than getting money and repay the loan.

J concluded that, she stopped being a CRDB member in December 2007, after her loan recovery with CRDB. She will do her tailoring business depending on small capital she has.

CASE 11

CLIENT: K

TYPE OF THE BUSINESS: PHARMACEUTICAL

LOCATION OF THE BUSINESS: KEKO

K was born in 1972 at Kondo District Dodoma Region. Her father was a civil servant with the Ministry of Agriculture while her mother was a farmer. She completed from IV in 1983 at the same region, but she refused to attend teaching college.

In 1996 she moved to her sister at Keko Dar es Salaam who gave her capital of Tsh. 100,000/= for fish mongering at Kariakoo market. Her capital rose to 500,000/= then she decided to spend all capital for poultry farm near their home so as to change the business type. In 2000 she found the cost for poultry project have risen to great extent. For example the chick which was bought for Tsh. 450/= rose to Tsh 750/= a bag of broiler mush which was purchased for Tsh 8,500/= rose to 16,700/=, also vitamin and other medical expenses rose to a great extent: but the price for chick sold remained at Tsh. 3,500/=

In 2004 she rented a room for pharmaceutical shop with assets worth 600,000/=, she paid monthly rent of 60,000/=

In the same year K heard of CRDB activities from her neighbor, so in 2005 she joined the programmer. She had borrowed five times having a loan of Tsh. 1,500,000/= outstanding. According to client K, there are some problems

From her business she is supposed to pay high taxes e.g TRA taxes such as income tax, business license and municipal taxes.

High interest rate charged by CRDB.

Due to high competition of pharmaceutical business the purchasing power of his client is very low.

From these three reasons at the end of every month, she remained with low profit margins.

Client K suggested that there is need for the government to review the tax system and CRDB management to review the interest rate and insurance systems.

K concluded that there are no changes in her house life rather than having food security. She is expecting to withdrawal from membership after loan recovery.

CASE 12

CLIENT: L

TYPE OF THE BUSINESS: NEW CLOTHES

LOCATION OF THE BUSINESS: TANDIKA SOKONI

L was born at Mayomboni village in Tanga Region in 1971. His father was a fisherman while his mother was a farmer. L started fishing business before he completed standard VII in 1987 at Mayomboni village.

After completing standard VII, L continued with the same business, but is dangerous business since they didn't have modern equipment, he added.

In 1989 he moved to his brother in law at Dar es Salaam who own some daladala and appointed him conductor in one of them running between Mwenge and Kariakoo. In this business he accumulated his money.

In 1998 he rented a room at Tandika where opened a shop for new clothes, and assigned his young brother to look for the shop. He started with a capital of Tsh. 400,000/= paying rent Tsh. 40,000/= per month

In 2000 he joined CRDB after being told of her activities. L had borrowed five times at amount of 500,000/= each. He said he did not take the big loan due to big loan reimbursement

CASE 13

CLIENT: M

TYPE OF THE BUSINESS: HOUSE HOLD SHOP

LOCATION OF THE BUSINESS: MTONI

M was born in 1958 at Ujiji, Kigoma Region. Her parent brought her up and her level of education is standard VII. Her father was a Post Master at Kigoma while her mother is a housewife.

In 1968 they were transferred to Dar es Salaam where she completed standard VII in 1974 at Uhuru Primary School. She got married in 1976 and lives at Mtoni.

In 1989 she started purchasing Daga from Kigoma and selling in whole sale at Kariakoo with a capital of Tsh. 400,000/= from her husband. M said, she got good profit. The business collapsed when Daga from Mwanza started to be available at Kariakoo market.

In 1998 she started household general shop for items like sugar, flour, salt, tealeaves, cereals etc. in 2001 she heard of CRDB activities from her young brother and decided to join the same year in a group to five women. She had borrowed four times at amount of Tsh. 500,000/= each.

M said she managed to re pay the loans because she had a variety of items sold at the shop. But much of the profit is left for the CRDB out of food which she had before joining the CRDB, she had no other saving.

CASE 14

CLIENT: N

TYPE OF THE BUSINESS: POULTY& PIGGERY UNIT

LOCATION OF THE BUSINESS: MBAGALA

N was born in 1968 at Dodoma region. His parent brought him up. His level of education is standard VII.

Immediately after completing standard seven in 1986 he stayed at Dodoma to help his parents to look for cattle. In 1991 he was taken by a certain businessman to Dar es Salaam to look for his cattle at Bunju. Life was so difficult there since it was first time to leave his home and he stayed there alone. He was given many activities but at the end of the month he was given many activities but at the end of the month he was given only Tsh. 25,000/= . He kept the money and sometimes he sold some milk to get more money.

In 1995 he departed from Bunju to Mbagala where he stayed with a friend from Dodoma (home mate). He had about Tsh 800,000/= late he rented a room at Mbagala Rangi Tatu and start a butchery business which increased his income up to Tsh. 1,800,000/= . He bought an area at Mbagala where he started to build a house of two rooms. The butchery room was demolished by city volunteer since it was off positioned.

In 1999 he built piggery unit which followed by poultry unit for broiler chicks. Since operation cost increased while he had no other means of getting the money he decided to borrow from CRDB in 2001 so as to expand business. He found that he had the problem of getting money for loan reimbursement at the end of each month.

So he decided to start selling boiled eggs which gave him a profit of Tsh. 3, 500/= per tray.

He said, CRDB helped him to have fund available but also took a big part of his profit. He had borrowed four times an amount of Tsh 500,000/= each.

He added, he had no saving for the time being even though he is sure of food, education to his child, but he gave suggestion to CRDB to reduce interest rate.

CASE 15

CLIENT: O

TYPE OF THE BUSINESS: HORTCULTURE

LOCATION OF THE BUSINESS: BONDE LA JANGWANI (KIGOGO AREA)

O was born in 1970 at Mlali Village-Morogoro Region. His parent was farmers, and his level of education is standard VII at the same region which he completed in 1987.

After acquiring primary education, O did not get a chance for further education so in the same year he started tomatoes cultivation for his own benefits.

In 1992 he got married and continues with the cultivation specializing in tomatoes. He said in each year when he analysed the expenses and revenue he happen to remain with a profit ranging from Tsh.800, 000/= to Tsh. 1,500,000/=. He said tomatoes has no season what matters is water for irrigation.

In 1995 he was forced to move to Dar es Salaam to his uncle and leave behind his family. This was due to the eruption of tomato diseases which made him to end up in losses for three consecutive years. The life to his uncle was very difficult since he had big family; live in two rented rooms at Magomeni.

In the 1997 he moved to Temeke where he rented a room and started horticulture at the Bonde la Jangwani. He said he started with Mchicha, Spinach and Cabbage. He found that he assured himself of food and monthly rent repayment which was Tsh. 15,000/=. Life started to go well and in 1999 he rented two rooms and moved his family to Temeke.

In 2001 he joined CRDB Temeke after having the information from his friends. He attended CRDB meetings and after fulfillment all of the requirements including a group of five members he got a loan of Tsh. 500,000/=. He had borrowed the same amount five times.

O found that CRDB satisfies them with fund available but they take much from them including a large part of the profit. He said once he become able to meet most of the expenses he will no longer be a member of CRDB.

Explaining on the changes which he has O said he has no changes rather than to have assured of the food, but he cannot build a house or even have good life. In his life at Dar es Salaam holiday for him is when he is sick. He added that now there is much competition in vegetables compared to previous years.

CASE 16

CLIENT: P

TYPE OF THE BUSINESS: GRAIN/CEREALS BUSINESS

LOCATION OF THE BUSINESS: MTONI

P was born in 1972 at Kondoia Dodoma – Region. His father died when he had five years old. His level of education is form IV. He said he liked the school, at the past years but his mother was not able to meet even small expenses like fare to and from the school.

P. started business immediately completing form IV in 1988. He left home to Dodoma town to his brother who was war king with K.J. Motor as cashier. His

brother gave him a capital of Tsh 80,000/= for establishing café which specialized in all types of soft drinks and small bites. The business helped him to pay for the rent of the business room, sleeping room, municipal taxes and having a balance which enabled him to purchase furniture, utensils etc.

He said he cannot forget 1994 when city volunteers came to his café and took each and everything for the reason of city cleanliness in their campaign against cholera. In the same year K.J. Motors decided to retrench some employees his brother inclusive. In 1995 he came to Dar es Salaam after selling all his furniture for Tsh. 100,000/=. He stayed to his friend at Mbagala who was street vender at Kariakoo for petty items. He joined the business for only four months but he found that it doesn't pay.

In 1996 he started buying rice from Morogoro and sold them to final users for their home consumption. This business helped him a lot since he rented a room for him at Mtoni and having a shop at Tandika market. He said normally he took two to three sacks of 100 kg each.

In 1998 he had a capital of Tsh 800,000/= allowing him to purchase up to ten (10) sacks and meet all the transport and other expenses. Since he had an idea of purchasing more sacks of rice and sale them to retailers he decided to borrow from CRDB-Temeke branch in 2000. He said he made borrowing for six times of Tsh 1,000,000/= each but the interest rate stopped him to continue from borrowing.

P narrated that he doesn't expect to borrow from these microfinance Institutors since they benefited much from client who depends on capital from them. Much of the profit if not all is taken by them.

CASE 17

CLIENT: Q

TYPE OF THE BUSINESS: BUILDING MATERIALS

LOCATION OF THE BUSINESS: TEMEKE

Q was born in 1973 at Kilimanjaro Region. His father was a civil servant while his mother was a farmer. Q went to school up to form IV.

Q started business since he was staying with his parents. He sold petty items like cigarette, match boxes, toilet papers etc. his mother specialized in coffee plantation.

Q moved to Dar es Salaam in 1994 to his father with an aim of doing business. He had Tsh 800,000/= which he used to open up a hardware store which he was selling building materials of different varieties.

He heard of CRDB from his neighbors who were doing the same business. In 2002 he joined CRDB and took a loan of Tsh 1,000,000/= to expand his hardware shop. However he came to realize that it was difficult to repay the loan weekly. So he started a restaurant café for drinks, boiled eggs and other small bites near his shop. Immediately after loan repayment he found that instead of moving forward he was getting backward so he closed the shop and start other business without depending on loan from CRDB.

Client Q narrated that there is no bureaucracy for client to get a loan from CRDB but the interest rate is very high and purchasing power of his business was very low. He is now having a shop of general items like, cigarettes, toilet papers, soap etc.

He concluded that he is sure of food and all the profit to get is used for expansion of the business, he does not have the headache of loan repayment.

CASE 18

CLIENT: R

TYPE OF THE BUSINESS: STREET VENDOR (CHILDREN CLOTHES)

LOCATION OF THE BUSINESS: KIGOGO JUNCTION

R was born in 1976 at Lupaso village, Mtwara Region. His parents are farmers while his level of education is standard VII.

He came to Dar es Salaam in 1992 with his friend who had a room at Mbagala doing carpentry. R started to learn carpentry but he found that it took time before one sells furniture, also there is much competition.

He started being a street vendor selling children clothes. He said that business is unpredictable since it depends on customer's negotiations. It may be super profit; Normal profit but sometimes he sales below the price since other items have been sold at super profit. Depending on money one has to buy clothes from Zanzibar, it will determine how much profit to get. In his experience if one has big capital he enjoys the business since the fare to and from Zanzibar is reduced and you spend more days in selling clothes to customers.

R said, he heard CRDB from his counterpart. He joined CRDB in 2005 and got 500,000/= so as to expand the business. He came to realize that the loan did not help him and all the trips to move around the city benefited CRDB. The amount which he used for loan repayment reduced a great part of his profit. So he stopped borrowing the second loan immediately after completing the first loan.

He decided to borrow from his friend of Tsh 500,000/= without interest. He is now depending on his own for the expansion of the business, he has guarantee of getting food, he has a piece of land at Mbagala for house.

He concluded that if he were to continue as a loan of CRDB he could not reach the stage he has today since at the end of every week he had to draw some money form his bank to repay the loan.

CASE 19

CLIENT: S

TYPE OF THE BUSINESS: HIRING BICYCLE

LOCATION OF THE BUSINESS: CHANG'OMBE

S was born in 1972 at Amboni Village, Tanga Region. He father was casual labourer to the Indian shop in Tanga while his mother was farmer. S use to go to primary school in those days through bicycle. His level of education standard VII.

After primary education S got a temporary job at Amboni Estate that was 1990. His job was to prepare bundles of sisal before being transported to the factory. The job ended in 1993.

S moved to Tanga town where he stayed with his uncle working harbours authority whose job was to in – load and off-load cargoes from the ship. He got a temporary job there for only six (6) months. S got a place at Makorora where he could hire bicycle. He started with only three bicycles but he found that there was big competition.

In 1996 he moved to Dar es Salaam and discovered that life was tougher compared to Tanga. He stayed to his friend (village mate) at Chang'ombe. Later he got a temporary job as a watchman at Masaki area. He was paid Tsh. 80,000/= per month. The whites decided to buy him a bicycle since he stayed a distant from the working area. During the day he uses to hire the bicycle and in evening he went to his

working are. He discovered that there were customers at Chang'ombe so he decided to take the other three from Tanga.

In 2004 he got the information of CRDB activities from his neighbors. He joined in the same year and got about Tsh. 500,000/= which he use to buy more two bicycles.

S was able to repay the loan because in very 25th of the month he got salary which he used to repay the loan. But after this first loan S did not continue with borrowing even though CRDB staffs were very keen to convince him to borrow again.

He added that for the first loan which he took, he spent a reasonable amount of his salary to repay the loan. He is now a husband with two children. He has a piece of land for house, assured food, and enters training life.

CASE 20

CLIENT: T

TYPE OF THE BUSINESS: CARPENTRY

LOCATION OF THE BUSINESS: TEMEKE

T was born in 1974 at Mtwara Region. His parents were farmers. His level of education is standard VII. Immediately after primary education T joined a Technical college at Mtwara and he based on Carpentry in 1991.

T moved to Dar es Salaam at Mbagala where he joined his brother in his carpentry workshop. They did the work together for about four year before his brother decided to give him capital of 500,000/= so as to open up his workshop.

In 1996 he got a place at Ubungo where he started carpentry. He has the ability of designing and making any type of furniture.

T got the information of CRDB activities in 2003. Since he had the problem of capital he found by having it he could expand his business. He took Tsh 1,000,000/= after attending business training which he said was based on loan repayment. In their group they repaid the loan one time. They managed to get another loan of Tsh. 1,500,000/=.

According to client T, the business started problems the purchasing power was very low, there was huge competition and the amount for loan repayment was very big due to high interest rate and life insurance. He decided to close the business, sale some assets so as to repay the loan remained and then back to his brother.(see appendix iv)

ANALYSIS AND DISCUSSION OF FINDINGS;

In this research only one research question was raised in section 1.5. This was

- (i) Is there any relationship between the interest rates charged by the MFI and poverty eradication?

In this section an analysis of the 20 cases is conducted with a view to providing answer to the question raised.

Start-up versus ongoing businesses

Microfinance can be sought for either start-ups or ongoing businesses. All of the CRDB clients in the study were already in the business before applying for loan.

Many of them engaged before applying for loan. Many of them engaged in different types of businesses immediately after standard VII or after O’level education. Some of them got the skills of business from their parents while others were due to life hardship. This means that CRDB funds only clients who are already in the businesses (CRDB Policy: 2006).

Financial resource before obtaining credit:

The study further found that prior to obtaining credit from CRDB all clients had capital injected in the business and the credit applied for was taken to compliment own resource (as shown in the table4)

Entrepreneurial activities and successful indicator:

The main thesis of this study was that high interest charged by Microfinance Institution reduces the availability of entrepreneurs to take advantage of opportunities for the entrepreneurial activities under opportunities for the entrepreneurial activities under taken. By doing a cross case analysis of the twenty (20) CRDB cases this section assesses the validity of this section. The analysis follows the theoretical framework constructed in chapter two.

Indicators are classified into:

- Saving;
- Security of Food;
- Growth of Business;
- Education to children;
- Collapse of business;
- Withdrawal from membership

Table 4.2: summary of clients Indicators

J E N T	INDICATORS BEFORE CREDIT					INDICATORS AFTER CREDIT					
		Sa vin g	F o o	Gro wth of	Edu catio n	Coll aps e of	sav ing s	Gro wth of	Edu catio n	Coll apse of	foo d

		d	busi nes s	to child ren	busi ness		busi nes s	to child ren	busi ness		mem ber
A	√	√								√	
B	√	√		√		√	√	√		√	
C	√	√								√	√
D	√	√								√	
E	√	√								√	
F	√	√				√	√			√	
G	√	√								√	
H	√	√				√				√	
I	√	√								√	
J	√	√								√	√
K	√	√								√	√
L	√	√								√	
M	√	√								√	
N	√	√								√	
O	√	√								√	
P	√	√								√	
Q	√	√								√	
R	√	√								√	√
S	√	√								√	√
T	√	√							√	√	

Table No.5 Summarizes the information indicating respondents (clients) perception as indicators. The loan which were sought from CRDB were intended for growth/ expansion of business, increase saving, education to children of clients, housing quality, food security etc. the table shows that of the twenty clients who had saving before credit from CRDB only three of them had saving after borrowing from CRDB. That means 85% of the total fail to have saving, also of the twenty clients

whose expectation were business expansion only 15% achieved the target where the major reason was high interest rate. In the table it was found that some client (C, J, K, R, S, Q, T,) were either withdrawn from membership or their business collapsed while before credit from CRDB they were doing better. The analysis shows that this was 35% of the total.

In the previous table i.e Table 4 there was anomalous behavior where clients did not move ahead to higher loan levels; most of them either remained in loan level one or they back to loan level. This was explained by client C, D, E, I, J, L, M, N, O, T. this was supported by the following table

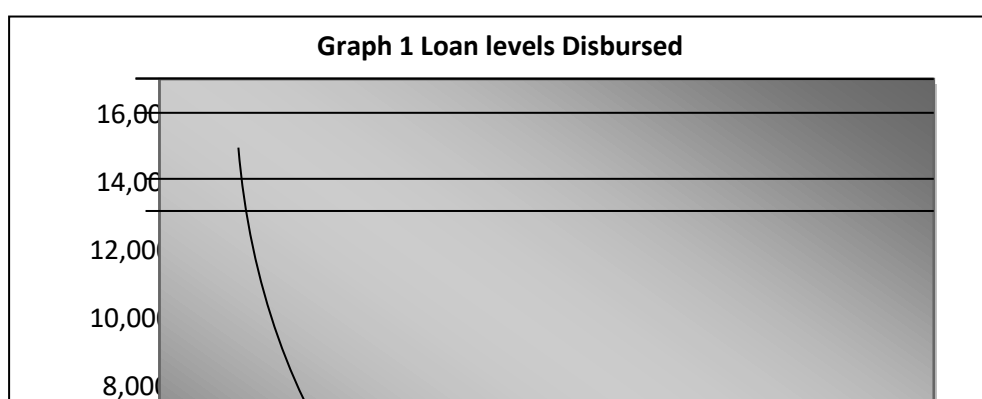
Table 4.3 Loan Levels Disbursed

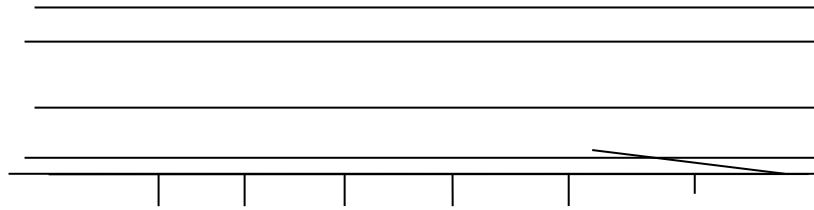
LOAN DISBURSED TO DATE	NUMBER OF CLIENTS
Loan 1	14,232
Loan 2	8,249
Loan 3	3,817
Loan 4	1,221
Loan 5	476
Loan 6	201
Above 6	54
TOTAL LOANS	28,250

Source: Weekly Loan portfolio report 3rd November 2008

The graph below shows that there are many client in loan level 1 and the number decreases much as one moves to higher levels. Clients do not like to move higher level due such money required for loan reimbursement. The graph shows that 50% are found in loan level 1, 29% are found in loan level 4, 1.7 % are found in loan level 5, and the rest 0.9%.

Figure 4.1 Loan levels disbursed





CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

The study was about assessing the impact of interest rate on poverty reduction; the case study was CRDB microfinance department. the objectives of the study was to find out whether the household loans has contributed to poverty reduction, objective included assessment on factors affecting household's standard of living by looking at variables such as changes in income, education level and housing quality.

Twenty clients from Dar es salam participated in the study and this sample was purposively selected based on the loans they have acquired. Case study design, qualitative approaches was employed during the study and where facilitated by research instruments such as self administered questionnaires, interview and documentary review.

5.2 Conclusion:

The study aimed at assessing and examining the impact of charging high interest rate on poverty reduction. Few variables were analyzed to test the impact of charging high interest. These were savings, business growth/expansion, education to children and unsuccessful variables as business collapse, withdrawal etc. Respondents were analyzed on two sides that is before borrowing from Microfinance Institution and after borrowing from the Institutions.

There is no positive effect of micro-credit to eradicate poverty unless strong measures are taken to reduce interest rate which will go in hand with country economic growth. Housing quality and the number of able poorer increases.

CRDB does give training to customer's prior loan disbursement but the training is based on loan repayment. It does not help the client on how to generate more profit from the business so as to pay credit.

CRDB has to look on the possibilities of investing in other commercial activities e.g. buy shares, treasury bills so as to cover some operation costs and lower its interest rate to poor people who are getting loan from CRDB for their businesses (able poor).

5.3 Recommendations

- **Interest rate charges is very high**

The interest rate charge by CRDB is very high compared to profitability of her clients business. Many clients have failed to meet loan repayment of Tsh 10,800/=. On the 1st level per week which is compulsory since the businesses do not generate that amount in the very short period. Even though the interest paid per week is 800/= but loan insurance charged is the cost to the client during repayment since it does not help them to generate more income and also it is used by CRDB to give loan to others. so many of them have been withdrawn or their business collapsed.

- **Repayment method is difficult**

CRDB weekly repayment seems to affect majority of her clients in their businesses and hinders non-members to join the CRDB. CRDB should look the repayment period into reality for its success and success of its clients. To insist on weekly repayment period force clients either has to borrow from other people or to use their capital to repay the loan. So this inhibits non members from joining. One way of tackling this is to introduce repayment contract. Under this method of repayment CRDB and a member enter into a contract which depends on the type of the business. Business differ in their nature some generate profit quickly and owners are able to repay immediately after borrowing e.g soft drink, fish mongering etc. but others take time before the business is ready in the market eg. Poultry farm. Horticulture Piggery Unit etc. Even though the owners can repay large amount at a

short period once their business matures. So if repayment contract is introduced CRDB will attract even other non-members whose businesses take longer period.

- **Method applied by CRDB in the loan repayment and interest**

The analysis of the method employed by CRDB in the loan repayment and interest revealed some dubious dealings. On the face of it shows that CRDB charges interest of 30% p.a on the 1st level and loan insurance of 3,500/= which is an insurance to the client. However a closer look shows that the same becomes true only when the total interest is paid at the end of the year and one has the option of taking his/her loan insurance at any time. Take an example:

Given

Contracted Tsh 500,000/=

Interest rate 30%

Repayment period: after 12 months

A = value at the end of period

P = principal amount

r = Interest rate

n = Number of payments in a year

t = Number of years the loan is repaid.

$$\begin{aligned} A &= P(1+r) \\ &= 500,000(1+0.3) \\ &= 650,000/= \end{aligned}$$

The above shows that 500,000/= borrowed will cost sh.. 30,000/=p.a and it will cost Tsh 7,500/= half yearly ie. 25 weeks.

However, instead of repaying the same once at the end of 25 weeks is repaid 25 times within 6 months of the year the results came differently.

Given:

Loan 500,000Tsh

Interest 30%

Repayment: weekly in 25 weeks

$$A = P(1+r)^{n \cdot t}$$

$$\begin{aligned}
& n \\
& = 500,000(1+0.3)^{25.1} \\
& 25 \\
& = 500,000(1.012)^{25} \\
& = 673,725.238
\end{aligned}$$

The above shows that 500,000/= borrowed will cost 17, 372.50 p.a and it will cost Tsh 8,686.25 half yearly i.e 25 weeks: and the interest rate 35%.

Also even though each member shall guarantee loans to an individual of the group (collateral) client should pay 3,500/= each week for a loan of Tsh.500, 000/= This is a cost to a client which amounts to

30000weekly payment x 25weeks x2 installments to complete a year
500,000 loan amount

= 1.5 or 150% cost to borrower

So in total the cost to the borrower of 1st loan level of Tsh. 500,000/= is 150% +30%=180%.

It is advised that interest rate be reduced to 15% CRDB has to use this formular

$$r = \frac{I + a + \alpha p}{1 - p}$$

Where i= borrowing rate which is unlikely to be less than 10 per cent.

a= administrative costs expected to be 5 percent.

p= default rate which through the data from CRDB is equal to zero

$\alpha = 1$

The world Banks sector policy paper (world Bank 1975 annex 12) found that for low Developed countries financial institutions (Tanzania included) borrowing rate was equal to 10 percent and administrative cost was expected to be 5 per cent. Data from CRDB showed that default rate is zero (weekly loan portfolio reports November 2004) so for CRDB to break even it can charge up to 15%.

For loan Insurance fund, it has to be reviewed up to a reasonable amount of Tshs 800/= with some interest once refunded.

- **CRDB policy reject poor people**

CRDB mission statement is to create a sustainable financial and information service network for small and micro entrepreneurs in order to promote their business growth, enhance their income and create employment in Tanzania. But also it is the CRDB's policy to give funds to clients who are already in the business. It seems that the policy rejects many poor people who could participate in the whole exercise of poverty reduction. There is need for CRDB to review its policies so as to meet the need of the CRDB Mission statement.

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APPENDIX I

QUESTIONNAIRE1

QUESTIONNAIRES FOR MICRO FINANCE CLIENTS

Name is Florence Kassela currently I am a Graduate student at Mzumbe University (MU). I am conducting a study on “the impact raging high interest on poverty reduction”. Please would you mind take few minutes to answer the questions below.

The research is for academic purpose, and I assure you that your answers will be kept impolitely confidential.

What is your age.....

When did you started this
business.....

.....

.....

Can you say anything in experience you have in business.....
.....
.....

What is your level of education? Circle only one correct answer among the following:-

- I had never attended to school
- Adult education
- Primary education
- Form four
- Form six
- University education
- What do you live? Name
street.....District.....

How did you know the credit programmer? Circle only one correct answer among the following:

- a) From friend
- b) From neighbor
- c) Through officers of the programmer

What was attracting you to join this programmer.....
.....

To which project you allocate your credit funds?.....
.....

What is the amount of loan granted.....

What is the interest rate.....

What is the repayment period of your loan.....

Which technique do you use to return back the principle and interest? Please tick (V) any one

- a) Business profit

- b) Other business capital
- c) Salary
- d) Others

Did the loans provided enable you to increase capital? Put \checkmark

Yes. ()

No. ()

Regarding saving since you started to take credits. Circle the correct answer:

- a) It has increased
- b) Remained the same
- c) Reduced
- d) I am not sure

Is there any effect on the interest rate briefly

explain.....

How do you assess the credit programmer

.....

Is their any effect on the interest rate briefly

explain.....

.....

How you assess the credit programmer

.....

Please compare your ability to purchase households before and after taking loan.

	Up	Down	Remain the same
Food	()	()	()
Education	()	()	()
Household	()	()	()
Medical	()	()	()

THANK YOU FOR YOUR COOPERATION

APPENDIX II
QUESTIONNAIRE2
QUESTIONNAIRES FOR MICRO FINANCE CLIENTS (SWAHILI
VERSION)

Jina langu ni mimi ni Florence Kassela mwanafunzi katika Chuo Kikuu cha Mzumbe (MU). Ninafanya utafiti kwa ajili ya mafunzo na sio kwa nia nyingine. Napenda kukuhakikishia kuwa majibu yote yatakuwa ni siri na yatatumika kwa shughuli hii iliyokusudiwa tu.

Je una umri gani.....

Lini ulianza biashara hii.....

Una maelezo yoyote juu ya biashara unayofanya?

.....
.....

Ni kipi kiwango chako cha elimu. Zungushia jibu sahihi kati ya haya yafuatayo:-

- a. Sijawahi kwenda shule
- b. Kisomo cha watu wazima
- c. Elimu ya msingi
- d. Kidato cha nne
- e. Kidato cha sita
- f. Elimu ya Chuo Kikuu

Je umetokea eneo gani? Taja

Mtaa.....

Wilaya.....

Ulijua vipi mfuko wa akiba na mikopo nafuu. Zungushia jibu sahihi kati ya haya yafuatayo;

- a. Kutoka kw rafiki
- b. Kutoka kwa jirani
- c. Kupitia kwa maofisa wa mfuko wa akiba na mikopo.

Ni kitu gani kilichokuvutia kujiunga na mpango wa akiba na mikopo

.....
.....
.....

Mikopo unayoipata unaitumia kwenye mradi au miradi
gani?.....
.....
.....
Je mradi wako/miradi yako iko katika eneo
lipi?.....
...
Kiasi gani cha mkopo
ulioomba.....
.....
.....
Kiasi gani cha riba
kinatozwa.....
.....
.....
Ni muda gani wa marejesho ya mkopo
wako.....
.....
.....

APPENDIX III
QUESTIONNAIRE3
QUESTIONNAIRES TO MANAGEMENT/ADMINISTRATION OF
MICROFINANCE INSTITUTION:

Name is FlorenceM Kassela currently I am a Graduate student at Mzumbe University (MU). I am conducting a study on “the impact raging high interest on poverty reduction”. Please would you mind take few minutes to answer the questions below. The research is for academic purpose, and I assure you that your answers will be kept impolitely confidential.

1. What is the main interest of your organization in microfinance? Circle the answer, which is appropriate.

- (i) To make profit ()
- (ii) To assist people in reducing life difficulties ()
- (iii) Both (i) and (ii) ()

2. Does your organization devote to educate clients about proper financial allocations when they get credit or profits from their businesses?

- a. Yes () No ()
- b. If yes which issues are interested most?
.....

3. Regarding repayment rates by your clients. Please give trend of the performance of repayment rates in percentage for the past years.

Year	repayment rate%
2000	()
2001	()
2002	()

4. Give your views on what you expect as the future impact of micro finance on poverty reduction with respect to interest rate

.....
.....

5. How many customer are found in your micro-finance institution for the past three years since 2000?

Year 2000.....

Year 2001.....

Year 2002.....

6. What is the amount of loan?

Year 2000

Year 2001

Year 2002

7. What is the interest rate charged by your MFI ?

Year 2000

Year 2001

Year 2002

THANK YOU FOR YOUR COOPERATION

APPENDIX IV

HAVING SEEN TWENTY CASES (20) CLIENTS BELOW IS A SUMMARY

TABLE FOR THE SAME CASES

TABLE4.1: SUMMARY OF PRIDE CREDIT

CLIENT	TYPE OF BUSINESS	YEAR COMMENCED	HIS/HER OWN CAPITAL STARTED WITH	LOAN AMOUNT	CLIENT BEFORE LOAN	CLIENT AFTER LOAN	REMARKS
A	POULTRY UNIT	2009	250,000/=		Her business was very small	He business expanded but she had no saving.	Interest rate is very high
		2010		500,000/=			
		2011		500,000/=			
		2012		1,500,000/=			
		2013		2,000,000/=			
		2014		2,500,000/=			
B	STATIONERIES & COMPUTER EQUIPMENTS	2001	350,000/=		His business was very small	His business expanded, he has house,	Interest rate is reasonable
		2001		500,000/=			
		2001		1,000,000/=			
		2001		1,500,000/=			
		2002		2,000,000/=			

		2003		2,500,000/=		security	
		2004		3,000,000/=		of	
						business	
C	SALOON	2001 2002 2003 2004	250,000/=	500,000/= 500,000/= 500,000/=	Her business was very small, she had small saving.	Her business remained to be small with no saving, and then she stopped to be a member.	Interest rate is very high and loan repayment period is too short.
D	FISH MONGERING	1998 2001 2002	150,000/=	500,000/= 500,000/=	Their business very small, it gave them security of food	Their business remained very small, they have the security of food	Interest is very high that is why they do not want to borrow the higher loan level.
E	BUTCHERY	1993 2002 2003 2004 2005	300,000/=	500,000/= 1,000,000/= 500,000/= 500,000/=	Business was very small, food security, small saving.	Business very small, food security no saving	Interest is very high that is why he returned to 1 st loan level
F	GRILL, WELDING&	1996	100,000/=		Business	Business	

	HOUSE HOLD GENERAL SHOP	2000 2001 2002 2003 2004		500,000/=	was very small, food security small saving.	expanded, food security, marriage.	
G	SOFT DRINKS	1994 2000 2001 2002 2003 2004	250,000/=	500,000/=	Had two businesses food security small saving.	Had two businesses, food security no saving.	Interest is very high
H	DIARY FARM	1998 2000 2000 2001 2002 2003 2004	400,000/=	500,000/=	Her business was very small.	Business expanded, has saving, expanded.	Interest rate is reasonable.
I	CHARCOAL	1998 2003 2004	5,000/=	500,000/=	Had business, small saving.	Had business, no saving sometimes repayments depend on husband	Interest is very high
J	TAILORING	1999 2003 2004 2005	50,000/=	500,000/=	The two businesses helped her to save food	No expansion of the saving she dropped from	Interest is very high

					security.	PRIDE.	
K	PHARMACEUTICAL	1998 2005 2006 2007 2008 2009	600,000/=	500,000/= 1,000,000/= 1,500,000/= 2,000,000/= 2,500,000/=	She had tried much, assured food small saving	No expansion no changes compared to previously she is thinking of stopping membership.	Interest is very high.
L	NEW CLOTHES	1998 2000 2001 2003 2004 2005	400,000/=	500,000/= 500,000/= 500,000/= 500,000/= 500,000/=		No changes in business.	If you borrow much interest will have an impact
M	HOUSE HOLD SHOP	1998 1999 2000 2001 2002	600,000/=	500,000/= 500,000/= 500,000/= 500,000/=	Had small saving, food security.	No expansion, no changes compared to previous.	Interest is very high.
N	POULTRY PIGGERY UNITS	1998 2001 2002 2003 2004	800,000/=	500,000/= 500,000/= 500,000/= 500,000/=	Had small saving, food security	No expansion.	Interest is very high
O	HORTICULTURE	1997 2001 2002	40,000/=	500,000/= 500,000/=	Had assured food,	No expansion of business,	Interest rate is very high

		2003		500,000/=	saving	saving	
		2004		500,000/=	payment.	reduced.	
		2005		500,000/=			
P	GRAIN/CEREALS	1993	800,000/=		Had	Assured	Interest
		2000		500,000/=	assured	food saving	rate is very
		2001		1,000,000/=	food,	decreases.	high
		2002		1,000,000/=	business		
		2003		1,000,000/=	expanded		
		2004		1,000,000/=	security.		
		2005		Cease			
Q	BUILDING MATERIALS	1998	800,000/=		Had	Assured	Interest
		2002		500,000/=	assured	food,	rate is very
		2003		1,000,000/=	food,	business	high.
		2004		1,000,000/=	small	expanded	
		2005			saving.	then	
						collapsed.	
R	CHILDREN CLOTHES	1997	50,000/=		Had	No saving,	Interest
		2005		500,000/=	assured	he stopped	rate is very
					food	membership.	high
					small		
					saving.		
S	HIRING BICYCLE	1993	150,000/=		Had	Saving	Interest
		2004		500,000/=	assured	reduced,	rate is very
		2005		500,000/=	food,	stopped	high
		2006		Stopped	small	membership.	
					saving		
T	CARPENTRY	1996	500,000/=		Had	Business	Interest
		2003		500,000/=	assured	collapsed	rate is very
		2004		500,000/=	food,		high
		2005			small		
					saving.		

