

**EFFECTIVENESS OF PRIDE TANZANIA IN PROVIDING
FINANCIAL SERVICES TO POOR RURAL HOUSEHOLDS IN
UNGUJA, NORTH REGION, TANZANIA**

By

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**A Dissertation Submitted in Partial Fulfillment of the Requirements
for Award of the Master of Science in Accounting and Finance
(Msc.A&F) of Mzumbe University**

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled Effectiveness of PRIDE Tanzania in Providing Micro financial services to Poor Rural Households in Unguja North Region, Tanzania, in partial fulfillment of the requirements for award of the degree of Master of Science in Accounting and Finance of Mzumbe University.

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DEDICATIONS

This work is dedicated to the Almighty God for His numerous blessing on me. And to the following people Amour Mbwana, Fatma Juma, Yussuf Kombo, Khalfan Suleiman and all my loved ones.

ABBREVIATIONS AND ACRONYMS

BOT	Bank of Tanzania
SMEs	Small and Medium Enterprises
MFI	Microfinance Institutions
FFIs	Formal Financial Institutions
WB	World Bank
DFID	Department of International Development, UK
SACCOS	Savings and Credit Cooperative Societies;
NGOs	Non Government Organizations
NMFP	National Micro Finance Policy
UN	United Nations
UNCDF	United Nations Capital Development Fund
MSEs	Micro and Small Enterprises
ROSCAs	Rotating Savings and Credit Association
GDP	Gross Domestic Product
HBS	Household Budget Survey
NBC	National Bank of Commerce
CGAP	Consultative Group to Assist the Poorest
(CRDB)	Co-operative and Rural Development Bank
NORAD	Norwegian Agency for Development Corporation
GB	Grameen Bank
MFCs	Micro-Finance Companies
FICOs	Financial Cooperatives
COASCO	Cooperatives Audit and Supervision Corporation
BRELA	Business Registration and Licensing Agency,
BRI	Bank Raykat Indonesia
MIX	Microfinance Information eXchange
AIV	Advisory Council on International Affairs
IOB	Policy and Operations Evaluation Department (formerly IOV)

IOV

Inspectie Ontwikkelingssamenwerking te Velde (Operations
Review Unit - later IOB)

ABSTRACT

This study is about the effectiveness of microfinance services to poor rural households in Unguja, North Region, Tanzania. The objective was to explore out the perception of the rural households towards the microfinance sector in poverty alleviation or reduction. It also aims at identifying or examining the challenges facing the microfinance sector in Tanzania, identify the major sources of finance that rural households have access and assessing the favorability of loan terms and conditions of MFIs to poor rural households.

The research design was case study research design which employed both quantitative and qualitative research approaches. The study obtained data and information through questionnaires, focus group discussion, observation and documentary reviews whereby both quantitative and qualitative data analysis' techniques were used to analyze the data. The stratified random sampling technique was used to select respondents made up of the general public in different villages of the study area simple random sampling was used to select microfinance stakeholders such politicians, leaders, MFIs staffs and field experts, the number of respondents selected was 350 for rural households 50 for other stakeholders.

The finding reveals that most of the rural households are not accessible to these services due to limited number of Microfinance Institutions (MFIs) operating in rural regions, unfriendly loan requirements to the rural people including high interest rate and high valuable securities and poor regulatory and supervisory framework of MFIs. Further finding reveals that most of the rural households are not aware with role of microfinance services, variety of financial and related products and services, also finding reveals that most of the rural households especially who are illiterate use the informal sources of loans whereby the large proportion of these loans are spent in consumption, social expenses and entertainment/festivals rather than investment. Based on the should adopt the group lending approach used by some MFIs from

Grameen Bank model operating in Bangladesh as it is seem to be more favorable and helpful to poor rural households even though there is still slightly limitations.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE PROBLEMS

1.0 Introduction

This study aims at exploring the effectiveness of PRIDE Tanzania in term of outreach, client poverty level and financial sustainability to the extent to which poor rural households and enterprises have access. This chapter includes the background information of the study, Statement of the Research Problem, study objectives, research questions, scope of the study, Significances of the study, Limitations of the Study and organization of the thesis.

1.1 Background to the Problem

Microfinance—providing access to financial services for the poor—has gained increasing prominence in the past few years as a policy objective for national level policy makers, multilateral institutions, and others in the development field. The United Nations designated 2005 the International Year of Micro credit, adopting the goal of building inclusive financial systems, and most other development institutions and multilateral donors have microfinance on their agenda. Consequently, both private and public funds are flowing to fund various financial inclusion initiatives around the world (Kendall, Mylenko &Ponce, 2010)

The rise of Microfinance as an important policy goal is due to the fact that access to financial services can induce a positive difference in the lives of the poor households. From the field, the evidence comes in the form of rapid take-up of financial services when they are made available to poor households and the very high rates of repayment that the poor exhibit in order to maintain access. The results of the Financial Diaries Project; summarized in the recent book “”, by Collins, Morduch, Rutherford, and Ruthven (2009); show how dependent the poor are on various

financial instruments, both informal and formal, to manage what little money they have on a day to day basis

Like in other developing countries the degree of financial access to the poor rural households of the Tanzania is yet unsatisfactory ,according to a study commissioned by Bank of Tanzania (1997) the unmet demand for financial services by formal financial institutions was significantly high.thus forcing many households especially those who are in rural areas rely on informal financial services by 82%.of those bank operating accounts,they only saved 12% of their total savings,in addition about 94% of the total households were willing to borrow if there were available resources and appropriate products and delivery methodologies.

Tanzania's financial sector and the microfinance industry in particular, are relatively young. In the recent years, the financial sector as a whole has undergone major changes from the originally state-owned and -controlled system to a liberalized financial sector. Principal elements of reform included liberalization of interest rates, restructuring of state-owned financial institutions, strengthening the BOT's role in regulating and supervising financial institutions, and allowing entry of local and private banks into the market. However, despite the progress, Tanzania's financial sector remains relatively small, and access to financial services remained stunted for the majority of Tanzanians especially to rural households (Triodos-Facet 2007).

During 2000 the government of Tanzania developed the National Microfinance Policy in line with the overall financial reforms initiated in 1991 where by the policy aims at enabling low-income earners through their SMEs to access financial services. Microfinance Institutions (MFIs) have become alternative sources for financing MSEs in place of Formal Financial Institutions (FFIs) (URT, 2000, Kessy & Urio, 2006).

Although there is financial sector reforms and implementation of National microfinance policy of May, 2000 there still a gap towards the achievement of the

microfinance service to poor rural households ,this is due to the fact that most of MFIs operate their business in urban areas while leaving the poor rural households and enterprises in the deep darkness of lacking the financial services, So after revealing this situation the government of Tanzania has developed” *The second-generation Financial Sector Reform Action Plan* approved by Cabinet (2006 – 2011,with \$22 million funding from WB and DFID) whereby among other things aims to review the current National Microfinance Policy to the Financial inclusion policy and develop the rural financial services strategy to ensure the financial services are accessible to the poor rural households and enterprises (Triodos Facet,2007,BOT,2010).

1.2 Statement of the Research Problem

Whereas the government realizes the financial needs for poor rural people, there remain financial gaps in many places. The implementation of financial reforms and the subsequent privatization of government owned financial institutions has made things worse for the majority of the rural households and entrepreneurs. While banking systems are being strengthened through better supervision, they have so far tended to focus their efforts on low risk urban based clients in order to improve their portfolio performance rather than reach out smaller clients located in rural areas.

Although Micro-finance Institutions (MFIs) such as banking institutions, SACCOS and NGOs are speedily emarging to provide financial services at grassroots level but still their outreach and sustainability is still limited and the conditions and procedures for their services not favour the poor and low income households and enterprises particularly those who live in rural areas.The most MFIs are weak, have limited coverage, poor organizational structures and some are donor driven. It is logically to investigate if the effectiveness of MFIs in term of outreach, sustainability and quality of their services is as stipulated in the National Micro Finance Policy (NMFP) of

May, 2000 that is, covering poor rural households and enterprises and if their conditions and procedures favour the target groups (poor and low income earners).

1.3 Objectives

1.3.1 General Objective

This study aims at exploring the effectiveness of PRIDE Tanzania in term of outreach, client poverty level and financial sustainability to the extent to which poor rural households and enterprises have access.

1.3.2 Specific Objectives

The study centered on the following specific aspects:-

- i. To explore on the perception of rural households on Microfinance services
- ii. To determine the constraints to the development of the micro finance insititutions (MFIs) in Tanzania (particularly in rural areas)
- iii. To assess the major sources of finance that rural households and enterprises have access to.
- iv. To assess wheather the conditions and procedure of loan and credit granting set by PRIDE Tanzania favour the poor rural households and enterprises.

1.4 Research Questions

- i. How do rural households perceive microfinance services?
- ii. What are the constraints to the development of the micro finance insititutions (MFIs) in Tanzania (particularly in rural areas)?

- iii. What are the major sources of finance that rural households and enterprises have access to. ?
- iv. Do the conditions and procedure of financial services provision set by PRIDE Tanzania favour the poor rural households and enterprises.?

1.5 The scope of the study

This study was conducted in fifteen villages of Unguja North Region in Zanzibar-Tanzania that is subdivided into two districts namely Unguja North “A” district and Unguja North “B” district. The region is made up of 51 villages while 28 villages are at Unguja North “A” district and 23 villages are at Unguja North “B” district. Out of fifteen villages of survey, eight villages were covered in Unguja North “A” district and six villages were covered in Unguja North “B” district. The villages that were covered in Unguja North “A” district are Chutama, Kigunda, Kandwi, Bandamaji, Pale, Kisongoni, Kilindi and Bwereu, the villages that were covered in Unguja North “B” district are Zingwezingwe, Muwanda, Pangeni, Donge Kipange, Mnyimbi, Donge Karange and Upenja.

The choice of Unguja North Region in Zanzibar was dictated by various considerations. First, like many other rural regions, Unguja North Region experience the problems of underdevelopment of MFIs. Secondly Unguja North Region is among the region with main economic activities of agriculture, livestock and fishing in Tanzania, but has no reliable agricultural, livestock and fishing credit system. Thirdly like many other regions Unguja North Region experience the problem of commercial financial institutions pulling out from serving rural areas. Fourthly, the growth of financial NGOs and cooperatives have not picked up as expected to fill the vacuum. Thus the above fifteen villages will be selected to provide a true presentation of the rural villages as each agricultural ecological zone will be presented.

1.6 Significances of the study

This study will be of benefit to MFIs, policy makers, MSEs and the community at large. The study explored and recommended potential areas that MFIs need to put more efforts when delivering their services. On the other hand, policy makers will also benefit in the sense that, the findings provided informed suggestions on how policy can be improved. With improved and easy to implement policies, more rural MSEs and the rural community at large will be able to access and benefit from the services of MFIs.

1.7 Limitations of the Study

The constraints that faced this study were access to reliable data as rural households often do not keep records. However, the efforts were made to collect data from different sources and compare it with available regional and national statistic. This strategy of collecting information from different sources in order to ensure the quality of information gathered is known as triangulation technique (Stake, 1995).

Another limiting factor was lack of collaboration from MFIs in providing information as most of the information such as interest rate requested from the MFIs were treated as competitive and confidential information, the researcher used the MFIs published information from various sources such as websites, MFIs newsletters and various research papers based on MFIs case studie

Another factors that hindered the study include weak infrastructure in many rural areas that affect smooth transportation among the villages while collecting the data, also inadequate financial resources to cover transportation cost, meals, stationeries, typing, printing and binding cost was another factors that hindered the success of this study.

Even if the researcher had his own laptop that he used it during the study but also the researcher requested two organizations to give him an access to computer hardware and software so as to reduce printing cost and in case of failure of his own laptop

during the study. The researcher requested employer and another organization to pay incidental costs as part of course expenses.

1.8 Organization of the Study

The research report is organized as follow: chapter one is providing the background information of the study, Statement of the research problem, research objectives, and research questions, scope of the study, significance of the study, limitation of the study and the chapter summary.

The second chapter is mainly theoretical chapter dealing with conceptual issues. In particular the chapter conceptualizes in the rural poverty and the role of microfinance towards the rural poverty eradication process, among other things the chapter include Operational Definitions of the Key Concepts in microfinance, models of microfinance, microfinance policy in Tanzania, challenges to microfinance industry, status and Eradication of poverty in Tanzania ,Financial needs of poor people, The Economics of Poverty , Financial Services and Economic Development , Legal Framework for Microfinance in Tanzania and empirical Literature review .

On the other hand the third chapter presents the profile of the study area and research methodology. In particular the chapter highlights the Choice of the Study Area, The Profile of the Study Areas, Sample Size and Sampling techniques, Data Sources and Collection Methods, Organization of the field Survey, Data analysis techniques and Data Accuracy and Reliability.

Chapter four which is the longest chapter in the thesis mainly produces results and discussions, The chapter include graphical presentation of the data and both qualitative and quantitative data analysis mainly focusing on the specific objectives and questions of the thesis, the issues of rural households perception on microfinance services, challenges of microfinance sector, loan terms and conditions of MFIs and

major sources of finance that rural households are access to were addressed in this chapter.

There are five sections in the chapter corresponding to the four main objectives of the study and in addition of the preliminary data analysis section. The first section analyses the socio economic data gathered from rural households, the issues such as gender distribution of sample population, age distribution of sample population, Type of Family and Family size of the population, Educational Information, Households' major economic activities and Households' participation in Microfinance were addressed in the section. The second section analyses the constraints of the Microfinance Industry in Tanzania in some details followed by the third section deals with assessment of major sources of finance that rural households are access to, the practical issues of such as sources and form of finance, comparison of forms of finance to various level of education, comparison of forms of finance to various households' occupations, Utilization of loan and credit in rural areas were addressed in some details. The fourth section concentrate with assessment of perception of rural households towards Microfinance services, here the households' awareness toward microfinance services, households' opinions on effectiveness of microfinance sectors, comparisons of these opinions at various level of education and households' perception towards the variety of microfinance services were addressed in some details. The fifth section analysis Condition and loan Procedure of MFIs whereby a case of Pride Tanzania was used, the practical issues of such as Lending policies and process were addressed in some details; each section is supplemented by the section summary. Finally Chapter five concludes the thesis and discusses key policy implications in addition to the potential areas for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter attempt to review the relevant literature on microfinance to poor rural households. In addition, it will also discuss the theoretical framework of analysis for micro financial services to rural households and its role to the economic growth. The study contends that the financial sector reform implemented in Tanzania have not improved the rural households access to financial services.

2.2 Theoretical literature review

2.2.1 Operational Definitions of the Key Concepts

Microfinance

Microfinance, according to Otero (1999, p.8) is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Microfinance and microcredit.

In the literature, the terms microcredit and microfinance are often used interchangeably, but it is Important to highlight the difference between them because both terms are often confused. Sinha (1998) states “microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc)”. Therefore microcredit is a

component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005).

The History of Microfinance

Microcredit and microfinance are relatively new terms in the field of development, first coming to prominence in the 1970s, according to Robinson (2001) and Otero (1999). Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidised rural credit programmes. These often resulted in high loan defaults, high losses and an inability to reach poor rural households (Robinson, 2001).

Robinson states that the 1980s represented a turning point in the history of microfinance in that MFIs such as Grameen Bank and BRI began to show that they could provide small loans and savings services profitably on a large scale. They received continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients (Robinson, 2001). It was also at this time that the term “microcredit” came to prominence in development (MIX, 2005). The difference between microcredit and the subsidized rural credit programmes of the 1950s and 1960s was that microcredit insisted on repayment, on charging interest rates that covered the cost of credit delivery and by focusing on clients who were dependent on the informal sector for credit (ibid.). It was now clear for the first time that microcredit could provide large-scale outreach profitably.

The 1990s “saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale” (Robinson, 2001). Ditcher (1999) refers to the 1990s as “the microfinance decade”. Microfinance had now turned into an industry according to Robinson (2001). Along with the growth in microcredit institutions, attention changed from just the provision of credit to the poor

(microcredit), to the provision of other financial services such as savings and pensions (microfinance) when it became clear that the poor had a demand for these other services (MIX, 2005).

The importance of microfinance in the field of development was reinforced with the launch of the Microcredit Summit in 1997. The Summit aims to reach 175 million of the world's poorest families, especially the women of those families, with credit for the self-employed and other financial and business services, by the end of 2015 (Microcredit Summit, 2005). More recently, the UN, as previously stated, declared 2005 as the International Year of Microcredit.

Microfinance Institution, Products and Services

MIX defines an MFI as “an organization that offers financial services to the very poor.” (MIX, 2005). According to the UNCDF (2004) there are approximately 10,000 MFIs in the world but they only reach four percent of potential clients, about 30 million people.

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfer, and insurance to poor and low-income households and their micro enterprises (Pilipinas, B. S., 2002). Microfinance does not only cover financial services but also non-financial assistance such as training and business advice.

The principal providers of financial services to the poor and low income households in the rural and urban areas of Tanzania consist of licensed commercial banks, regional and rural unit banks; savings and credit cooperative societies; and several NGOs whose micro-credit delivery operations are funded and supported with technical assistance by international donors (Randhawa and Gallardo, (2003).

Micro and Small Enterprises (MSEs)

There is a wide range of definitions for MSEs, but for the purpose of this study, MSE is defined as a productive activity either to produce or distribute goods and or services, mostly undertaken in the informal sector. A typical micro enterprise employs fewer than five workers, usually family members and has very limited fixed assets.

A small enterprise on the other hand, employs more than five workers and most of them are in a formal sector with much higher fixed assets compared to micro enterprise. According to the Small and Medium Enterprises Development Policy (URT, 2003), small enterprises are formal undertakings engaging between 5 and 49 employees, or with capital investment ranging from Tshs. 5 million to Tshs. 20 million (URT,2003, Kessy & Urio,2006).

Definition of Poverty

Poverty is the state of one who lacks a certain amount of material possessions or money. Absolute poverty refers to the lack of basic human needs which commonly includes food, water, sanitation, clothing, shelter, health care and education. Relative poverty is defined contextually as economic inequality in the location or society in which people live.

Poverty is caused by both internal and external factors. Whereas the internal causes can be clustered into economic, environmental and social factors, the external causes relate to international trade, the debt burden and the refugee problem (URT, 1999, Kessy & Urio, 2006)

Rural Finance, Agricultural finance and Microfinance

The debate on rural finance calls for clear distinction between three overlapping concepts: Rural finance, agricultural finance and microfinance. According to Rural

Finance Knowledge Management (2005) Microfinance refers to provision of financial services to lower income earners irrespective of where they are, rural or urban at more affordable terms, Where as agricultural finance is essential a subset of rural finance dedicated to financing the agricultural related activities such as input supply, production, distribution, wholesale ,processing and marketing. Thus rural finance in this context is perceived as the intermediation process through which the financial assets and debts are exchanged and re allocated among rural economic entities.

2.2 Models of Microfinance

Despite the lack of data on the sector, it is clear that a wide variety of implementation methods are employed by different MFIs. The Grameen Bank (2000a) has identified fourteen different microfinance models namely: Associations, Bank Guarantees, Community Banking, Co-operatives, Credit Unions, Grameen, Group, Individual, Intermediaries, NGOs, Peer Pressure, Rotating Savings and Credit Associations, Small Business and Village Banking. For purpose of this study let us focus on three; Rotating Savings and Credit Association (ROSCAs), the Grameen Bank and the Village Banking models, as these are the three microfinance models that are common in many MFIs.

Rotating Savings and Credit Associations

These are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle (Grameen Bank, 2000a). According to Harper (2002), this model is a very common form of savings and credit. He states that the members of the group are usually neighbours and friends, and the groups provides an opportunity for social interaction and are very popular with women. They are also called merry-go-rounds or Self-Help Groups (Fisher and Sriram, 2002).

The Grameen Solidarity Group model

This model is based on group peer pressure whereby loans are made to individuals in groups of four to seven (Berenbach and Guzman, 1994). Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly (Ledgerwood, 1999). According to Berenbach and Guzman (1994), solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organisations such as the Grameen Bank, who use this type of microfinance model. They also highlight the fact that this model has contributed to broader social benefits because of the mutual trust arrangement at the heart of the group guarantee system. The group itself often becomes the building block to a broader social network (1994).

Village Banking Model

Village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings (Holt, 1994). They have been in existence since the mid-1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000a). The loans are backed by moral collateral; the promise that the group stands behind each loan (Global Development Research Centre, 2005).

2.2.3 Incidence and characteristics of poverty, income distribution in Tanzania

After over four decades of independence Tanzania remains one of the 10 poorest countries in the world. Poverty remains widespread and deep, with half of Tanzanians living under conditions of deprivation, concentrated in the rural areas where approximately 66% of Tanzanians live. Poverty is closely related to the low profitability of agricultural activities. Major causes of concern are the unequal

distribution of wealth and resources. The HIV/Aids situation in the country is less worrisome than in neighboring countries but still HIV/Aids is a leading killer disease for the age group 15-49. This, in combination with population growth, results in 46% of the population being below 15 years of age. Although Tanzania experienced relatively rapid growth in per capita GDP over the past decade, decline in poverty has been low and concentrated in urban areas (UNDP Human Development Report 2006, Triodos-Facet 2007)

Therefore, poverty is not uniformly distributed geographically or within the population. Distinctions can be noted between rural and urban poverty, gender and along agro-ecological zones. According to the Tanzania Household Budget Survey (HBS) of 2000/01 (URT, 2002), the widest gap is between urban and rural populations. At one extreme, Dar es Salaam is substantially better off than the rest of the country; at the other, rural households are much poorer than their urban counterparts in almost all respects (URT, 2002, Kessy & Urio, 2006)

Differences in poverty between men and women are smaller than geographical differences. Poverty is a result of many and often mutually reinforcing factors including lack of productive assets to generate material wealth, illiteracy, and prevalence of diseases, natural calamities such as floods, drought and man-made calamities such as wars (URT, 2004, Kessy & Urio, 2006)

2.2.4 Microfinance Policy in Tanzania

Microfinance in Tanzania is one of the approaches that the government has focused its attention in recent years in pursuit of its long term vision of providing sustainable financial services to majority of Tanzanian population (Rubambey, 2001). In Tanzania, before the current financial and banking restructuring took place, most of financial services for rural, micro and small enterprises were offered by the National Bank of

Commerce (NBC) and the Co-operative and Rural Development Bank (CRDB) (Chijoriga, 2000, Kessy & Urio, 2006).

Since 1991, the government has been implementing financial sector reforms aimed at putting in place a competitive, efficient and effective financial system. Although the reforms have had reasonable success in bringing about the growth of competitive and efficient mainstream banking sector, it has not brought about increased access to basic financial services by the majority of the Tanzanians, particularly those in rural areas (Rubambey, 2001, Kessy & Urio, 2006).

The realization of the above shortcoming led to the Government's decision to initiate deliberate action to facilitate alternative approaches in the creation of a broad based financial system comprising of a variety of sustainable institutions with wide outreach and offering diverse financial products (ibid). The government's choice of microfinance was influenced by the conviction that, given adequate attention, microfinance has the potential to contribute considerably to the economic development of the country because it is more adapted to the needs of the low-income population which makes up the majority of Tanzanians (Rubambey, 2001, Kessy & Urio, 2006).

Over the past 5-10 years the enabling environment for microfinance in Tanzania has improved significantly. The GoT has come out strongly in support of the development of the industry. The *National Microfinance Policy*, approved by Cabinet in May 2000, articulates a clear vision for the development of a sustainable microfinance industry, specifying the respective roles of the key stakeholders. According to the policy, the private sector is to be the key provider of financial services; the Government is not to engage actively in the delivery of microfinance. Providers of microfinance are expected to apply sound financial principles in delivery of their services, particularly with respect to pricing, loan delinquency control,

financial reporting, appropriate techniques and products, gender equity and governance (Triodos-Facet, 2007).

The microfinance policy is part of the wider policy framework for Tanzania. Other national policies and strategies with relevance to microfinance include:

- The National Strategy for Growth and Reduction of Poverty (known as MKUKUTA) contains Tanzania's overall development strategy. The MKUKUTA addresses three clusters of outcomes: i) growth, and the reduction of income poverty; ii) improving the quality of life and social well-being; and iii) strengthening governance and accountability.
- Small and Medium Enterprises Development Policy, Ministry of Industry and Trade, 2002;
- National Land Policy, 1995
- National Cooperative Development Policy (2002)

2.2.5 Financial needs of poor people

In Stuart Rutherford's recent book of 2009 *The Portfolio of the poor*, he cites several types of needs:-

- *Personal Emergencies*: such as sickness, injury, unemployment, theft, harassment or death.
- *Disasters*: such as fires, floods, cyclones and man-made events like war or bulldozing of dwellings.
- *Lifecycle Needs*: such as weddings, funerals, childbirth, education, homebuilding, widowhood, old age.
- *Investment Opportunities*: expanding a business, buying land or equipment, improving housing, securing a job (which often requires paying a large bribe), etc.

Poor people find creative and often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from country to country but typically include livestock, grains, jewelry, and precious metals. Figure 2.1 below show the types of microfinance used by poor people:-

Figure 2.1: Types of microfinance used by poor people



Source: Brett Matthews, Mathwood Consulting Company.

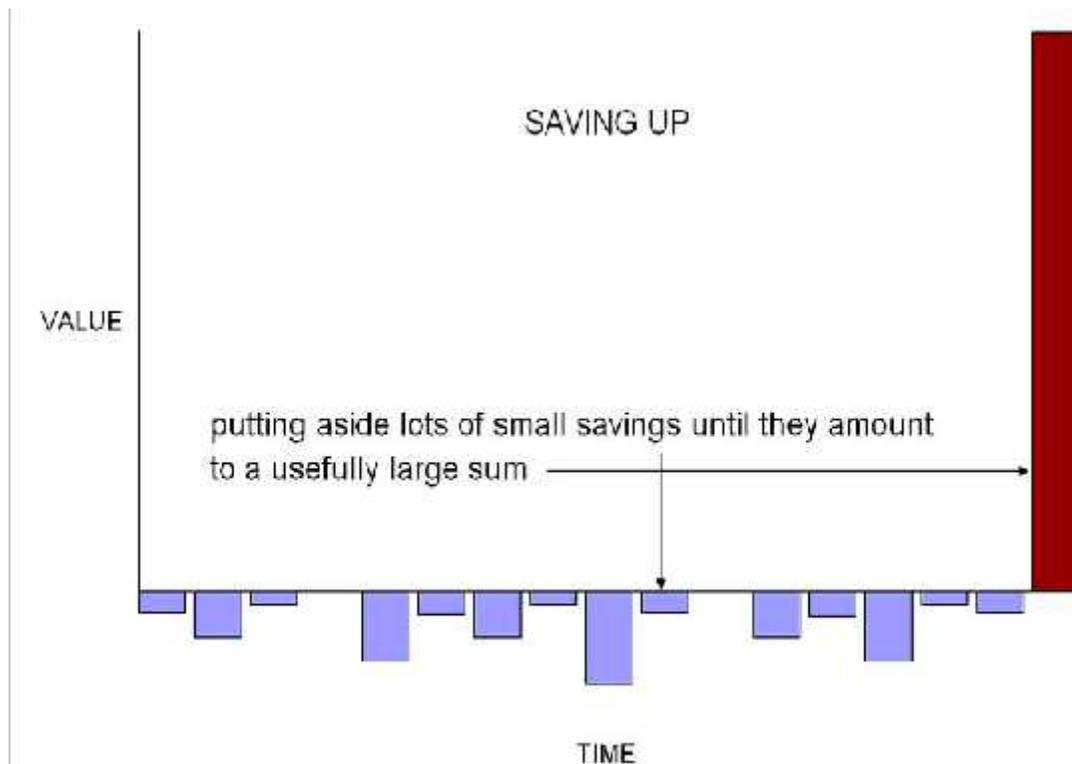
2.2.6 .The Economics of Poverty: How Poor People Manage Their Money

Still, poor people urgently need financial services. Arguably, their need may be greater than that of the nonpoor. Poor people have smaller, more irregular, and often more unreliable incomes, the great bulk of which may be spent as soon as it is received on food and the means to cook it. As a result, whenever they want to buy something other than food or fuel, they often find they simply do not have the money on hand, even for quite modest expenditures such as basic clothing. This happens to poor people more often than to nonpoor people. In such circumstances poor people must go without, sell some hard-won asset, or find some way to tap into past or future income (given that present income is insufficient) (Galbraith. 1975).

Naturally, they prefer the third of these choices, and financial services make it possible. Financial services help them manage their money in precisely that way—by helping them access past income stored in the form of savings or future income by lending you an advance against Savings you plan to make in future. Therefore, managing money well turns out to be a matter of managing their capacity to save. Saving is where financial services begin and end (Galbraith., 1975, Stuart Rutherford, 2000).

There are three basic ways through which savings can be converted into useful, large sums of money for spending: “saving up,” “saving down,” and “saving through.” Saving up (Fig. 2.2) is obvious enough: savings are stored until they have accumulated into a sum large enough to serve some expenditure need.

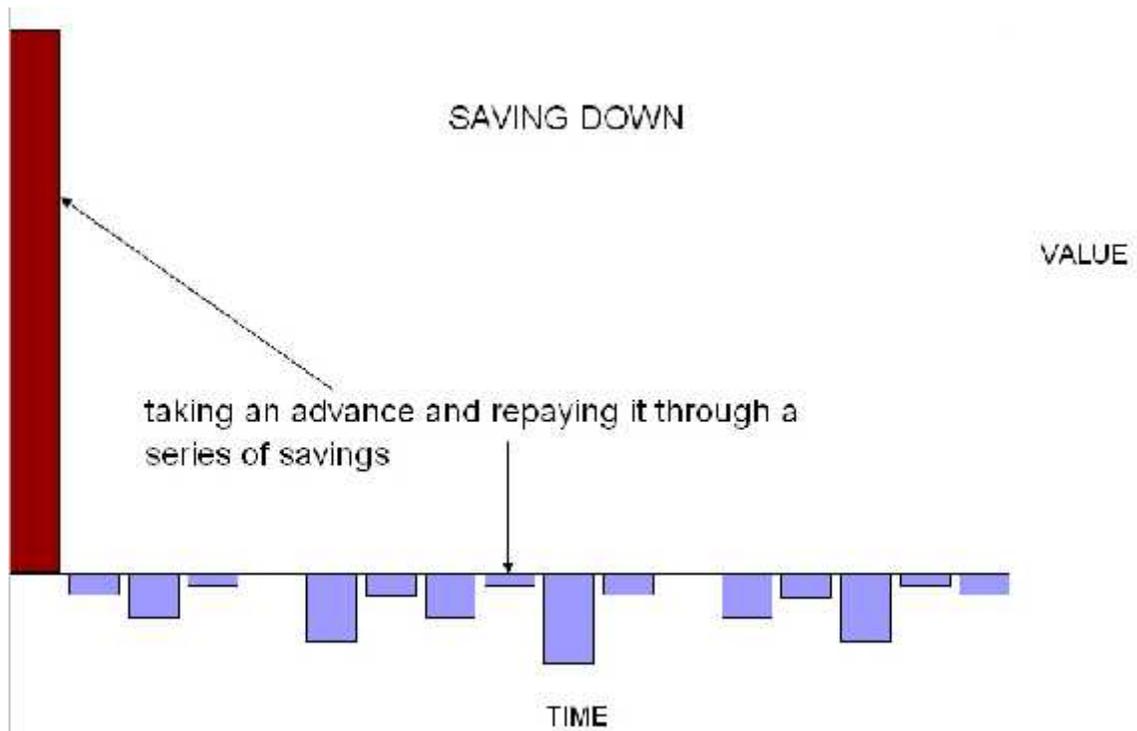
Figure 2.2: Converting saving to large sum through saving up



Source: Stuart Rutherford. The Poor and Their Money. Oxford University Press, Delhi, 2000.

Saving down (Fig. 2.3) refers to borrowing and repaying the loan. Repaying loans depends just as much on the act of saving as does saving up. The only difference is the lump sum becomes available before, rather than after, a series of savings. The savings, of course, are used as repayments on the loan—either in intervals as income is realized or after a secondary process of saving up until enough has been accumulated to pay off the loan in a single balloon repayment (Stuart Rutherford,2000).

Figure 2.3: Converting saving to large sum through saving down



Source: Stuart Rutherford. The Poor and Their Money. Oxford University Press, Delhi, 2000.

Saving through is a mix of saving up and saving down. A lump sum becomes available at some point during a series of savings. Good examples can be found in many types of insurance coverage: saving is performed continuously as a series of,

say, monthly automobile insurance premium payments, and the lump sum becomes available when you crash into a gatepost (Stuart Rutherford, 2000).

2.2.7 Obstacles or challenges to microfinance industry

There are several key debates on the challenges of microfinance industries: among these challenges are:-

Interest Rates: One of the principal challenges of microfinance is providing small loans at an affordable cost. The global average interest and fee rate is estimated at 37%, with rates reaching as high as 70% in some marketsⁱ. The reason for the high interest rates is not primarily cost of capital. Rather; the main reason for the high cost of microfinance loans is the high transaction cost of traditional microfinance operations relative to loan size (Meagher, 1998, Hossain, 1998, Ngehnevu & Nembo, 2010).

Microfinance practitioners have long argued that such high interest rates are simply unavoidable, because the cost of making each loan cannot be reduced below a certain level while still allowing the lender to cover costs such as offices and staff salaries. The result is that the traditional approach to microfinance has made only limited progress in resolving the problem it purports to address: that the world's poorest people pay the world's highest cost for small business growth capital. The high costs of traditional microfinance loans limit their effectiveness as a poverty-fighting tool (Meagher, 1998, Hossain, 1998, Ngehnevu & Nembo,2010, Roodman, David, 2011,)

Microfinance analyst David Roodman contends that in mature markets, the average interest and fee rates charged by microfinance institutions tend to fall over time. However global average interest rates for microfinance loans are still well above 30% (Roodman, David, 2011).

Poor regulation and supervision of MFIs

In most developing countries, government have attempted to develop their economies in order to reduce poverty among their people, by among other things, regulating the financial sectors, administering subsidized and targeted credit mostly through public financial institutions. According to many observers, such practices ignored domestic resources mobilization, informal financial system and neglected the viability of the financial institutions (Bee, 1996: Bee, 1997:1-73, Wenner, 2001)

In the financial sector, government intervention through policy and regulatory guidelines has been criticized by different experts (Chaves and Gonzalez-Vega, 1994:Hanningm and Wisniwiski 1999,Adam,1995,Yaron,1997, Thillairajah,1994,Aryeetey,1996;Besley 1994b).In their view inappropriate and regulatory framework tend to repress financial system and hence impede financial intermediation. Certain government interventions such as setting interest rate ceiling, minimum reserve requirements and excessive market entry restrictions are likely to constraints credit provisions and saving mobilizations in financial institutions.

However, in most literature some degree of regulations and conducive policy environment is recommended to create financial system the operates following the principles of “best practices” Other obstacles or challenges to building a sound commercial microfinance industry include:

- Inappropriate donor subsidies
- Few MFIs that meet the needs for savings, remittances or insurance
- Limited management capacity in MFIs
- Institutional inefficiencies

2.2.8 Poverty Status, and Eradication in Tanzania

Tanzania Poverty Current Status

The assessment of poverty levels and trends is complicated by the lack of consistent information and absence of officially recognized poverty lines. Since the early 1980s, a number of households' surveys using different definitions, samples, and methods have been conducted (URT, 2000):

- The 1983 Human Resources Survey (HRS); covered 498 rural households in four regions
in Mainland Tanzania;
- The 1991/92 Household Budget Survey; covered 5,328 households
countrywide;
- The 1991/92 Cornell/ERB survey; covered 1,046 households in Mainland
Tanzania;
- The 1993 Human Resource Development Survey (HRDS); covered 5,184
households
Countrywide;
- The 1995 Participatory Poverty y Assessment (PPA); covered 768 households
in rural
Mainland Tanzania; and
- The 1998 REPOA survey; covered 649 rural households in three regions in
Mainland
Tanzania and 148 peri-urban households in Dar es Salaam.

Notwithstanding the data problems, poverty is, no doubt, pervasive and deep. Based on the 1991/1992 HBS, around 27 percent of the people were in households with total expenditure that was insufficient to obtain enough food to meet nutritional requirements, and about 48 percent of the households were unable to meet their food

and non-food basic requirements, Basic needs rural poverty incidence is estimated at 57 percent, and the food poverty incidence is about 32 percent, the poverty incidence for households whose heads work in own farms is 57 percent. These results are also supported by the 1998 REPOA rural survey (URT, 2000).

Furthermore the two major participatory poverty assessments have been carried out in Tanzania; one by the World Bank ('Voices of the Poor', in 1995) and the other by the UNDP (in Shinyanga, 1997). Both assessments provide useful additional information on poverty in the country. The 'Voices of the Poor' study, which covered more than 6,000 people in 87 villages, revealed differences between men and women in the perception of poverty. According to the study, the poor attached importance to secure land tenure, availability of agricultural inputs, credit and suitable technology; good transport; access to markets; and the potential to save and limited access to quality health services was also identified as a cause of poverty. Perhaps the most striking finding of the World Bank study, was the important role that "social capital"(trust, unity and spirit of participation) and plans at the village level in fostering development.(URT,2000)

A UNDP study was carried out in 8 localities in Shinyanga Region during 1997. This study highlighted livelihood insecurity, poor social service provision, and gender inequality as factors that contribute significantly to poverty. Cultural constraints, weak governance, scarcity of funding, and poor infrastructure were also identified as development obstacles. Gender bias in the control of household resources, was of particular concern to women. These factors were reiterated in the zonal workshops organized in the course of the PRSP process (URT, 2000).

Poverty Eradication in Tanzania

Tanzania, as with other developing countries, has been struggling to reduce poverty. One of the interventions has been the introduction and implementation of social and

economic policies which address the issue of poverty both at national and individual levels. This involved State intervention in education and other social services, and the creation of an enabling environment for private sector investment in productive sectors.(Kessy & Urio,2006)

During the World Social Summit held in Copenhagen in 1995, Tanzania joined other nations in their commitment to eradicate poverty. Following this commitment, Tanzania has developed plans for poverty reduction which are outlined in the *Tanzania Development Vision: 2025*, the *National Poverty Eradication Strategy*, *Poverty Reduction Strategy Paper (2000,)* and the *National Strategy for Growth and Reduction of Poverty (2005)*. All these stress the importance of equitable, sustainable economic growth and improvement of people's welfare (URT, 2003)

The Government of Tanzania recognizes the role of the private sector in poverty reduction. The private sector has a role of creating employment opportunities by increasing investments. Also, private sector investment in social services will create effective and efficient environment for poverty reduction (Kessy & Urio, 2006)

Poverty and Government policy and strategies in Tanzania

After Independence, the Government of Tanzania put a high priority on poverty alleviation. Together with ignorance and disease, poverty was considered to be one of the three 'enemies of development'. In line with the view current in the 1960/70s about the role of the state in development, state interventions were initiated to reduce prevailing economic and social inequalities. Government policy therefore focused on establishing state enterprises in the agricultural and industrial sectors, and on the construction and improvement of health facilities, schools and water supply systems. In remote rural areas, the dispersed population was concentrated into *Ujamaa* villages in order to facilitate the provision of such services (IOB, 2004).

State control over the economy did not bring about the anticipated increases in production, however. Decreasing world market prices and poorly functioning marketing services reduced farmers' incomes and resulted in a downturn of the rural economy. In turn, this endangered the maintenance of community services; the ultimate effect was a decline of those services, a deterioration of the living conditions of the population, and an increase in rural poverty (IOB, 2004).

During the period 1980-1995 an explicit poverty reduction policy did not exist. The severe economic crisis and the fall in development aid forced the Government of Tanzania to reduce public expenditure and, after 1985, to initiate economic reforms. Policy then focused on macro-economic issues such as an appropriate exchange rate, foreign exchange earnings, macro-economic stability and the reduction of inflation, privatization and market liberalization. Some attention was also given to the rehabilitation and maintenance of basic social services. In general, therefore, government was preoccupied with crisis management and economic reforms rather than with a comprehensive poverty reduction policy (IOB, 2004).

In its economic reform policy, the Tanzanian government deployed three instruments to redistribute income: taxes, trade regulation and credit facilities. The results were not always favorable to the rural population. A significant portion of collected taxes was Poverty, policies and perceptions in Tanzania used for debt repayment, recurrent expenditure in the social sector (salaries of teachers and health personnel), and for keeping the destitute industry on its feet. At the same time, government expenditure on the agricultural sector decreased, which must have had significant consequences for productivity and poverty in the rural areas. Trade liberalization positively affected the income from export crops and credit arrangements increasingly became available for the private sector. As this involved only a small number of farmers, however, it did not have any positive effect on rural poverty. Moreover, the effectiveness of several safety net programmes for poverty reduction was restricted due to official

minimum wage regulations and the lack of any explicit targeting of the poorest groups in society (Bol, 1997; Voipio & Hoebink, 1999, IOB, 2004).

In 1995 the Government of Tanzania established a task force consisting of experts from government and civil society to design a long term vision for the country's development. The group designed Vision 2025, an ambitious strategy with long-term macroeconomic and sector goals, including an economic growth rate of 8% per annum. With this target in mind, a National Poverty Eradication Strategy was designed which aimed at halving absolute poverty by 2010 and eradicating abject poverty by 2025. In an effort to strengthen ownership of the development process, a Tanzania Assistance Strategy was formulated to co-ordinate national and international (donor) efforts towards.

Poverty eradication. Moreover, as a result of a new Highly Indebted Poor Countries (HIPC) initiative for debt reduction, a Poverty Reduction Strategy Paper was formulated in 1999/2000. This means that only since very recently, Tanzania has had a comprehensive national strategy for poverty alleviation. (URT, 2000)

The government's current policy concerning poverty alleviation in Tanzania concentrates on efforts aimed at (a) reducing income poverty, (b) improving human capabilities, and survival and social well-being; and (c) alleviating the extreme vulnerability of the poor (IOB,2004).

Reducing income poverty will be pursued through sound macro-economic policies and by intensifying the implementation of reforms for increased marketing efficiency, particularly in agriculture, reforms aimed at promoting export-oriented expansion and diversification, and efforts to raise investment (from 15% to 17% of GDP). The improvement of human capabilities, survival and social well-being will focus on the rehabilitation of existing structures and raising the quality of services on offer. A

crucial factor is the abolition of primary school fees to ensure that children from poor families in particular will have access to basic education. Local communities are expected to play a major role in identifying the needs of vulnerable groups, which will then be addressed by existing government programmes and by enlisting the involvement of donors (United Republic of Tanzania, 2001a). The Tanzanian Government intends to restrict its financial intervention to the following priority areas: (basic) education, primary health care, rural roads, agriculture, (drinking) water, the legal system and combating HIV/AIDS (IOB, 2004).

As poverty is largely a rural phenomenon, the Tanzanian Government has designed a special Rural Development Strategy (December 2001), the overall objective of which is to provide a framework for the implementation of sector policies concerned with the development of rural communities. The strategy has been worked out in an action plan and is complemented by an Agricultural Sector Development Strategy (ASDS) (URT, 2001b) and the Implementation of the strategy was pursued through District Agricultural Development Plans (DADP). ASDS remarks, however, that this is hampered by the non-existence of DADPs for most districts, and that agricultural planning at the district level is an underdeveloped area (ETC, 2001, IOB, 2004).

Other poverty related national policies and strategies include:

- National Microfinance Policy (2000)
- The National Strategy for Growth and Reduction of Poverty (known as MKUKUTA) contains Tanzania's overall development strategy. The MKUKUTA addresses three clusters of outcomes: i) growth, and the reduction of income poverty; ii) improving the quality of life and social well-being; and iii) strengthening governance and accountability.
- Small and Medium Enterprises Development Policy, Ministry of Industry and Trade, 2002

- National Land Policy, 1995
- National Cooperative Development Policy (2002)

The poverty practitioners came up with three dimensions to poverty that are commonly distinguished: economic, social and political. In economic terms, poverty refers to the effects of the unequal distribution of resources, such as capital and land, and the inadequate exploitation of those resources. The social dimension relates to inadequate access to amenities that determine the living conditions of people, e.g. drinking water, education and health facilities. Finally, the political dimension implies the involvement in decision-making on the part of the poor. These three dimensions are inter-related and mutually reinforcing (IOB, 2004)

According to the AIV report, the country's policy with regard to poverty reduction is unclear and the report concludes that Tanzania's PRSP is characterized by a focus on the social dimension of poverty, remarkably little attention for the economic dimension, and a narrow view on the political dimension, which is limited to the need for institutional change rather than the social and political emancipation of the poor (AIV, 2003.IOB, 2004).

2.2.9 Conceptual Framework

The Link between Micro Finance services and Poverty Alleviation

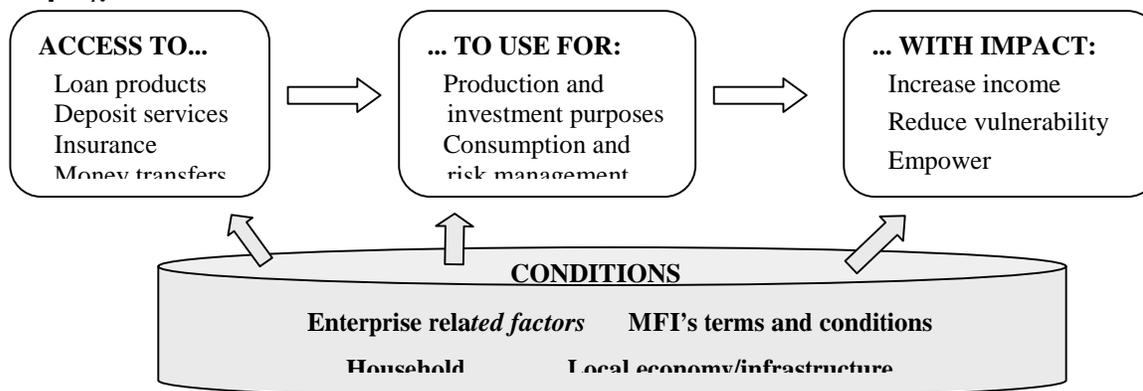
MFI schemes were initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards, offering financing to the poor, women's empowerment, and the development of the business sector as a means of achieving high standards and reducing market failure (Harper, 1999, Rahman, 1999; Chijoriga and Cassimon, 1999).

Empirical evidences and surveys give mixed results on the performance of MFIs. In some cases debacle stories have been reported, yet there have been success stories. In other cases the reasons for failures or successes have not been well documented.

Recent studies show that, linking MFIs with other interventions such as poverty alleviation often complicates the functioning of MFIs by pushing them to areas not considered sustainable. This implies that there is a conflict in measuring financial performance and poverty alleviation. Most of sustainability indicators focus on the MFI as a profitable institution (loan repayment, profitability and degree of subsidisation). Thus for an MFI to meet the microfinance best practices, as given by Consultative Group to Assist the Poorest (CGAP), and be financially sustainable, it has to regard itself as a business venture. As a consequence of this and especially in the rural areas, very few people qualify for a business loan.

According to Norwegian Agency for Development Corporation (NORAD) through its Microfinance position paper of 2003/3, the main contribution of financial and banking services -- savings, credit, insurance and money transfers -- is to address people's financial constraints and facilitate management of money. Use of financial services can be classified into two broad categories: production and investment purposes, and consumption and risk management. Financial services thus play dual roles: protecting the poor, and promoting their economic well-being and welfare. However, various factors can influence the actual outreach of and impact of microfinance programs, as outlined in figure 2.4 below. For instance, intra-household power structures and property laws can influence access to and use of a loan, entrepreneurs' business skills and the viability of the local economy influence the result of an investment, availability of rural roads and electricity condition both MFIs' operations and households' livelihood activities, and MFIs' terms and conditions influence who gets access to financial services.

Figure 2.4: The relationship between access to financial resources and poverty



NORAD Microfinance Position paper of 2003/3

Financial Development and Economic growth

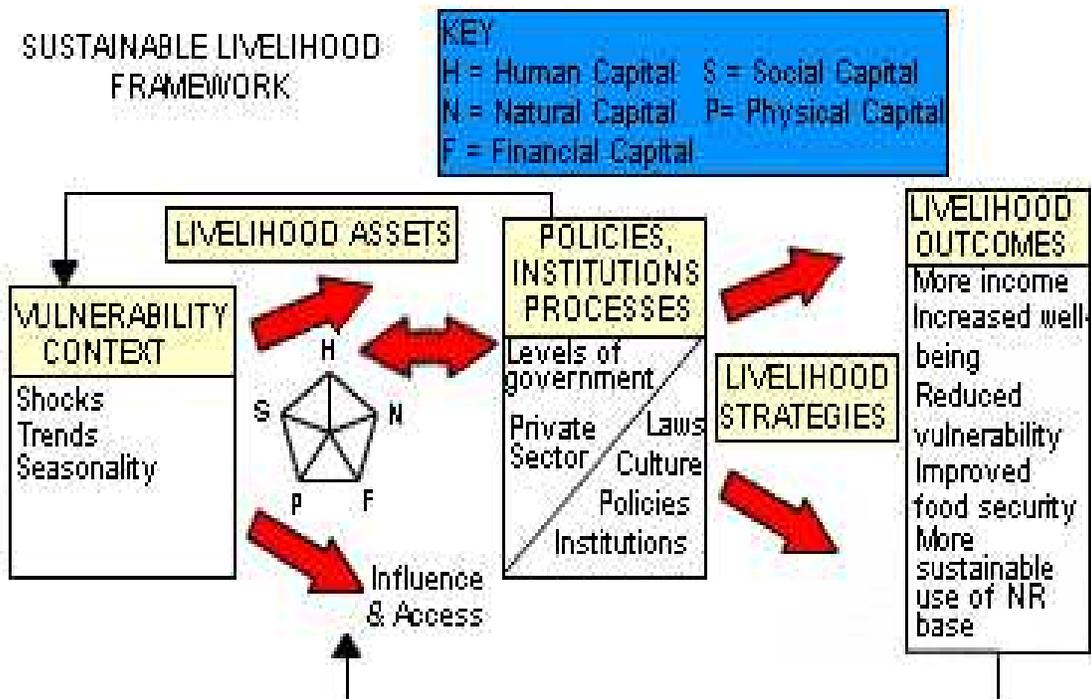
Many development analysts and practitioners have all along been interested in the role of finance towards the development process. Among the earlier author to this debate is Arthur Lewis (1955) who came up with an idea of two –ways relationship between the financial development and economic growth. According to Kirkpatrick and Green (2002) this theory postulates that financial institutions develop as a result of economic growth which in turn stimulates the growth of the real economy. This thinking attracted many researches and analysis in order to (i) test empirically the causal relationship between finance and development and (ii) understand the functions of financial system in the development process (Levine, 1997, Levine, Loayza and Beck, 2000: World Bank 2001a)

Rural Finance and sustainable livelihood framework

The relationship between poverty and access to financial services is explained by theory of sustainable livelihood framework championed by many authors (Ashley and Carney, 1999, Scoones 1998, DfID 2001). Building on preceding theoretical context, the uses of the sustainable livelihood framework as applied by number of research

and development organization, helps to relate the cause of poverty and access to households' access to financial services and livelihood.

Figure.2.5 Sustainable Livelihood Framework.



Sources: DFID Sustainable Livelihoods Guidance Sheets, Section Two.

2.3 Legal Framework for Microfinance in Tanzania

2.3.1 BOT supervised institutions

Tanzania has a tiered structure of licensed and prudentially regulated and supervised financial Institutions through different entry requirements in terms of required minimum core capitalization, for commercial banks, non-bank financial institutions, Micro-Finance Companies (MFCs) and Financial Cooperatives (FICOs):

Minimum Capital Requirements	Tsh
Commercial Bank	5 Billions
Regional Unit Commercial Bank	200 Millions -50 Millions
Non-Bank Financial Institution	100 Millions -50 Millions
Micro Finance Company	800 Millions (National)- 100 Millions (Unit)
Financial Cooperative	800 Millions in saving and deposit

Source: Schedule 4 and 5 of Capital Adequacy Regulations, 2001-Tanzania.

The regulatory and supervisory framework includes the following Acts:

- The Banking and Financial Institutions Act (2006);
- The Bank of Tanzania Act (2006);
- The Companies Ordinance (Cap 212).T

In addition, a number of Regulations are relevant for microfinance activities:

- The Microfinance Companies and Microcredit Activities Regulations (2005). This allows for the establishment of MFCs, able to take deposits from the public, subject to supervision of BOT. The minimum core capital requirement for MFCs has been set at Tsh. 800 Million for a nationwide network and Tsh. 200 Million for a one unit entity. So far, no MFC has yet been licensed.
- Banking and Financial Institutions Regulations (1997) prescribe conditions of entry or exit into the banking industry in Tanzania (licensing requirements).
- Capital Adequacy Regulations (2001) provide for capital adequacy requirements for various forms of banking institutions in Tanzania;
- Other regulations (e.g. on management of risk assets, liquidity assets ratio, credit Concentration and exposure limits, internal control and audit).

Entities applying for a license from the BoT as a commercial bank, non-bank financial institution or MFC have to be legally registered with the Registrar of Companies (the Business Registration and Licensing Agency, BRELA) as companies limited by shares under the Companies Ordinance (Cap 212).

2.3.2 SACCOs

SACCOs are formally registered by the Ministry of Agriculture, Food security and Cooperatives. The Cooperatives Audit and Supervision Corporation (COASCO) is mandated to conduct an annual external audit of all SACCOs. In practice, supervision by the Ministry of Agriculture, Food security and Cooperatives (through the Registrar of Cooperatives) is weak. Partly this is due to lack of adequate technical staff and resources. However, there also seems to be lack of willingness (and/or political room) to take restrictive actions against SACCOs that do not abide by the laws. The Cooperative Societies Act, 2003 creates four cooperative tiers: primary cooperative societies; secondary cooperative societies; apex cooperative societies and federation.

The allocation of powers between the different levels, however, is not clearly indicated in the law. In addition, the Cooperative Rules 2004 were formulated, containing amongst others prudential guidelines for SACCOs. In 2005, the Financial Cooperative Societies Regulations were approved. These regulations specify that Savings and Credit Cooperatives engaged in accepting savings and deposits from their members for an amount totaling or greater than Tsh. 800 Million will be licensed as a Financial Cooperative (FICO), supervised by the BOT.

2.3.3 NGOs

The NGO-type MFIs are virtually unregulated, even though a number of governmental authorities are involved in the registration of both international and local NGOs:

- The Registrar of Societies under the Societies Ordinance;

- The Administrative General under the Trustees Incorporation Ordinance;
- The Registrar of Companies (the Business Registration and Licensing Agency, BRELA) for companies limited by guarantee, under the Companies Ordinance (Cap 212).

2.4 Current Perspective of Microfinance

The financial sector reforms has not been effective in improving the functioning of MFIs due to the facts that the constraints to the market development are not simply policy induced but have structural and institutional origin as well. As a result this weakness must be addressed in an integrated manner and not policy reforms alone. This means that the problems of how to reach out the majority of the poor rural households who constitute potential savers and borrowers is t yet adequately addressed.

The role of government in financial system has been questioned seriously in most studies. However, the need of intervention in the financial industry was justified by persistence failure of MFIs, yet intervention is further justified even if after financial sector reforms and liberalization. The current perspective stand on two pillars .One, Liberalization of the financial market allows market forces to take their courses. The second pillar is that Propagated by Ohio State University group (Shared by others such as Besley, 1994b; Hoff and stiglitz, 1990), government intervention should be limited to few cases where genuine market failure has been spotted.

Another emerging debate in rural financial services is the question of outreach. Outreach can be defined in term of wide, depth and quality. According to Kimei (1987) financial widening involve the growth in the number of actors in the financial market: savers, borrowers/investors, and financial intermediaries. The financial lengthening is concerned with growth in number of type of the financial instrument (products) offered by financial institutions. Financial deepening is the growth of total financial assets offered by sector relative to growth in the national wealth. The

presumption is that greater financial deepening increases aggregate income and accelerates economic growth. In addition, the quality of outreach is important so as to act as an incentive. Quality of outreach is reflected in terms of loan administration cost

2.5 Empirical Literature review

2.5.1 Review of Studies Done Outside of Tanzania

Studies on MFIs have been conducted in various countries all over the world. The findings from these studies are useful to new researches on microfinance. Some of the studies, which had a significant contribution, include the study by Mosley (2001). In his study on Microfinance and Poverty in Bolivia, Mosley assessed the impact of microfinance on poverty. The study was conducted through small sample surveys of four microfinance institutions, two urban and two rural, using a range of poverty concepts such as income, asset holdings and diversity, and various measures of vulnerability.

All the institutions studied had on balance, positive impacts on income and asset levels, with income impacts correlating negatively with income on account of poor households choosing to invest in low-risk and low-return assets. This study revealed also that in comparison with other anti-poverty measures, microfinance appears to be successful and relatively cheap at reducing the poverty of those close to the poverty line. However this was also revealed to be ineffective, by comparison with labour-market and infrastructural measures, in reducing extreme poverty. The study further proposed actions that appear to be promising for the further reduction of poverty in Bolivia which can also be useful for other developing countries. These actions include stronger efforts to mobilise rural savings, removal of lower limits on loan size, and the introduction of appropriate insurance mechanisms.

Despite this contribution, the study by Mosley (2001) has some weaknesses. The first problem is on the sample size which was only four microfinance institutions, this

sample size might not be adequate for the generalizations made above. Also the poverty concepts considered excluded the number of employees, this is very important to measure, as it indicates whether the microfinance institution has created capacity to employ more people or not.

Hassan and Renteria-Guerrero (2001) made another empirical contribution in this area. In their work *“The experience of the Grameen Bank (GB) of Bangladesh in community development”*, they examined the GB experience with a purpose of understanding the essential elements of its operations and the factors that enabled GB to reach the poor. This study revealed that the GB has established its credentials as an institution that aims at providing credit to the landless and asset less poor in rural areas. GB credit gives the recipients the power of entitlement to society’s productive goods and services with immediate effect, unlike most of the other programmes for the poor that tend to create the unintended negative effect of dependency on the service providers. However, it was observed the credit by itself is an insufficient factor to improve poverty conditions, and thus the GB devotes a substantial amount of resources to the improvement of the social wellbeing of its members.

The GB uses an unambiguous eligibility criterion which ensures that only the poor or very poor can participate. It motivates their clients to organise themselves into groups of five like-minded members. Each group elects one group leader among themselves. Every six groups form a “centre” which serves as the basic operating unit of the GB. It is at the centre that weekly meetings are conducted to openly discuss loan applications proposals and to accept weekly repayments and compulsory savings deposits. While the loans are made to individual members, the group as a whole is expected to be responsible for the regular repayments of the loans of all their members. This form of grassroots organization not only promotes solidarity and participation among the members, at the group and centre levels, but also promotes mutual support and peer pressure to ensure that the loans are properly utilized and repayments made promptly.

In concluding their work, Hassan and Renteria-Guerrero assert that the GB's approach seems to be an effective tool for rural poverty reduction despite minor criticism that has never given alternative solution for poverty alleviation. The programme supplies credit to improve the physical productive capacities of the poor and in addition, it provides the disadvantaged with human development inputs to improve their overall productive and living standards. The success of the GB is not free from the influence of external factors. To be effective and sustainable, a credit delivery system also needs a supportive national policy framework for it to remain autonomous and free from political influence. Despite the fact that this work was just an experience and not a research work, we acclaim its contribution in the area of microfinance practices.

2.3.2 Review of Studies Done in Tanzania

Recent studies have shown that, there are over 50 registered MFIs in Tanzania but their overall performance has been poor (Chijoriga, 2000). In her study Chijoriga evaluated the performance and financial sustainability of MFIs in Tanzania, in terms of the overall institutional and organizational strength, client outreach, and operational and financial performance. In the study, 28 MFIs and 194 MSEs were randomly selected and visited in Dar es Salaam, Arusha, Morogoro, Mbeya and Zanzibar regions.

The findings revealed that, the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives, or a strong organisational structure. It was further observed that MFIs in Tanzania lack participatory ownership and many are donor driven. Although client outreach is increasing, with branches opening in almost all regions of the Tanzanian mainland, still MFIs activities remain in and around urban areas. Their operational performance demonstrates low loan repayment rates and their capital structures are dependent on donor or government funding.

In conclusion, the author pointed to low population density, poor infrastructures and low house hold income levels as constraints to the MFIs' performance. Many of these MFIs have no clear mission and objectives. Also their employees lack capacity in credit management and business skills. Among the questions which arise out of these research findings is whether these MFIs whose performance is questionable will have any impact on poverty alleviation.

Other study on Microfinance services in Tanzania was carried by Karumuna Leonidas and Akyoo, Adam M (2011) that published by Business Minds Africa in June 2011 and titled as "*Rural Finance Challenges in Tanzania – the case of Kibaigwa Financial Services and Credit Cooperative Society (KIFISACCOS) in Kongwa District*" The study gives some insight into the challenges that a rural community faces with regard to access to financial institutions. Interviews and discussions were held with the members of the community-based Kibaigwa Financial Services and Credit Cooperative society (KIFISACCOS) in Kongwa district. The results were combined with an institutional review of the co-operative. It was revealed that there are quite some challenges when it comes to the provision of financial services in rural areas. The case of Kongwa district shows that it takes more than the presence of banks and SACCOS to improve rural community livelihood. People must be made aware of the services offered and the requirements to be met. Creating a savings culture, capacity building with regard to financial management, linking up with partners and tailor made provision of loans following the annual agricultural growth cycle are among the recommendations given. The KIFISACCOS case demonstrates that there is still a world to win to have rural economic development supported by well-functioning financial services.

Another study on microfinance services, in Tanzania was carried by Mkwawa, Edmund Pancras that published by Southern New Hampshire University in 2005 with title of "*The impact of microfinance activities in Dar Es Salaam : a case of Dar Es Salaam Community Bank Limited and Pride Tanzania in Dar es salaam*" , The

research has been carried out with a focus to evaluate the performance and impact of two micro finance institutions i.e. Dar es Salaam Community Bank, and Pride Tanzania in Dar es Salaam. Having regard to the successful stories of micro finance institutions else where in the world, the Grameen Bank in Bangladesh, BRI in Indonesia, Prodem in Bolivia where millions of poor people have changed their lives through these Institutions, the writer became curious to study on the two local micro finance institutions, Pride Tanzania and Dar es Salaam Community Bank.

The issues of evaluation were focused to measure the impact on the following important factors: **-Job creation:** To see to what extent the two institutions have financed communities in Dar es Salaam leading to promotion of employment and job creation.

Income growth and distribution: To investigate how the financial institutions through their deposits and interests payments have influenced income growth and distribution to their clients. **-Women Empowerment:** Evaluate to what extent women have benefited from loans given by the two institutions.

Difference between NGO and a regulated Bank: The study has identified the differences between the two Institutions one being an NGO whereby it is not allowed to collect voluntary savings from the public, instead it collects forced savings to act as Insurance for the loans disbursed to its clients. The study has revealed that due to this difference Dar es Salaam Community Bank has been able to collect Tshs. 12.5bn in three years against 10bn collect by Pride Tanzania in 11 years. The other difference is that Pride Tanzania is donor dependant to-date while DCB is not donor funded.

In summary the study has concluded that the two institutions had significant impact to the four factors tested and that they have played a key role in the poverty alleviation struggle in Dar es Salaam.

Other studies on microfinance services, in Tanzania were carried out by Kuzilwa (2002) and Rweyemamu (2003). Kuzilwa examines the role of credit in generating

entrepreneurial activities. He used qualitative case studies with a sample survey of businesses that gained access to credit from a Tanzanian government financial source. The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that the enterprises whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses.

Rweyemamu et al evaluated the performance of, and constraints facing, semi-formal microfinance institutions currently providing credit in the Mbeya and Mwanza regions. The primary data, which were supplemented, by secondary data, were collected through a formal survey of 222 farmers participating in the Agricultural Development Programme in Mbozi and the Mwanza Women Development Association in Ukerewe. The analysis of this study revealed that the interest rates were a significant barrier to the borrowing decision. Borrowers also cited problems with lengthy credit procurement procedures and the amount disbursed being inadequate. On the side of institutions, the study observed that both credit programmes experienced poor repayment rates, especially in the early years of operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-payment.

It was further revealed that poor infrastructure of the MFIs led to high transportation costs, which increased the transaction costs in credit procurement, and disbursement and this ultimately hindered the effectiveness of the credit programmes. This happened because most of borrowers lived in rural areas, far from credit offices. The coverage by Kuzilwa was on the National Entrepreneurship Development Fund only, while Rweyemamu's study was on assessing the micro-finance services for the agricultural sector only.

From the above evidence the researchers found that there was a strong need to study the MFIs existing in Tanzania and see to what extent their operations contribute to poverty reduction in the country. From of this study, recommendations were made to policy makers so as to find alternatives through which financial services could be offered to the low income earning population.

2.6 Summary and Conclusion

The main purpose of this chapter is to present the literature review and theoretical framework of microfinance system in developing countries environment especially to poor rural households. In a view of the above review it is realized that the rural households access to financial services build up their productive assets and hence improve productivity, and increases opportunities for achieving the sustainable livelihood. The literature reviews show that the development of financial sectors is an important element to country economic growth and development. Access to financial services unleashes the economic potential to greater proportion of populations who are in most cases bankable but underserved. Besides, rural households' vulnerability can be reduced substantially through their improved access to financial services.

The development of rural financial institution in developing countries are faced by many challenges namely; high interest rate, Poor regulation and supervision of MFIs, Inappropriate donor subsidies Few MFIs that meet the needs for savings, remittances or insurance, Limited management capacity in MFIs and Institutional inefficiencies. Also the review of the literature has unveiled studies done by others and how they are relevant to this work.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describe the study area, its economic infrastructure and activities, demographic patterns and political administrative. It also we explain the research methodologies that conducted: sampling, data sources and collecting and analytical techniques, organization and conduct of the study.

3.2 Choice of the Study Area

The choice of Unguja North Region in Zanzibar was dictated by various considerations. First,like many other rural regions , Unguja North Region experience the problems of underdevelopment of Rural Finanacial Providers.Secondly Unguja North Region is among the food crops producing region in Tanzania ,but has no reliable agricultural credit system.Thirdly like many other regions Unguja North Region experience the problem of commercial financial institutions pulling out from serving rural areas .Fourthly ,the growth of financial NGOs and cooperatives are grwing fast enough to meet the “demand gap” of the financial services in rural areas ,so they have not picked up as expected to fill the vocuum.

3.3The Profile of the Study Areas

3.3.1 The geographical location and Administrative Division

Zanzibar North is one of the thirty regions of Tanzania. Located on the island of Unguja-Zanzibar, Mkokotoni serves as the region's capital. As the system of local government is not considered as Union matter and is thus regulated by entirely separate Zanzibar legislation – different from Mainland Tanzania. So Zanzibar North region is established under Article 128 contained in Chapter 12, Section 2 of the 1984 Constitution of Zanzibar; and Act number 1 of 1998 – The Regional Administration Authority Act of Zanzibar.

Unguja North region lies on northern part of Unguja Island bordering Zanzibar Town and west region in South and surrounded with Indian Ocean in the rest of the borders (i.e east, west and south of the **region**). **Unguja North region lies on Latitude 5° 55' 40" S and longitude 39° 19' 16" E.**

Administratively Zanzibar North is divided into two districts, North A and North B districts; Where North A district is made up of 12 wards and 28 villages namely; Bandamaji, Chaani Kubwa, Chaani Masingini, Fukuchani, Gamba, Kandwi, Kibeni, Kidoti, Kigunda, Kijini, Kikobweni, Kivunge, Matemwe, Mcheza Shauri, Mkokotoni, Mkwajuni, Moga, Mto Pwani, Muwange, Nungwi, Pale, Pitanazako, Potoa, Pwani Mchangani, Tazari, Tumbatu, Kinyasini, Gomani and Tumbatu Jongowe.

On another hand, North B district is made up of 10 wards and 23 villages namely: Donge Mchagani, Donge Karange, Donge Kipange, Donge Mbiji, Donge Mnyimbi, Donge Mtambile, Donge Vijibweni, Fujoni, Kinduni, Kiomba Mvua, Kiombero, Kitope, Kiwengwa, Mahonda, Makoba, Manga Pwani, Mgambo, Misufini, Mkadini, Muwanda, Pangeni, Upenja and Zingwe Zingwe.

3.3.2 Demographic data

According to the population and Housing Census of 2012 (URT, 2013), Unguja North Region has a population of 187,455 of which 92,114 are male and 95,341 are female. They constitute 14.4% of the Zanzibar total population which is 1,303,569 and 0.4% of the Tanzania total population which is 44,928,923. Unguja North Region has lower population as compared to other regions in Zanzibar except Unguja South region which has lowest population than all other regions in Zanzibar. The region population is found with households average size of 4.8 people. In terms of growth and density, the region population is growing at a higher rate of 3.2 and density of 399 persons per square kilometer as compared to the national figure of 2.7 per annum and a density of

51 persons per square kilometer, the region sex ratio is 97 which is higher as compared to the national figure of 95. Table 3.1 show provide summary of some selected population indicators for the region.

Table3.1 Selected population data for Unguja North Region

District	Population Number			Households	Average
	Male	Female	Total	Number	Size
Kaskazini A	51,566	54,214	105,780	22038	4.8
Kaskazini B	40,548	41,127	81,675	17377	4.7
Total	92,114	95,341	187,455	39053	4.8

Source :(URT, 2013)

3.4 Research Design

3.4.1 Choice of Research Design

The research design applied in this study is the case study research design which is an intensive description and analysis of a single situation (Shaughness et al, 2000), this research design was chosen for the sake of having depth analysis of the research problems due to the fact that required sample size for generalization in whole Tanzania is very large which is difficult to the researcher as more resources such as money and time is required.

3.4.2 Study Population

According to the population and Housing census of 2012 (URT,2013) the total population of Unguja North Region is 187,455,for the purpose of this study the target population is the number of rural households in selected villages of Unguja North region in different occupation including agriculture, fishing and official employed

worker as are key users of financial services, in another hand the MFIs including commercial bank, SACCOs and FinNGOs were also included in this study, Other stakeholders such leaders, official of MFIs, Local Government workers and other relevant people were also interviewed in this study.

3.4.2 Sample Size and Sampling techniques

In order to present the various agro-ecological zone of the region and ensuring the inclusive presentation of population in both two districts of the region, the stratified sampling technique was used to divide the population into two strata namely North A and North B, then a random sample then drawn from each of the strata.

The study covered 8 villages out of 28 villages in North “A” district and 7 villages out of 23 villages in North “B” district that were randomly selected in each district, this will make a total of 15 villages as research sample in the whole region. The selection was necessary as it is not possible to cover the whole region. From these 15 villages a sample of 190 households in North A and 160 households in North B again randomly selected in each district to make a research sample of 300 households in the whole region, the sample consist of farmers, livestock keepers, businessman and rural employees and member of cooperative societies. The selection of respondents was done with help of Village leadership and was guided by the attributes such as age, gender, education, occupation, household’s size and they were drawn from the villages.

Apart from individual households the study also involved 50 interviewee from financial institutions, leaders, official of MFIs, Local Government workers and other relevant people and institutions again randomly selected to present all key stakeholders in Microfinance industry. Table 3.2 show a sampling distribution of the study:-

Table 3.2: Sampling Distribution

S/N	Village	Total population (number of Households)	Sample	Percentage
1	A	364	28	7.69%
2	B	370	28	7.57%
3	C	355	27	7.61%
4	D	305	23	7.54%
5	E	229	17	7.42%
6	F	296	22	7.43%
7	G	270	21	7.78%
8	H	316	24	7.59%
9	I	161	13	8.07%
10	J	202	16	7.92%
11	K	365	29	7.95%
12	L	214	18	8.41%
13	M	258	21	8.14%
14	N	365	29	7.95%
15	O	430	34	7.91%
Total		4500	350	7.78%

3.4.4 Data Sources

The study obtained data and information from two major sources namely, primary data and secondary sources. Most of the data collected from individual households and stakeholders are primary data while the secondary data were mainly collected from MFIs.

3.4.3 Data Collection Methods

The study obtained data and information through questionnaires, focus group discussion, observation and documentary reviews.

Research questionnaires

One set of questionnaires was administered to rural households (see appendix A) which supplemented by the focus group discussion, personal interview and observations, the questionnaires forms were distributed to the sampled respondents to know how they comprehend the idea of microfinance on poverty reduction, its sustainability, the challenges associated with it and the way forward their participation in the microfinance industry and major sources of finance they are access to Though it took nearly two months for all questionnaires and discussions to be completed the researcher handed over the questionnaires to the respondents in time and this gave them enough time to study the pattern of the questionnaire and to answer appropriately without being rushed. The researcher assisted by three research assistants in administering the research questionnaires to the rural households.

Focus Group Discussion

In another hand pre-prepared checklists of issues was used to guide focus group discussion involving other stakeholders such as leaders, politicians, MFIs staffs, field experts etc (see appendix B).

Documentary Reviews

The study also used secondary data especially for data relating to the assessment of loan terms and conditions of MFIs and challenges face the MFIs in Tanzania. The written and unwritten documentary sources and survey were used to collect the secondary data ,such sources are Organisations' communications such as

Organizations' websites, published reports , Journals, Newspapers, publications, books., Census of Population, newsletters, Organisations'surveys, poverty related surveys, academics' surveys and research report.

Most of these data and information were obtained from the office of regional commissioners, office of district commissioners, Regional development committee, District Development Committee, Financial institutions, SACCOS, Government Programme and institutions dealing with Microfinance, Bank of Tanzania, People Bank of Zanzibar, Commercial Bank ,Various Government Ministries (Ministry of State (Presidents Office), Regional Administration, Local Government and Special Departments (MRALGSD)-,Ministry of Livestock and Fisheries, Ministry of Agriculture and natural resources, women empowerment and cooperative related ministries).Other sources of secondary data were the Ministry of Finance, libraries of Mzumbe University at Dar es salaam, Zanzibar Main Library, Zanzibar Institute of Financial Administrations (ZIFA), Office of BOT and PBZ and Office of Zanzibar National Chamber of Commerce, Industry and Agriculture (ZNCCA).

3.4.4 Organization of the field Survey

Before commencement of the field survey, the researcher had the series of consultative meetings with co-supervisors to share the study framework and methodologies. This followed by mapping the study areas and selection of sample frame. The researcher exercised the pre-survey to three villages to ensure that the questions and checklists well understood by both enumerators and respondents in real survey.

3.4.5 Data analysis techniques

Data analysis followed two approaches as far as both quantitative and qualitative data analysis' techniques. In quantitative data analysis process, the database templates that contain the identified variables was used to collect and summarize the data. The

descriptive statistic using both measures of central tendency and measure of dispersion such as means, mode, median, frequency, range, variation ratio, and standard deviation and percentage and cross tabulation were used to decode the data from database templates.

The descriptive statistic analysis was conducted basing on quantitative data and information collected from primary and secondary sources. The information analyzed including general profile, households' perception, sources of finance rural households are access to, constraints for MFIs development, types of services received from MFIs and conditions for service accessibility.

Furthermore the Statistical Package for Social Science (SPSS) software to compute percentages, tabulation and cross-tabulation of responses was used. SPSS was chosen because it can take data from almost any type of file and use them to generate tabulated reports, charts, perform descriptive statistics and conduct complex statistical analyses.

3.4.6 Data Accuracy and Reliability

Much has been said about the degree of accuracy and reliability of collected data in most developing countries. Tanzania inclusive, and how this can constrain the value of socio-economic research due to lack or inadequate records and reliance on recall (casley and ruly, 1987; Kashuliza, 1994; Ndanshau, 1996) .This study was not an exception but efforts were made to supplement quantitative with qualitative data so as minimizes biasness and distortion. Where possible the information gathered in villages was counter checked by at other possible sources so as to enhance the degree of accuracy and reliability of the data collected.

3.7 Summary and Conclusion

This chapter focused on the study area and methodologies that were employed. These are crucial parts of research as they make the study more focused in terms of its methodological approach and selected study area. The understanding of the study area is important in that it provided basic information that useful for analysis of the development of rural MFIs. Finally the study methodology describe sampling procedure, sources of data, collection instruments and the analytical framework that employed in the research work.

CHAPTER FOUR

Data Finding: Presentation and Analysis

4.1 Introduction

This chapter describe the data finding the available during the field visit that were gathered through different data collection methods including research questionnaires, focus group discussion and documentary reviews and observation. The chapter includes the analysis of these data by using descriptive data analysis techniques and narrative data analysis techniques and is organized into various sub-heading to throw more light on the data gathered in relation to the specific objectives of this research.

4.2 Socio-economic Data

4.2.1 Gender Distribution of sample rural households

The questionnaires used to collect data include the demographic data such as gender and age of the respondents. From the sample population size of four hundred (400), three hundred and fifty (350) were individual rural households and fifty (50) were other stakeholders including staffs from financial institutions, political leaders, official of MFIs, Local Government workers and microfinance practitioners.

Table 4.1: Gender Distribution

Gender	Frequency	Percentage
Female	163	46.6%
Male	187	53.4%
Total	350	100%

From the table 4.1 above, total numbers of 163 respondents representing 46.6% of the total sample population were female while the total numbers of 187 respondents representing 53.4% of the total sample population were male. So we can clearly observe that there is a greater number of male participants than female this may be due to the stratified simple random sampling techniques used in this study. Hence this data gathered from questionnaire forms of rural households only and exclude other stakeholders.

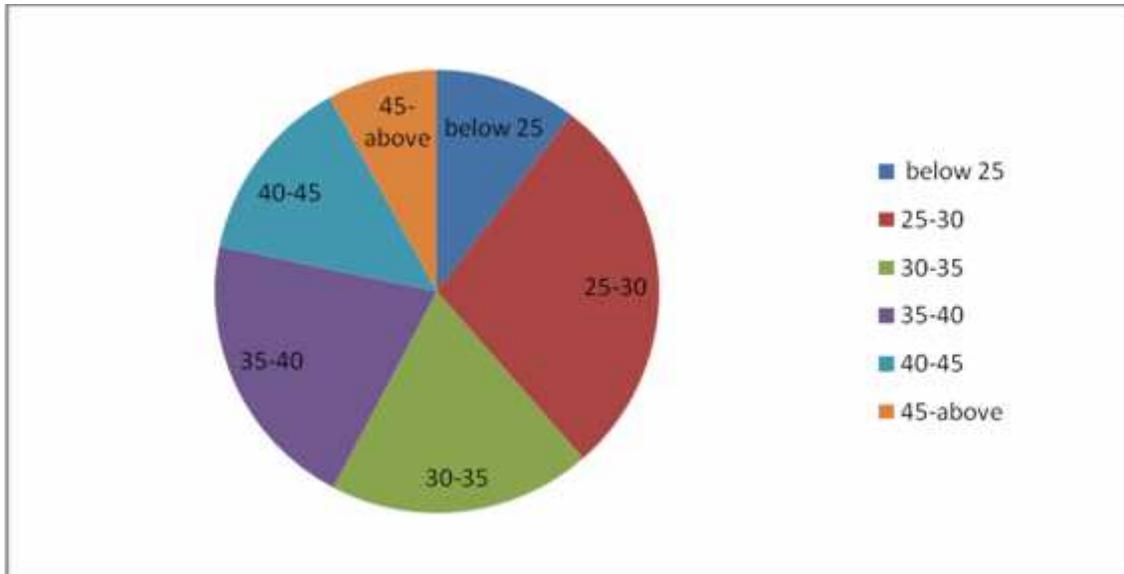
4.2.2 Age distribution of the sample population

As far as age is concern, the sample populations were categorized in to the following age group below 24 ages, 25-30, 30-35, 35-40, 40-45, above 45 years. The age distribution of the sample population is illustrated in the table 4.2 and graphical presented in the graph of the table 4.1

Table 4.2: Age distribution of the sample rural households

Age	Frequency	Percentage
Below 25	36	10.3%
25-30	99	19.1%
35-40	72	20.6%
40-45	48	13.7%
45-above	28	8%
Total	350	100%
Mean age	34	Mode
		27.5

Figure 4.1: Age distribution of the sample rural households



From the table 4.2 and figure 4.1 above ,We clearly observe that out of three hundred and fifty (350) respondents, thirty six (36) respondents representing 10.3% of the total sample population were aged below 25 years, Ninety nine (99) respondents representing 28.3% were aged between 25 to 30 years, Sixty Seven (67) respondents representing 19.1% were aged between 30 to 35 years, Seventy two (72) respondents representing 20.6% were aged between 35 to 40 years, Forty Eight (48) respondents representing 13.7% were aged between 40 to 45 years and Twenty Eight (28) respondents representing 8.0% were aged above 45 years.

4.2.3 Type of Family and Family size of the population

As far as family size is concern, the sample populations were categorized in to the following age group below 5 members, 5-10, and 10-15 and above 15 members. In another hand the type of family were classified into nuclear family i.e. the family made up of two parents and their children, Extended family i.e. the family made up of two parents, their children and other relatives and finally single parent family i.e. the

family made up of one parent and his/her children. The family types and size distribution of the sample population is illustrated in the table 4.3: below:-

Table 4.3: Family size

Family size	Frequency	Percentage	Type of Family	Frequency	Percentage
Below 5	60	17.2%	Nuclear	113	32.3%
5-10	145	41.1%	Extended	204	58.3%
10-15	102	29.1%	Single Parent	33	9.4%
Above 15	43	12.3%	Total	350	100%
Total	350	100%			
Mean Size	9				
Mode	6				

From the above table 4.3: It is clearly shown that most of the rural families are of extended families in nature i.e. the family is comprised of two parents, their children and other relatives such as grandmother, uncles etc. the number of extended families are two hundred and four (204) representing 58.3% of the sample population, it is followed by nuclear family that are one hundred and thirteen (113) representing 32.3% of the sample population and finally the single parent families that are thirty three (33) representing 9.4% of the sample population.

In another hand the family size of the most of the rural families lie between 5-10 members, this is due to the fact that birth rate in the rural areas is high as compared to the urban areas, one hundred and forty five (145) of the respondents representing 41.4% of the sample population have family size comprising of 5-10 members, this is followed by the family size ranging between 10-15 members represented by the 29.1%, 17.2% of the respondents live in the family of below 5 members while 12.3%

17.2% of the respondents live in the family of above 15 members. The mean family size of the rural family is nine (9) members and mode is 6 family members.

4.2.4 Educational Level of participants

In order to gather education related data, the sample population was categorized into those with formal education, informal, both formal and informal and those who have nor forma nor informal education. Furthermore those respondents who possess formal education were categorized into primary level. Secondary, Diploma, Degree and Post graduate. The table 4.4 below show frequency distribution of these data and graphically presented in figure 2 below:-

Table 4.4: Distribution for educational Level of participants

Frequency distribution for form of education			Distribution of households' formal education		
Education	Frequency	Percentage	Level of formal	Frequency	%
Formal	60	17.1%	Primary	91	42.7%
Informal	137	39.1%	Secondary	66	30.9%
Both	153	43.7%	Diploma	29	13.6%
Total	350	100%	Degree	21	9.9%
			Postgraduate	6	2.8%
			Total	213	100%

Figure 4.2A: Graphical presentation of educational Level of participants

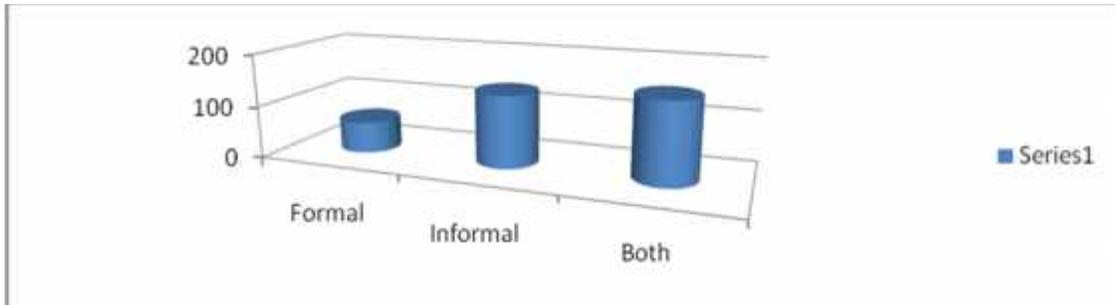
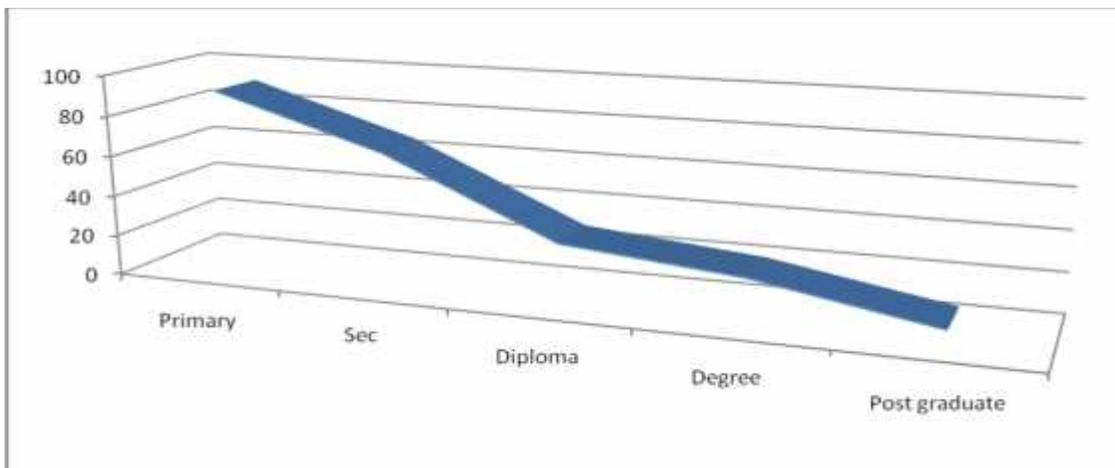


Figure 4.2B: Graphical presentation of Households with formal education



From the table 4.4 & figure 4.2A and 4.2B above, it is clearly shown that most of the rural households have informal education than formal education; this is presented by the 29.1% of respondents who possess informal education only as compared by 17.1% of respondents who possess the formal education only and followed by 10% of the respondents who have no formal nor informal education. One hundred and fifty three (153) respondents possess both formal and informal education while sixty (60) possess formal education only, hence this make the total respondents possess the formal education be two hundred and thirteen (213).

The number of rural households who have formal education has decreasing trends from primary education to high level education, this is clearly shown in the table above whereby 42.7% of the respondents with formal education have primary level

followed by 30.9% of the respondents possess the secondary education, respondents possess diploma level education is 13.6% followed by Degree and Postgraduate level who occupy 9.9% and 2.8% respectively.

4.2.5 Households' major economic activities

The major households' economic activities are categorized into farmers, Pastoralist, Fishermen, Trader, official employee and other. The table 4.5: below show the frequency distribution of these data.

Table 4.5: Distribution of households' economic activities

Occupation	Frequency	Percentage	Forms of farming	Frequency	%
Farmers	152	43.4%	Subsistence	94	61.8%
Pastoralist	84	24%	Commercial	30	19.7%
Fishermen	31	8.9%	Both	28	18.4%
Trader	39	11.1%	Total	152	100%
Official employee	29	8.3%			
Other	15	4.3%			
Total	350	100%			

Figure 4.3: Distribution of households' economic activities



From the table 4.5 and figure 4.3 above, total respondents of one hundred and fifty two (152) representing 43.4% of the sample population are farmers followed by eighty four (84) representing 24%, thirty nine (39) respondents representing 11.1% of the sample population are traders followed by fishermen, official employee and other occupation who are representing 8.9%, 8.3% and 4.3% respectively.

Most of the rural households are farmers due to the fact large area in the rural is of agricultural land as compared by urban land that is largely built-up area, also most of them are uneducated in such a way that they are unable to work in official institutions also many economic activities are in urban areas than in rural areas so this it becomes difficult for rural households to engage in business occupation.

4.2.6 Households' participation in Microfinance

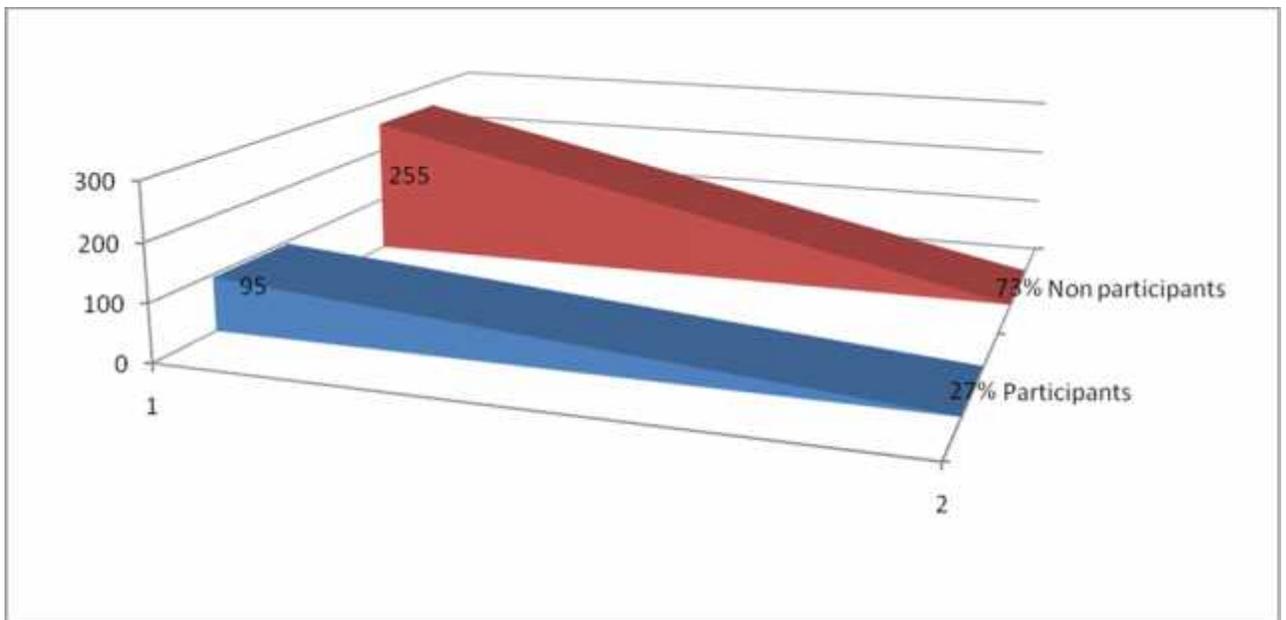
From the table 4.6 and figure 4.4 below, only 95 households representing 27.1% are the participants in the microfinance industry and the remaining households of about 72.9% do not participate in the microfinance industry. Out of 95 households who are microfinance participants, 49 households representing 46.7% of the microfinance participants are the bank account holders and the remaining are members of SACCOs and members of other FinNGOs who are thirty (30) and twenty six (26) represented by

28.6% and 24.8% respectively. The total number of household microfinance participants exceeds ninety five (95) as some households participate in more than one MFI.

Table 4.6: Households' participation in Microfinance

Participation	Frequency	Percentage	Participants	Frequency	%
Participants	95	27.1%	SACCOS	30	28.6%
Non participants	255	72.9%	Bank	49	46.7%
Total	350	100%	FinNGOs	26	24.8%
			Other NGOs	-	-
			Total	105	100%

Figure 4.4: Households' participation in Microfinance



4.3 Constraints of the Microfinance Industry in Tanzania: Overview

Despite the speedy progress of the microfinance sector in Tanzania, the sector still face a some challenges that hinder its effectiveness as an instruments of poverty alleviation in Tanzania.

In order to find out the constraints/challenges facing the microfinance sector, the respondents were required to express their opinions on what challenges face the microfinance sector in Tanzania in such a way that it cannot meet effectively the demand of financial services especially to poor rural households in Tanzania. The respondents were required to select the possible challenges or to specify other challenges that they perceive to face the microfinance sector in Tanzania, the possible challenges face the microfinance sector in Tanzania set in questionnaires were loan repayment, Qualification criteria for loan disbursement, inadequate capital of MFIs, poor support from the MFIs, few MFIs that meet need, Poor regulation and supervision of MFIs in Tanzania and others. Table 4.7: show the frequency distribution of the data.

Table 4.7: Challenges face the Microfinance Industry

Challenges	Frequency	Percentage
Loan repayment	88	19%
Loan disbursement	96	20.7%
Inadequate MFIs capital	60	13%
Poor support from MFIs	77	16.6%
Few MFIs in area	79	17.1%
Poor regulation	40	8.6%
Other	23	5%
Total	463	100%

From the table 4.7: above, we can see that the total number of respondents is four hundred and Sixty three (463) above the sample size this is due to the fact that some respondents perceive more than one challenge face the Microfinance Industry in Tanzania and choose more than one answer in this question. A total of 96 respondents representing 20.7% of total respondents state that the principal challenge face the Microfinance Industry in Tanzania is the Qualification criteria set by MFIs for the one to be disbursed for the loans. The respondents explained that most of rural households not qualify for the loan disbursement due to poor record keeping of their business, not able to prepare the business plan for their intended investment/expansion that need to be financed by the loan, most of them have no collateral and so forth. Eighty eight (88) respondents representing the 19% state that the principal challenge face the Microfinance Industry in Tanzania is the clients' unwillingness/dishonest or inability to repay the loan within the stipulated time ,hence this affects the liquidity of the MFIs and thus slow the disbursement of the loans to other customers, the respondents explained that the loan recovery problem is contributed by high interest rate, customers' defaults and loss for the business in which the loan was taken.

Sixty (60) respondents representing 13% state that the principal challenge face the Microfinance industry in Tanzania is inadequate capital of MFIs to disburse the loan and meet the existing demand of the loans and credit. Seventy Seven (77) respondents representing 16.6% state that the principal challenge face Microfinance Industry in Tanzania is poor support of MFIs to their clients such as lack of entrepreneurial skills including business record keeping, marketing skills, business proposal writing and lack of monitoring and evaluation to loan/credit beneficiaries. Seventy Nine (79) representing 17.1% state that the principal challenge faces the Microfinance Industry in Tanzania is small number of MFIs in the rural areas that can not meet the growing demand of finance services in the rural area, this is followed by forty (40) and twenty three (23) respondents representing 8.6% and 5% state that the principal challenge

faces the Microfinance Industry is poor regulation and supervision of MFIs and other challenges respectively

4.3.1. Constraints to access to rural finance: Detailed assessment

Challenge to Loan repayment i.e. cost of borrowing

The cost of borrowing that made up of transaction cost and interest rate that are charged to the borrower is too high to support the rural SMEs, whereas the lending rate of MFIs lie between 20% to 30% while the deposit interest rates in below 5% per annum and the annual inflation rate is 8.3% in May,2013 that make the real interest rate on deposit become below 2% per annum which enough to discourage saving among the rural households and limit the potential borrowers to enjoy the loan (Faustine,2007)

In order to get overviews of interest rate charged in various forms loans, the respondents were asked to identify/estimate the interest rate charged on their loans undertakings in the last three years. Table 8 summarizes the data:-

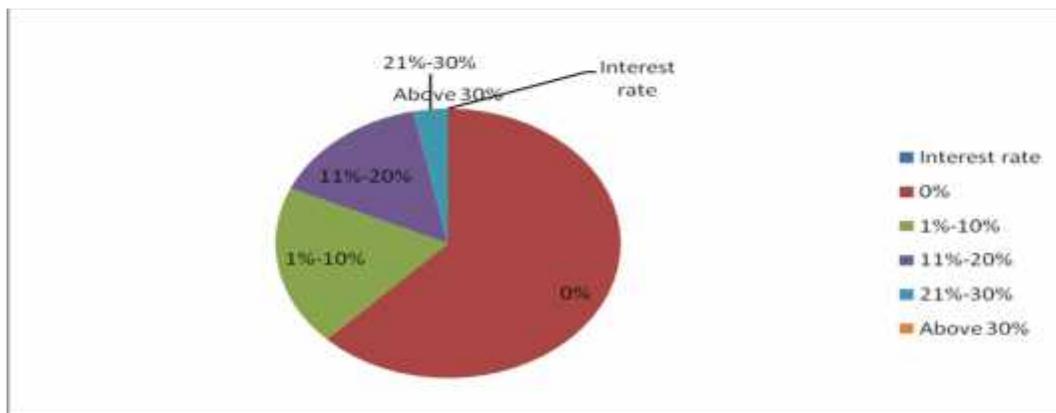
From the table 4.8 and figure 4.5a above, it is clearly shown that majority of the rural households get informal loan with free interest rate largely from their relatives or friends, personal saving and Rotating Saving and Credit Association (ROSCA) this is due to the rural communities cultures and religious believes that foster the habits of helping each other when one is shortage of fund or need fund for investment or other purpose, always the there is no written agreement in these loans and rarely associated with collateral whereby the borrower receive the loan and promise to pay it the determined future time. Forty two (42) form respondents received loans from the relatives/family of which 36 respondents charged free interest rate and 6 respondents charged the interest rate of 0%-10%,thirty respondents received loan from merchants of which 11 respondents,15 respondents and 4 respondents charged interest rate of 1%-10%,11%-20% and 21%-30% respectively, three respondents received loan from

their employee of which two respondents and one respondents charged the interest rate of 11%-20% and 21%-30% respectively, twenty eight and forty five respondents received fund from the ROSCA and personal saving with free interest rate and the remaining thirty eight respondents received their loans from other informal sources of which seven,nineteen,eleven and one respondents charged the interest rates range 0%,1%-10%,11%-20% and 21%-30% respectively. The mean interest rate is 4.03% and the interest rate with highest frequency i.e. mode is 0%.

Table 4.8a: Distribution of interest rates on informal loans

Sources	Frequency	Interest rate				
		0%	0% -10%	11% -20%	21% -30%	Above 30%
Relatives/Friend	42	36	6			
Merchants	30		11	15	4	
Employer	3			2	1	
ROSCA	28	28				
Personal saving	45	45				
Others	38	7	19	11	1	
Total	186	116	36	28	6	
Mean interest rate	4.03%					
Mode	0%					

Figure 4.5a: Distribution of interest rates on informal loans



From the table 4.8b and figure 4.5b below, it is clearly shown that majority of the rural households who get formal loan are charged high interest rate. Nineteen (19) respondents out of the twenty six (26) respondents who received loan from SACCOS charged interest rate lie between 21%-30% followed by seven (7) respondents charged the interest rate lie between 11%-20%, twenty two (22) respondents received loan from FinNGOs whereby eighteen (18) of them charged the interest rate between 21%-30% and the remaining four (4) respondents charged the interest rate lie between 11%-20%, twelve (12) respondents out of the twenty one (21) respondents who received loan from Bank charged interest rate lie between 11%-20% and the remaining nine (9) respondents charged the interest rate lie between 21%-30%, the mean interest rate is 20.3% and the interest rate with high frequency rate i.e. Mode is 23.8%. Generally the majority of the respondents received the loan from the various formal sources were charged the interest rates between 21%-30%, this is clearly presented in the figure 4.5b below:-

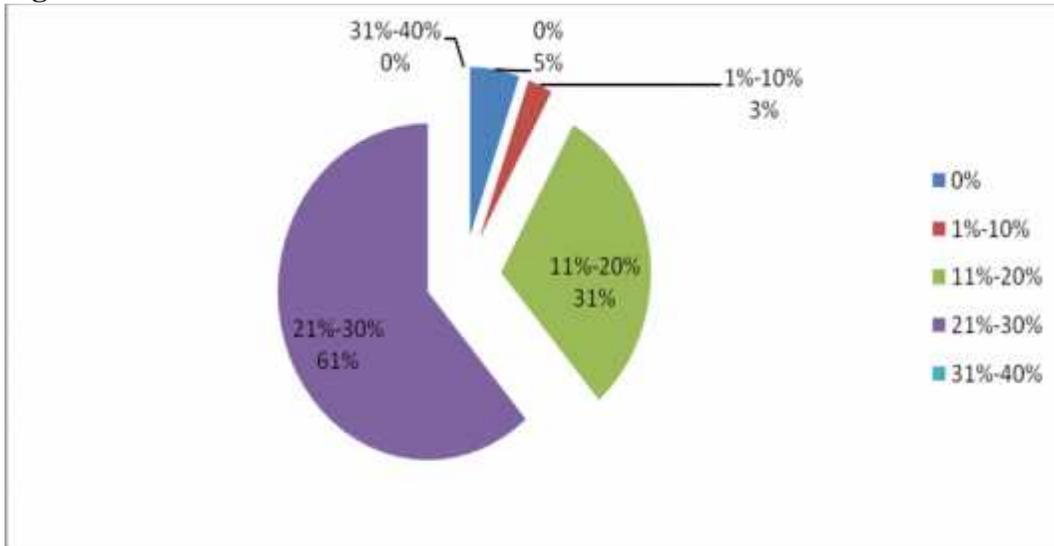
Table 4.8b: Distribution of interest rates on formal loans

Sources	Frequency	Interest rate				
		0%	0% -10%	11% -20%	21% -30%	Above 30%
SACCOS	26				7	19
Government Program	6		4	2		
FinNGOs	22				4	18
Bank	21				12	9
Other	-					
Total	75		4	2	23	46
Percentage	100%		5.3%	2.7%	30.1%	61.3%

Mean interest rate: 20.3%

Mode 23.8%

Figure 4.5b: Distribution of interest rates on formal loan



Despite of the high interest rate charged to loan borrowers but is still there is another cost associated with the loan which is still high as well; these are referred to the transaction cost that may be explicit or implicit cost. In addition ,the borrower incur other loan associated cost such as application fees, services fees, ledger fees, cost of photograph for passport size, time spent on loan processing, collateral ,business registration, business proposal, Audited accounts, minimum non withdrawal balance, travel time and cost of searching the referee. Table 8c: below illustrates the transaction cost charged by four MFIs namely, NMB, TPB, Berclays Bank and PRIDE Tanzania:-

Table 4.8c: loan associated transaction cost

S/n	Types	Forms of cost	Cost bearer
1	Loan requirements	<ul style="list-style-type: none"> • Collateral • Business registration • Business records • Audited accounts • Minimum non-withdrawal balance • Minimum deposit balance 	Borrower
2		<ul style="list-style-type: none"> • Services charges and Travel cost • Application fees • Cost of photographs • Time spent of loan processing • Searching for referee • Searching for other members to form a group • Time spent on attending weekly meetings. 	Borrower

Sources: Adopted from Faustino K.Bee, 2007 in table 7.18

Poor Support from MFIs

The evidence from the field gathered data show that most of the MFIs offer only financial services and only few of them offer non financial services which are supporting services to the borrower in ensuring that they use the loan in profitable investment and building capacity in the business management such services are

advisory services, business training such as project write up, business proposals, costing and price determination techniques, business record keeping, marketing, etc and monitoring and evaluation services.

Out of three hundred and fifty (350) surveyed rural households only fifty three (53) respondents representing 12.3% received non-financial services ,from which only thirty two (32) representing 9.1% of the total respondent received non-financial services from MFIs followed by fifteen (15) representing 4.3% received non-financial services especially business training while they are at school and the remaining six respondents representing 1.7% received non-financial services from the government program.

Out of the thirty two (32) respondents who received non-financial services from MFIs seventeen (17) respondents received the advisory services only , twelve (12) respondents received the business train only and only three (3) respondents received the monitoring and evaluation services only while five (5) respondents received more than one financial services. Table 4.9a and 4.9b illustrates these finding.

Table 4.9a: households received non-financial services

Institution	frequency	percentage%
MFIs	32	60.4%
School	15	28.3%
Government Program	6	11.3%
Total	53	100%

Table 4.9b: Non-financial services received by households

Non-Financial services	Frequency	Percentage
Advisory services only	17	45.9%
Business training only	12	32.4%
Monitoring and evaluation services	3	8.2%
More than one services	5	13.5%
Total	38	100%

General the data show that level of non-financial services offered by MFIs is unsatisfactory as many MFIs specialized only with financial services such as lending and saving services while ignoring the non-financial services that support the loan borrowers in utilizing the loan profitably which will deteriorates the loan repayment and slow the offering of the loan to other households which depend on the loan repayment.

Limited number of MFIs in rural areas

Seventy seven (77) respondents from the Individual households' questionnaires state that the principal challenge of Microfinance Industry is the limited number of MFIs in the rural areas that limit the supply of financial services to meet the demand of the financial services in the rural areas. According the survey done to the five banks which operate their business in Unguja show all five banks have 10 branches in Town West region of Unguja which is urban region and have thirteen ATMs which located in various areas of Town West region of Unguja whereby there is no single branch or ATM in any of the Unguja North Region and Unguja South Region which are rural regions. Hence these data justify that rural finance is limited with small number of MFIs operating their business in the rural areas as compared to the urban areas. Table 4.10 illustrates this argument.

Table 4.10: distribution of number of MFIs in Unguja

MFIs	Rural ¹ Number	Town Number
SACCOS	<i>Data not available to date</i>	
Bank branches	Nil	10 ²
FinNGOs	<i>Data not available to date</i>	
ATM	Nil	13 ³
Community Village Banks	Nil	-

Loan Requirements

In order for one to access the loan from the MFIs must meet the loan requirements set the MFIs ,MFIs set various requirements for various kinds of loans where by some of them seem to be difficult for rural households to meet hence this limit them to access the loan from MFIs such loan requirements seem to limit the rural households in accessing the loan are employment guarantee,MFIs' customer proper business records ,secured collateral and business registration.Table 4.11a: illustrate the loan requirements set by some MFIs.

¹ Rural stand for Unguja North regions and Unguja South Region

² 5PB branches,2 Barclays branches,1 branches @ for NMB,CRDB and TPB

³ 3 Barclays ATMs, 4 PB ATMs,4 for NMB,1 for TPB,1 for CRDB,

Table 4.11a: loan requirements set by some MFIs

Name of MFIs	Type of Loan	Loan requirements
Berclays Bank Tanzania	Unsecured personal loans	<ul style="list-style-type: none"> loans for private purposes granted to NBC customers who have shown a constant regular stream of income for a period defined by the bank Minimum loan is TZS 1,000,000 and maximum is TZS 20,000,000 Maximum repayment period is 48 months Credit life insurance is a compulsory Applicants must have banked with NBC for at least 12 months.
Berclays Bank Tanzania	Overdraft	<ul style="list-style-type: none"> These are loans granted in local currency or USD for various purposes depending on the nature of the business. Repayment is deducted on monthly basis from borrowers and period of payment is between 12 and 60 months Secured collaterals as stipulated in NBC's Credit Policy.
National Microfinance Bank (NMB)	Micro and Small Enterprises (MSE) Loans	<ul style="list-style-type: none"> Applicant must be at least 18 years of age Business must have a steady cash flow. Applicant must have proper recording system and also shows the capability of operating business profitably The borrower must have business license/permit from local authorities in his or her own name Applicant must open or have a business or personal account with NMB.
People Bank of Zanzibar (PBZ)	Personal loan	<ul style="list-style-type: none"> Personal loans to salaried employees in both government and private sectors
PRIDE Tanzania	Ajira Loan Product	<ul style="list-style-type: none"> The product is targeting employees in the government and other reputable organizations. Employers guarantee their employees. Less than a week processing time Loan sizes range from Tshs 100,000 to TShs. 15Million or 15 times gross salary

Sources: Respective MFIs websites visited on 15th June, 2013

According to the data collected from questionnaires revealed that the major challenges face the Microfinance industry in rural areas is the loan requirements including assets for loan security as most of the rural households lack the ownership of valuable asset that qualify for collateral especially in long term development loan, researcher intended to explore the capacity of rural households to own the properties such as land or buildings that they can use as collateral to access the long term loan, In collaboration with researcher the households required to estimate value of the immovable properties they own. The result is summarized in the Table 4.11b

Table: 4.11b Estimated Values of Households immovable properties

Estimated Value	Frequency	%
Below 3,000,000/-	136	41.9%
Up to 6,000,000/-	149	45.8%
Up to 9,000,000/	28	8.6%
Above 9,000,000/-	12	3.7%
Total	325	100%
Mean	TSH 3,669,230/-	
Mode	TSH 3,291,045	

Figure: 4.6: Estimated Values of Households immovable properties

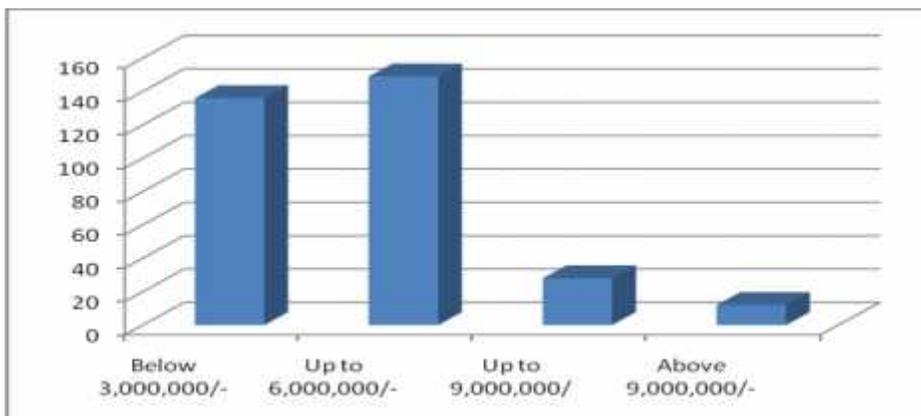


Figure 4.7: Sample of house owned by rural households



Figure 4.8: Roof of a traditional house made by using thatches



From the table 4.11b and figure 4.6 above it is clearly revealed that only twelve (12) respondents representing 3.7% of the sample households own the immovable properties that has estimated value of the above Tanzania Shillings Nine Millions

(10,000,000/-),this is to say that they can access the loan of the equivalent amount, twenty eight (28) respondents representing 8.6% own the immovable properties that has estimated value of the above six millions and below nine millions, one hundred and forty nine (149) respondents representing 45.8% own the immovable properties that has estimated value of the above three millions and below six millions and the remaining one hundred and thirty six (136) respondents representing 41.9% own the immovable properties that has estimated value of the below three millions. From the above data more than eighty six percentage (86%) of the households own the immovable properties have the estimated value of below Tanzania Shillings six millions (6,000,000/-) ,The mean value of the rural households owned immovable properties is Tsh 3,669,230/-, the modal value is Tsh 3,291,045/- .So from this evidence we can clearly state that majority of the rural households not own the high valuable immovable properties that they can use as security for the long term development loan which normally become huge loan as compared to short term loan, this is due to the fact that most of the rural house are made up of local building materials as seen in the Figure 4.7 above.

Another form of security is used in the loan disbursement is the employment guarantee, this security fever only official employee where their employment act as guarantee for them to access loan from MFIs, the fact is that most of the rural households are self employee so they can not access these kinds of loan as they don't meet this requirements.Table:7.7 illustrate the distribution of rural households occupations.

Table 4.11c rural household's occupation

Distribution of household's occupation			Distribution of self employee		
Occupation	Frequency	%	Occupation	Frequency	%
Official employee	53	15.1%	Farmers	142	44.7%
Self-employee	318	84.9%	Pastoralists	82	25.8%
Total	371	100%	Fishermen	43	13.5%
Mode	318		Traders	51	16%
			Others	-	-
			Total	318	
			Mode	142	

From the table 4.11c above ,it is clearly shown that fifty three (53) representing 15.1% of the total households are official employee thus they can access the loan that need employment Guarantee while the remaining majority of the rural households are self employee who are not eligible for the loan that need employment guarantee such loan are ajira loan product of the Pride Tanzania, unsecured Premier Life loan of the Berclays Bank and personal loans of PBZ, as shown in the table 11.3 three hundred and eighteen (318) households representing 84.9% of the total households are self employees into various economic sectors, out of which one hundred and forty two (142) representing 44.7% are farmers ,eighty two (82) representing 25.8% are pastoralist and the remaining are forty three (43) and fifty one (51) representing 13.5% and 16% are fishermen and traders respectively.

In order to access the loan from the bank, most banks offer loan to their customers who hold the accounts in their banks, in another hand most of the rural households are not aware with bank services in such a way that most of them prefer to save their small money at their home instead of saving at bank, the researcher intended to explore the degree of rural households' responsiveness to saving services offered by the bank. Table 4.11d illustrates the rural households holding the bank account.

Table 4.11d: rural households hold bank account and their form of education

Account holding	Frequency	%	A/C Holders	Frequency	%
A/C holders	51	14.6%	Formal	36	70.6%
Non A/C holders	299	85.4%	Informal	15	29.4%
Total	350	100%	Total	51	100%

From the table 4.11d above, only fifty one (51) households representing 14.6% of the total sample households hold the bank account while two hundred and ninety nine (299) representing 85.4% of the total sample households do not hold the bank account. Generally we can say that 85.4% of the rural households have no bank account so they are non potential loan customers of the most commercial bank as they don't meet the loan requirements of having the bank, in another hand only 14.6% of the of the total sample households have the bank account so they are potential to the loan offered by the most of the commercial bank.

Another loan requirements set by the MFIs in loan disbursement especially in the short and medium loans is the proper business records that that shows business cash flow, statement of comprehensive income and statement of financial position. Most of the rural MSEs fail to keep proper records of their business as they have no knowledge of accounting and other perceive to be time wasting. Table 11.5 illustrates distribution of rural households/MSEs who keep business records.

Table 4.11e distribution of rural households who keep business records

Record keeping	Frequency	%
Keep records	33	9.4%
Don't keep records	317	90.6%
Total	350	100%

From the Table 4.1e above only thirty three (33) households representing 9.4% of the total households keep the business records even in unscientific system but at least they are able to indicate their annual business profit and financial position of their business, they can at least meet the loan requirements of having the proper business records, the remaining three hundred and seventeen (317) representing 90.6% they do not keep the records to their business so they are ineligible for the loan that require the proper records of the business of which the loan is applied for.

Another requirements for business loan disbursement is the registration of the business that accompanied by the certificate of registration, business licenses, TIN and VAT registration, Most of the rural households did not register their business in such away they fail to access for loan as they do not have the legal documents of the business in which the loan is applied for. Table 7.9 illustrates the distribution of rural households registered business.

Table: 4.11f Distribution of rural registered business

Business registration	frequency	%	Registered	Frequency	%
Registered	57	16.3%	Farmers	2	3.5%
Unregistered	293	83.7%	Pastoralists	0	0%
Total	350		Fisherman	10	17.5%
			Traders	45	79%
			Other occupation	0	0%
			Total	57	100%

From the Table 4.11f above fifty seven (57) households representing 16.3% of the total households under research registered their business of which forty five (45) representing 79% of the registered business are traders followed by Fishermen and Farmers who are ten (10) and two (2) representing 17.5% and 3.5% respectively while no pastoralist who registered his/her business. In another hand two hundred and Ninety three (293) representing 83.7% did not registered their business. Generally most of the rural households deals with livestock keeping business did not register their business and few farmers and fishermen register their business while majority of the traders especially single unit shops that are alongside the roads make their business registered, this is due to the fact that most of the traders are harassed by the Municipal Council officers when they are met with no business licenses from relevant Government Authority.

In general term we say that more than 83.7% of the rural households did not register their business in such a way that they have no legal documents of their business such as business licences,so they are ineligible for some loan disbursement as they did not meet some of the loan requirements set by the MFIs. In addition, there is additional cost incurred in the loan application process such cost are services fees, travel cost .cost of photograph etc.

Poor regulation and supervision of MFIs

“Promotion and expansion of rural financial services is facilitated by appropriate microeconomic policy environment, legal and regulatory framework in place” (Faustine K.Bee, 2007). According to the responses of microfinance stakeholders and rural households in individual questionnaires supplied to them revealed that one of the major challenge faces the microfinance industry in Tanzania is the weak regulatory and legal framework of Microfinance industry in the country. The regulatory and legal framework of Microfinance industry in Tanzania is well presented in the chapter Two of this report, through the responses of the Microfinance stakeholders in individual questionnaires who required to provide their comments on the currents regulatory and legal framework of Microfinance industry in Tanzania and through the review of the various reports and publication the researchers revealed the following major weakness underlying the regulatory and legal framework of Microfinance industry in Tanzania:-

Ceiling on unsecured loans by licensed banks: the Bank of Tanzania (BOT) through its The Banking and Financial Institutions Act of 2006 and its regulation of 2008 require the licensed banks to offer unsecured loan to single borrower not exceeding 5% of the bank capital, Most of the Microfinance Practioners argue that this ceiling is very low in such a way that it limit the capacity of the bank to offer unsecured loans and limit the supply of loan financial services especially to the bank deals with rural finance such as community Village Banks and rural unit banks which their capital is too low. Table 12.1 illustrates the limit of unsecured loan by the banks.

Table 4.12a Ceiling of unsecured loan of the bank

Type of Bank	Maximum required Capital	Ceiling of unsecured loan to single Borrower
Regional Unit Commercial Bank	Tsh 200Millions	Tsh 10 Millions
Rural Unit Bank	Tsh 50 Millions	Tsh 2.5 Millions
Non-Bank Financial Institution	Tsh 100Millions	Tsh 5 Millions
Micro Finance Company	Tsh 800 Millions	Tsh 40 Millions
Financial Cooperative	Tsh 800 Millions	Tsh 40 Millions
Commercial Bank	Tsh 5 billions	Tsh 250 Millions

Source: Compiled from Capital Adequacy Regulations, 2001-Tanzania and Banking and Financial Institutions regulation of 2008

From the table 4.12a above, the amount of unsecured loan offered by the bank to the single borrower is limited, most of the MFIs operating in rural areas such as are Regional Unit Commercial Bank and rural unit bank have less amount of unsecured loan that they can offer to their clients which range between Tsh 2.5 Millions to Tsh 10 Million as compared to most of commercial banks and MFCs that centralize mostly in the urban areas and having less branches in the rural areas, this make the chance of urban households to access large amount of unsecured loan to be higher than rural households.

Ceiling on Fixed Assets

The Bank of Tanzania (BOT) through its regulation of Banking and Financial Institutions of 2008 impose the ceiling of the capital expenditure such as ATM Machines, furniture, electronic equipments and construction of office buildings made by the bank up to 10% of the capital of the bank, Most of the Microfinance stakeholders argue that this ceiling is very low in such a way that it limit the efficiency

and outreach of the bank especially those deals with rural finance such as community Village Banks and rural unit banks which their capital is too low. Table 4.12b illustrates the ceiling of fixed assets.

Table 4.12b: ceiling of fixed assets.

Type of Bank	Maximum required Capital	Ceiling of Capital expenditure
Regional Unit Commercial Bank	Tsh 200Millions	Tsh 20 Millions
Rural Unit Bank	Tsh 50 Millions	Tsh 5 Millions
Non-Bank Financial Institution	Tsh 100Millions	Tsh 10 Millions
Micro Finance Company	Tsh 800 Millions	Tsh 80 Millions
Financial Cooperative	Tsh 800 Millions	Tsh 80 Millions
Commercial Bank	Tsh 5 billions	Tsh 500 Millions

Source: Compiled from Capital Adequacy Regulations, 2001-Tanzania and Banking and Financial Institutions regulation of 2008

Outreach of the MFIs depend on their level of capital expenditure of such as construction of new office branches and ATM and efficiency of the MFIs depend on effective working equipments such as computer, communication equipments, servers etc that are categorized as fixed assets, the MFIs outreach and efficiency is limited by ceiling of fixed assets expenses imposed by the BOT whereby ceiling of fixed assets expenses of rural specialized banks such as community Village Bank, Regional Unit Commercial Bank and rural unit bank is too low that range between Tsh 5 millions to Tsh 20 Millions as per table 12.2 above, this amount is lower than the other bank with large capital and mostly operate their business in the large cities urban areas.

Bureaucracy of judiciary system: Most of the microfinance stakeholders including banks staffs complain on judiciary system of Tanzania that take too long time to make

judgment on the cases brought to them by MFIs concerning on forfeiture of default customers' properties, hence this increase the fear of MFIs on loan repayment rates and may result in interest rate increase and slow down the issue of loan to others.

Other microfinance constraints associated with policy environment, legal and regulatory framework in Tanzania are:-

- Impact of taxes on the cost of commercial and financial transactions
- Inadequacy and lack of qualified staffs of regulatory and supervisory Authorities such as BOT, Ministry of Finance, Ministry deals with cooperative both in Tanzania Mainland and Zanzibar in supervising the MFIs such as Community Village Bank, SACCOs etc.
- Institutional constraints of such as property rights and registries and presence of functioning credit bureau that provides information to both borrowers and Lenders.

4.3.2 Summary

According to the opinions of many respondents the microfinance industry still faces a number of challenges such as conditions and terms of loan, inadequate capital of MFIs, poor support from the MFIs, few MFIs that meet need and poor regulation and supervision of MFIs. Most of the rural households who received the loan from formal sources were charged the interest rate between 21%-30% which relatively large for growth of rural small enterprises while most of the rural households who received the informal loans charged free interest rate and few of them charged interest rate of below 10%.,other cost charged to borrowers are application fees, services fees, ledger fees, cost of photograph for passport size, time spent on loan processing, collateral ,business registration, business proposal, Audited accounts, minimum non withdrawal balance, travel time and cost of searching the referee.

Most of the MFIs offer only financial services and only few of them offer non financial services which are supporting services to the borrower in ensuring that they

use the loan in profitable investment and building capacity in the business management such services are advisory services, business training such as project write up, business proposals, costing and price determination techniques, business record keeping, marketing, and monitoring and evaluation services.

The supply of rural finance is still limited as there is limited number of MFIs in rural areas as compared to the urban areas, most of the banks operate in urban areas and only few FinNGOs and SACCOS operate their business in the rural areas which can not meet rural finance demand

Criteria of loan disbursement still limiting factors for rural households' access to finance because most of them can not meet those criteria, such as criteria are business registration as most of them do not register their business, lack of proper business records, not holding account in the bank, official employment where employment act as guarantee, ownership of collateral properties such as house, motor vehicle etc.

Other microfinance constraints are associated with policy environment, legal and regulatory framework in Tanzania, such constraints are Bureaucracy of judiciary system that prolong the among other things the MFIs related cases, low ceiling on unsecured loans by licensed banks imposed by BOT, low ceiling on Fixed Assets, Impact of taxes on the cost of commercial and financial transactions, Inadequacy and lack of qualified staffs of MFIs regulatory and supervisory Authorities.

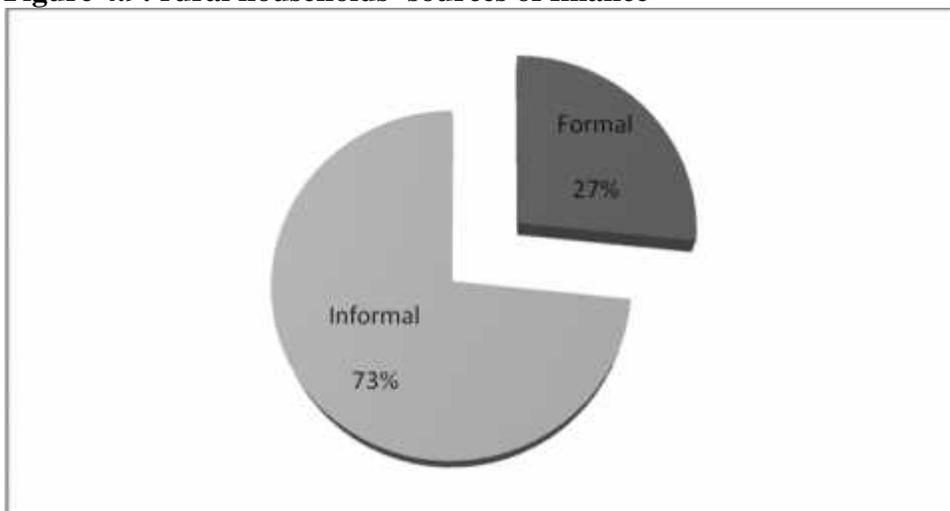
4.4 Major sources of finance that rural households are access to: An assessment

One of the specific objectives of the research it was to assess the major sources of finance that rural households are access to, the individual households were requested to select the sources of finance in the set of various sources given in the individual questionnaires form. Detailed distribution of the rural households' sources of finance is summarized in the table 8.1 below

Table 4.13a rural households' sources of finance

Form of Finance	Frequency	%
Formal	98	26.6%
Informal	270	73.4%
Total	368	100%

Figure 4.9: rural households' sources of finance



From the table 4.13a and figure 4.9 above, ninety eight (98) households representing 26.6% of the surveyed rural households access the finance through formal sources of finance such as Commercial banks, SACCOs, FinNGOs and Government agency/Program while majority of rural households who are two hundred and seventy (270) representing 73.4% of total households are access to informal sources of finance such as relatives/friends and personal saving, the total households exceed three hundred and fifty (350) because eighteen (18) households shared both formal and informal sources of finance. Table 4.13b below illustrates distribution of rural households with formal and informal sources of finance.

Table: 4.13b Distribution of rural households accessing the formal form of finance

Formal Sources of Finance			Informal Sources of Finance		
Sources of Finance	Frequency	%	Sources of Finance	Frequency	%
Commercial Bank	21	21.4%	Personal saving	173	61.1%
Community Village Bank	-	0%	Relatives/friends	54	19.1%
FinNGOs	26	26.5%	Others	56	19.8%
Government Agency	8	8.2%	Total	283	100%
SACCOs	28	28.6%			
Other Specify	4	4.1%			
Total	98	100%			

From the table 4.13b above, out of ninety eight (98) households who access the formal sources of finance, twenty eight (28) households representing 28.6% access their finance from SACCOs followed by twenty three (23) households representing 23.5% access their finance from FinNGOs, the remaining are twenty one (21) households representing 21.4% and fourteen (14) representing 14.3% access their finance from commercial bank and Government Agency/Program respectively. In another hand out of two hundred and seventy (270) households who access the informal sources of finance, one hundred and seventy three (173) households representing 61.1% access their finance through their personal saving while one hundred and ten (110) representing 38.9% access their finance from relatives and friends, total number of households access the informal sources of finance exceed two hundred and seventy (270) because thirteen (13) households shared both sources relative/friends and personal saving.

4.4.2 Sources of loan at different level of education

Table 4.13c Sources of loan at different level of education

Sources of finance \ Form of education	None		Primary		Above Primary		Total	
	No	%	No	%	No	%	No	%
Formal	19	5.5%	21	6.0%	40	11.4	80	22.9%
Informal	11	33.1%	63	18%	73	20.9%	25	72%
Both	2	0.6%	7	2%	9	2.5%	18	5.1%
Total	13	39.2%	91	26%	12	34.9%	35	100%

Figure 4.10a: Sources of formal loan at different level of education

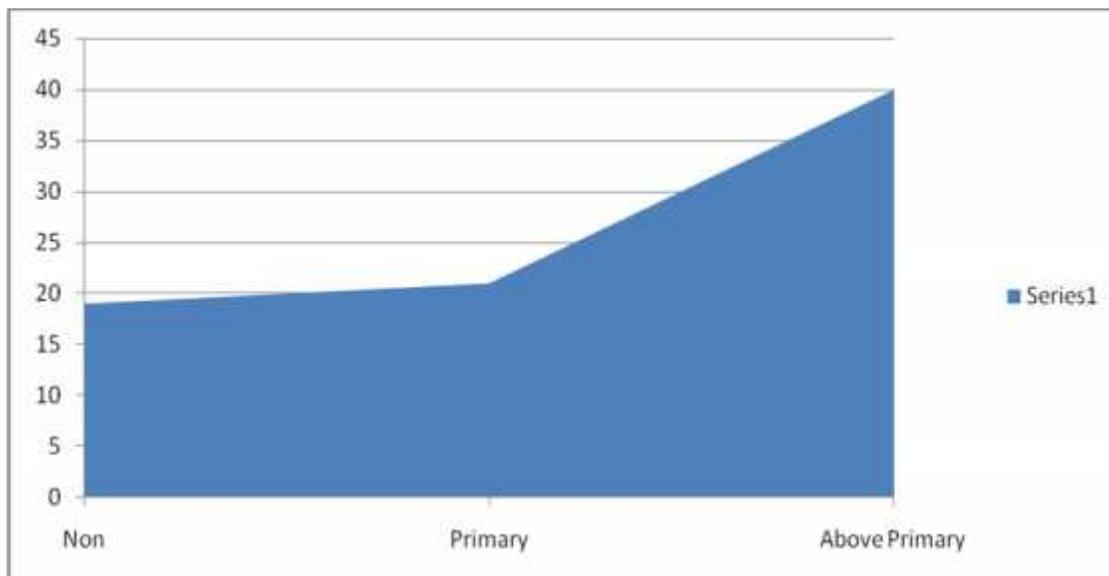
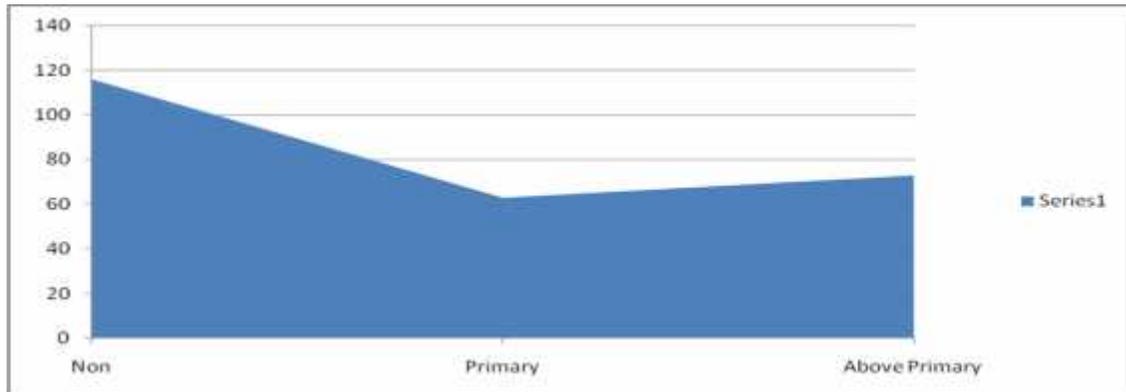


Figure 4.10b: Sources of informal loan at different level of education



From the table 4.13c and figure 4.10a and 4.10b above, eighty (80) households representing 22.9% access the formal sources of loan, out of which forty (40) households representing 11.4% have the education of above primary level while twenty one (21) households representing 6.0% and nineteen (19) households representing 5.5% have the primary education and informal education, this analysis justify that there is positive relationship between level of formal education and accessing formal sources of loan ,this may be due to the awareness of the educated people towards the microfinance industry or because they have greater chance of meeting the loan requirements than uneducated ,this requirements are such as employment guarantee and being the bank account holder.

In another hand, two hundred and fifty two (252) households representing 72% access the informal sources of loan, out of which one hundred and sixteen (116) households representing 33.1% are uneducated or have informal education followed by the sixty three (63) representing 18% and seventy three (73) households representing 20.9% have the primary level and above primary level respectively. Furthermore the households shared both formal and informal education are eighteen (18) households representing 5.1% of the total households that made up of nine (9) households representing 2.5% who possess above primary education level and seven (7) households representing 2% and two (2) households representing 0.6% have primary education and above primary level respectively. So in general term we can say that

the higher the educational level they have the larger chance of accessing formal sources of loan and opposite is true. Figure 4.10c, 4.10d and 4.10e below graphically present forms of loans for uneducated households, primary leavers and who have above primary education respectively.

Figure 4.10c: Uneducated households with form of loans

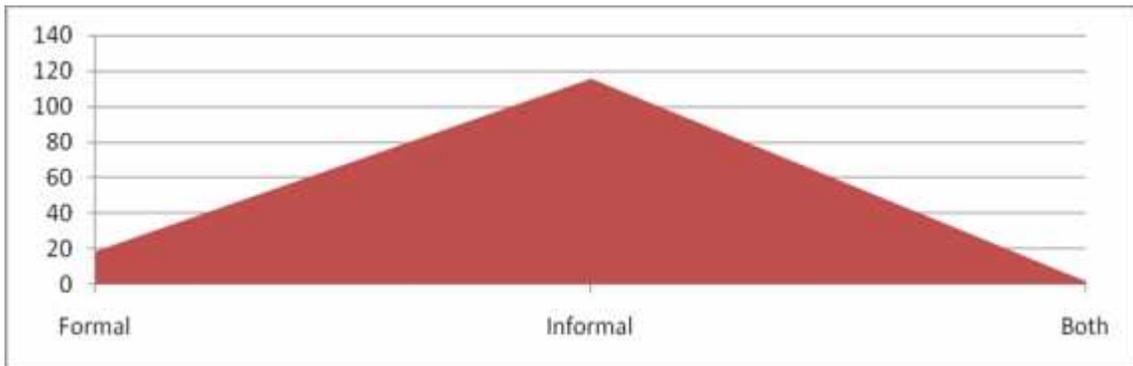


Figure 4.10d: households with primary level education with various forms of loans

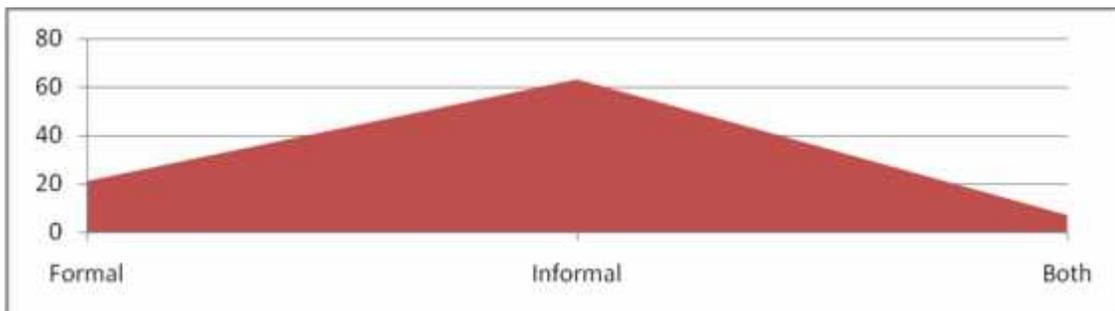
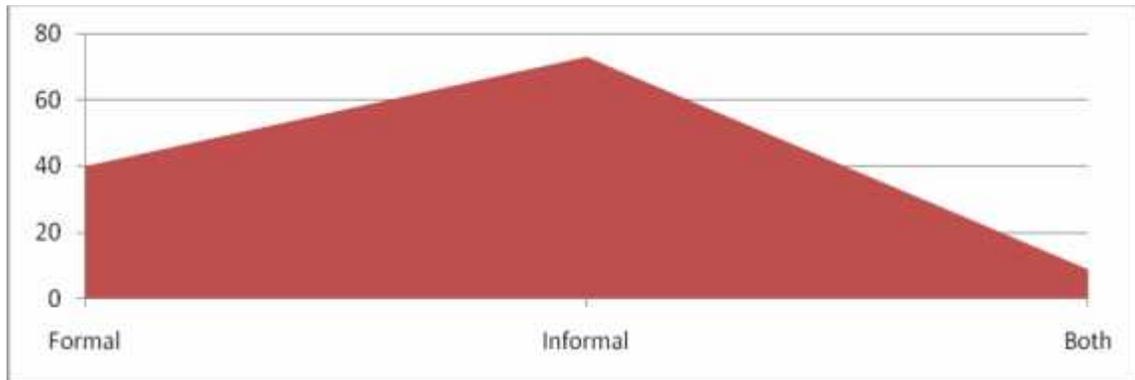


Figure 4.10e: Households with above primary level with various forms of loans



4.4.3 Sources of loan at different households' occupations

Out of eighty (80) households representing 22.9% of the total households who accessed the formal sources of loan, fifty one (51) households representing 14.6% of the total households engaging in the agriculture i.e. farmers and pastoralist, thirteen (13) households representing 3.7% are traders followed by the official employee and in other occupations who are nine (9) and seven (7) representing 2.6% and 2% respectively.

In another hand, out of two hundred and fifty two (252) households representing 72% of the total households who accessed the informal sources of loan, one hundred and seventy seven (177) representing 50.6% are engaging in the agriculture while twenty three (23) representing 6.6% are the traders followed by the official employee and in other occupations who are eighteen (18) and thirty four (34) representing 5.1% and 9.7% respectively. Furthermore, out of eighteen (18) households representing 5.1% of the total households who accessed the both formal and informal sources of loan, eight (8) households representing 2.3% are engaging in the agriculture while three (3) households representing 0.9% are the traders followed by the official employee and those in other occupations who are two (2) and five (5) representing 0.6% and 1.4% respectively. The table 4.14 below summarizes the above analysis.

Table 4.14: Forms of loans at different households' occupations

Sources of finance \ Occupation	Agriculture		Business		Official employee		Other occupation		Total	
	No	%	No	%	No	%	No	%	No	%
Formal	51	14.6	13	3.7	9	2.6	7	2	80	22.9
Informal	177	50.6	23	6.6	18	5.1	34	9.7	252	72
Both	8	2.3	3	0.9	2	0.6	5	1.4	18	5.1
Total	236	67.5	39	11.1	29	8.3	46	13.1	350	100

4.4.4 Utilization of loan and credit in rural areas

In analyzing the sources of loan the researcher also intended to explore how these funds were used, the respondents were asked to select one or more among the five elements in the set of expenditures provided in the questionnaires forms, the provided expenditure were first element was the basic needs i.e. food, shelter and clothing, the second element was about other consumption namely school fees, medical care and transport, third element was the investment expenditure, the fourth element was entertainment/festival and final element was about social expenditure. The results were summarized in table 4.15 below:-

Table 4.15: Utilization of loan and credit in rural areas

Sources of finance	Consumption				Investment						Social Expenditure		Entertainment/ Festival		Total	
	Basic	School fees, health and other	Total	%	Agriculture	Trade	Fishing	Others	Total	%	Community development	%	Entertainment	%	No	%
Formal	21	10	31	8.9	19	11	4	9	43	12.3	1	0.3	5	1.4	80	22.9
Informal	113	84	197	56.3	17	9	5	6	37	10.6	9	2.6	9	2.6	252	72
Both	6	4	10	2.9	3	1	-	1	5	1.4	1	0.2	2	0.6	18	5.1
Total	142	96	238	68	41	26	7	11	85	24.3	11	3.1	16	4.6	350	100

From the table 4.15 above, out of eighty (80) households representing 22.9% of the total households who accessed the formal sources of loan, forty three (43) households representing 12.3% injected their loan in the investment projects led by the agricultural investment, trade and others, thirty one (31) households representing 8.9% spent the loan on households' consumption especially in the basic needs such as food, clothing, and shelter, while five (5) households representing 1.4% and one (1) households representing 0.3% spent their loan in entertainment/festivals i.e. religious ceremonies, traditional, social ceremonies etc. and social expenditure i.e. education, infrastructure etc. respectively. Generally, we conclude that most of the rural households receive the fund from the formal sources of fund spend the funds in the investment rather than consumption, social expenses and entertainment/festivals, this may be due to the fear of households on consequences of not repay the loan such as interest increase and forfeiture of the households' properties if they were pledged as security in the loan.

In another hand, out of two hundred and fifty two (252) households representing 72% of the total households who accessed the informal sources of loan, one hundred and

ninety seven (197) households representing 56.3% spent their loan in the consumption expenditure, thirty seven (37) households representing 10.6% injected the loan on investment project particularly in agricultural activities, trade and others, while nine (9) households representing 2.6% and nine (9) households representing 2.6% spent their loan in social expenditure i.e. education, infrastructure etc. and entertainment/festivals respectively.

So the above analysis, we can conclude that most of the rural households who receive loan from informal sources spend the loan in the households' consumption such as foods, shelters, clothing, health etc, this may be due to the fact that most of the informal loan are like a grants issued to support among the family members, relatives or friends that usually bear no interest and always the receivers have less fear of repayment as compared to the formal loans.

Furthermore, out of eighteen (18) households representing 5.1% of the total households who accessed the both informal and formal sources of loan, ten (10) households representing 2.9% spent their loan in the consumption expenditure, five (5) households representing 1.4% injected the loan on investment project particularly in agricultural activities, trade and others, while one (1) households representing 0.2% and two (2) households representing 0.6% spent their loan in social expenditure i.e. education, infrastructure etc. and entertainment/festivals respectively.

4.4.5 Summary

Most of the rural households especially who are uneducated use the informal sources of loans such as Personal savings, support from relatives or family members and others to finance their consumptions, investment, social expenditure and entertainment and festivals. Few rural households who access the formal sources of loan from formal MFIs are mostly educated with at least above primary education, the types of MFIs

that rural households are access to be SACCOs, FinNGOs, commercial banks and government programs.

Most of the rural households who received loan from the formal sources spent the funds in the investment rather than consumption, social expenses and entertainment/festivals, this may be due to the fear of households on consequences of not repay the loan such as interest increase and forfeiture of the households' properties if they were pledged as security in the loan while majority of the rural households who received loan from informal sources spent the loan in the households' consumption such as foods, shelters, clothing, health etc, this may be due to the fact that most of the informal loans are like a grants issued to support the family members, usually bear no interest and always the receivers have less fear of repayment as compared to the formal loans.

4.5 Perception of rural households towards Microfinance services: An assessment

One of the specific objectives of the research was to explore the perception of rural households towards the microfinance services, the research intended to explore the perception in term of understanding/awareness of the position of MFIs as a of poverty reduction tool and performance of MFIs in their areas.

4.5.1 Awareness of rural households in MFIs services

In order to measure the understanding or awareness of the rural households in microfinance services, the respondents were required to identify the number of stories/articles of microfinance services they have read or heard in the last six months, the result is summarized in the table 16.1 below:-

Table 4.16a: distribution of microfinance stories read/heard by rural households

No of stories/articles	Frequency	%
None	303	86.6%
1 - 5	47	13.4%
6 - 10	0	0%
11 - 15	0	0%
16 -20	0	0%
Above 20	0	0%
Total	350	100%
Mode	0	
Mean	0.403	

From the table 4.16a :above only forty seven (47) households forms 13.45% of the total households have read or heard at least one story/article about microfinance services for the past five years while majority of them totaling three hundred and three (303) representing 86.4% have ever read or hear any story or article about microfinance services, the mode number of stories/articles read or heard by the rural households for the past six months is zero and mean number of stories or articles read or heard by the rural households for the past six months was 0.403.This justify that most of the rural households are not aware to microfinance services this is due to the fact that most of the rural households have no tendency of reading not only professional journals of such as microfinance industry but even other readings such as newspaper, lack of those journals in public or private centers, lack of awareness programs in microfinance industry in public television and radio which most of the rural households are access to and lack of awareness programs in microfinance industry conducted by the MFIs in rural areas.

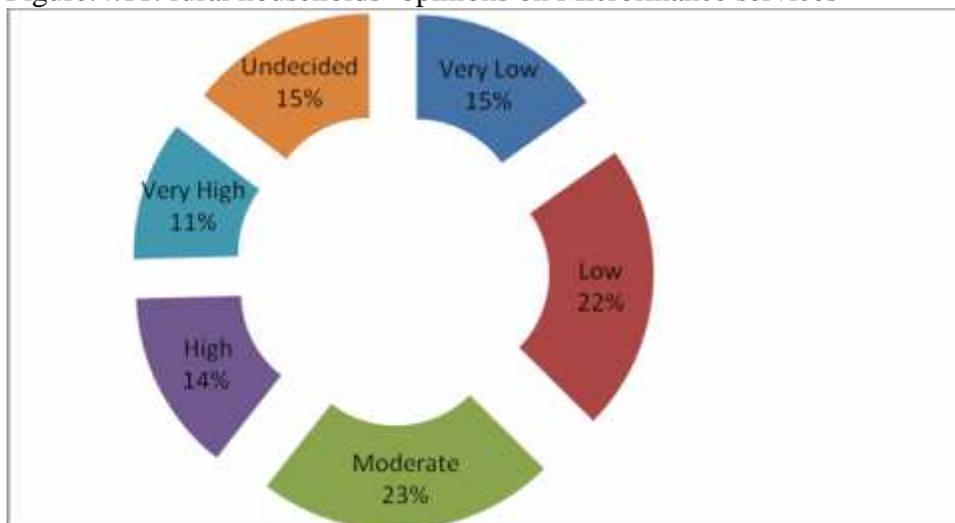
4.5.2 Perception of rural households regarding the role of MFIs services

Also in realizing the rural households' awareness on microfinance services they were asked to guess or provide their opinions on the contribution of microfinance services in poverty reduction process, the result is summaries in the table 4.16b and graphically presented in the figure 4.11. below:-

Table 4.16b Households opinions on microfinance services

Opinions/Guesses	Frequency	%
Very Low	53	15.1%
Low	78	22.3%
Moderate	81	23.1%
High	49	14%
Very High	38	10.9%
Undecided	51	14.6%
Total	350	100%

Figure:4.11: rural households' opinions on Microfinance services



From the table 4.16b and Figure 4.11 above, eighty one (81) households forms 23.1% of the total households perceive the contribution of microfinance services to poverty reduction process as a moderate while seventy eight (78) households representing 22.3% perceive the contribution of microfinance services to poverty reduction process as a low and fifty three (53) households representing 15.1% the contribution of microfinance services to poverty reduction process as very low, this is followed by the forty nine (49),thirty nine (39) and fifty one (51) households representing 14%,10.9% and 14% perceive the contribution of microfinance services to poverty reduction process as a high, very high and undecided respectively. These data justify that most of the rural households have low perception on the chance of microfinance sector in their poverty reduction strategies.

4.5.2.1 Households' perceptions at different level of education

In measuring the perceptions of rural households on the chance of microfinance services have toward poverty alleviation process, various perceptions or opinions were realized as summarized in the table 4.16c and discussion above, further more the researcher intended to explore the relationship between households' perceptions on microfinance industry and their level of education, table 4.16c below illustrate the result:-

Table 4.16c: Households' perceptions at different level of education

Form of education Perception on MFIs	None		Primary		Above Primary		Total	
	No	%	No	%	No	%	No	%
Very low	30	8.6%	16	4.6%	7	2%	53	15.1
Low	43	12.3%	24	6.9%	11	3.1%	78	22.3%
Moderate	22	6.3%	27	7.7%	32	9.1%	81	23.1%
High	9	2.6%	11	3.1%	29	8.3%	49	14%
Very high	7	2%	6	1.7%	25	7.2%	38	10.9%
Undecided	26	7.4%	7	2%	18	5.2%	51	14.6%
Total	137	39.2%	91	26%	122	34.9%	350	100%

From the table 4.16c above, out of fifty three (53) households representing 15.1% of total households who have very low perception on contribution of microfinance services in poverty reduction, thirty (30) households representing 8.6% of total households lack formal education followed by sixteen (16) households and seven (7) households representing 4.6% and 2% of total households who have primary level education and above primary level respectively. Out of seventy eight (78) households representing 22.3% of total households who have low perception on contribution of microfinance services in poverty reduction, forty three (43) households representing 12.3% lack formal education followed by twenty four (24) households and eleven (11) households representing 6.9% and 11% of total households who have primary education and those with above primary level education respectively, out of eighty one (81) households representing 23.1% who moderate perception on contribution of microfinance services in poverty reduction, thirty two (32) households representing 9.1% of total households are educated in above primary level followed by twenty seven (27) households representing 7.7% who households who have primary level education and twenty two (22) households representing 6.3% of total and those who

are not educated at all, out of forty nine (49) households representing 14% of total households who have high perception on contribution of microfinance services in poverty reduction, twenty nine (29) households representing 8.3% of total households have above primary level education, eleven (11) households representing 3.1% of total households have primary level education followed by nine (9) households representing 2.6% of total households have no formal education at all, out of thirty eight (38) households representing 10.9% of total households who have very high perception on contribution of microfinance services in poverty reduction, twenty five (25) households representing 7.2% of total households have above primary level education followed by seven (7) households representing 2% of total households have no formal education and six (6) households representing 1.7% of total households have primary level education, out of fifty one (51) households representing 14.6% of total households who failed to comment on the contribution of microfinance services in poverty reduction, twenty six (26) households representing 7.4% of total households have no formal education followed by eighteen (18) households representing 5.2% of total households have above primary level education and seven (7) households representing 2% of total households have primary level education.

From the above discussion and presentation we can generally conclude that there is positive relationship between level of education and right perception of microfinance services in poverty reduction process as majority of educated rural households have between moderate and very high perception of microfinance services in poverty reduction process while majority of uneducated rural households have between very low and moderate perception on microfinance services in poverty reduction process while many others uneducated households can even not judge the position of microfinance services in the poverty reduction process. The Figure 4.12a, 4.12b and 4.12c below graphically present the perception of uneducated households, primary leavers and who have above primary education respectively.

Figure 4.12a: Perception of uneducated rural households

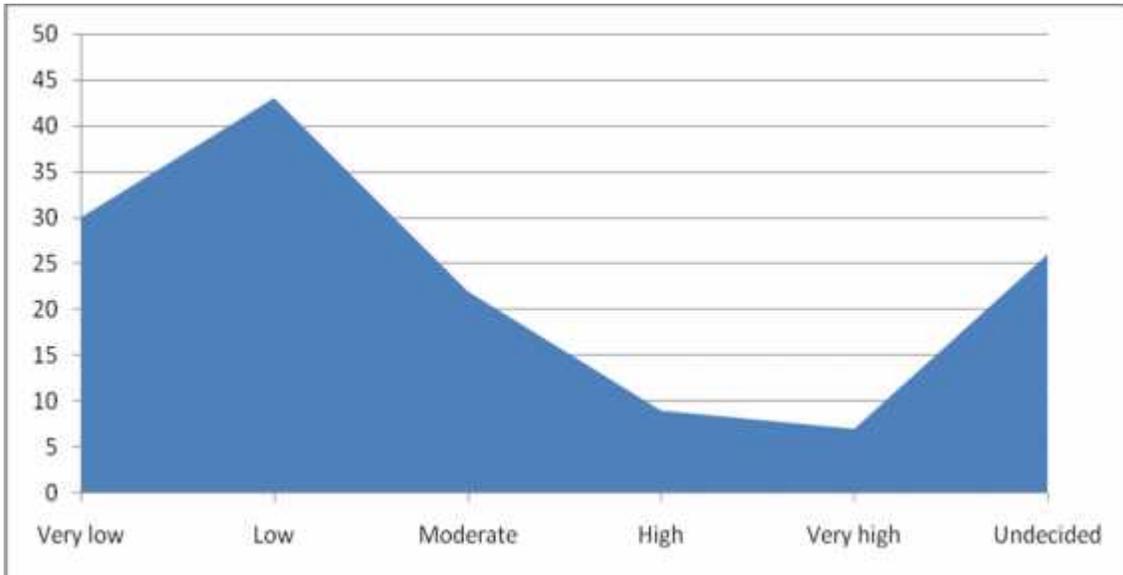


Figure 4.12b: Perception of rural households with primary education

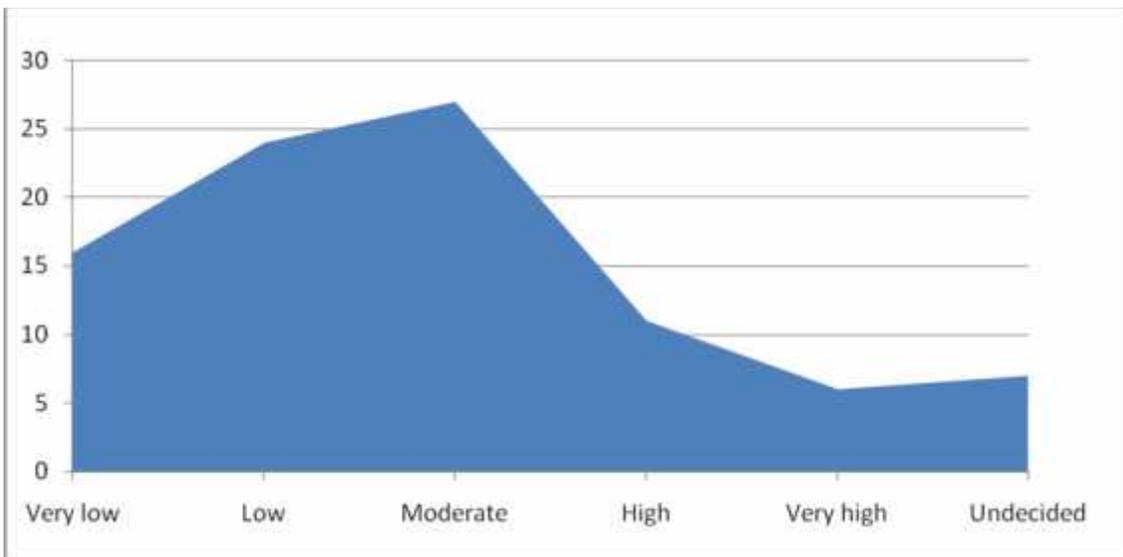
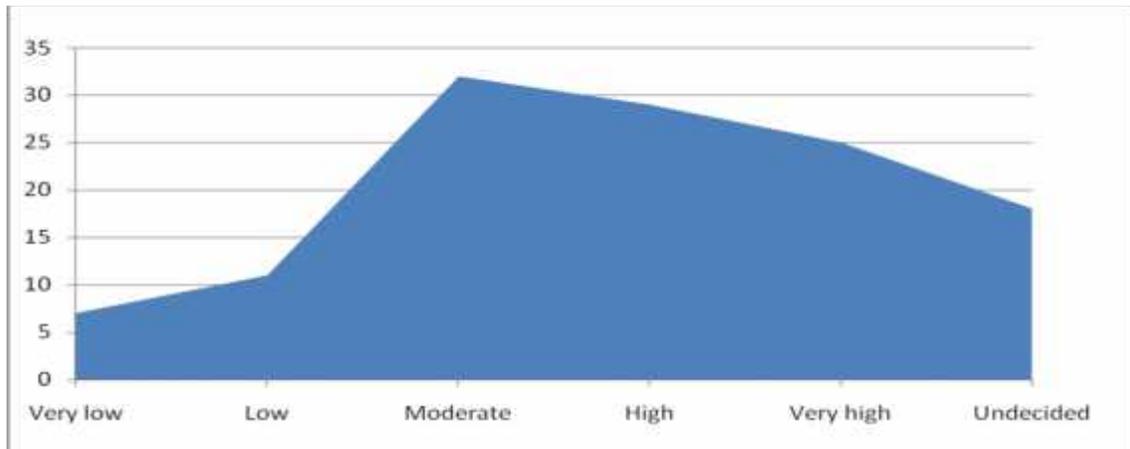


Figure 4.12c: Perception of rural households with above primary level education



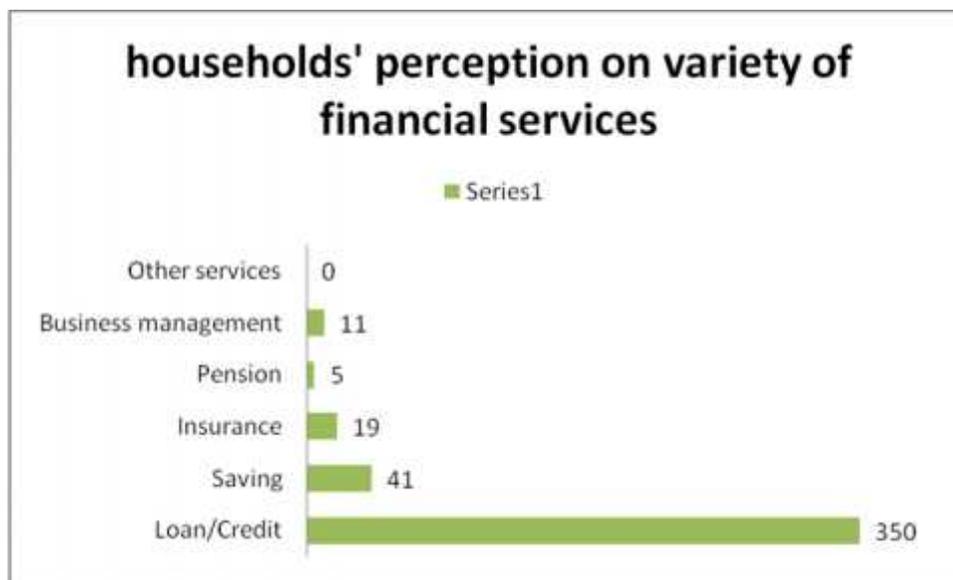
4.5.3 Households' perception on variety of Microfinance services

Another question asked to rural households in the questionnaire forms was to identify the best financial services that expect to get or demand from the MFIs that interest them, the respondents were required to select among the provided financial related services such as loan, saving, insurance, pension services, business training and other financial related services. The result is summaries in the table 16.4 and graphically presented in the figure 9e below:-

Table 4.16d: Rural households' perception on various financial services

Types of financial services	Frequency	%
Loan/credit provision	350	66.5%
Saving	41	11.7%
Insurance	19	5.4%
Pension	5	1.4%
Business training	11	3.1%
Other services	0	0%
Total	526	100%

Figure 4.12d: Rural households' perception on various financial services



From the table 4.16d and figure 4.12d above, all households totaling three hundred and fifty (350) households are aware with and demand loan and credit services from the MFIs, forty one (41) households representing 11.7% of total households are aware with and demand saving services from the MFIs while nineteen (19) households representing 5.4% are aware with and demand the insurance services followed by eleven (11) and five (5) households representing 3.1% and 1.4% of total households

are aware with and demand the business training services and pension services respectively. The total number of rural households exceeds the three hundred and fifty (350) because some of them shared the more than one financial service. From these data we can conclude that most of the rural households are aware with only loan and credit services while they are not aware and have bad perception on variety of financial services offered by MFIs such as saving, insurance, pension, business trainings services and other services which are crucial to livelihood improvement of rural poor households.

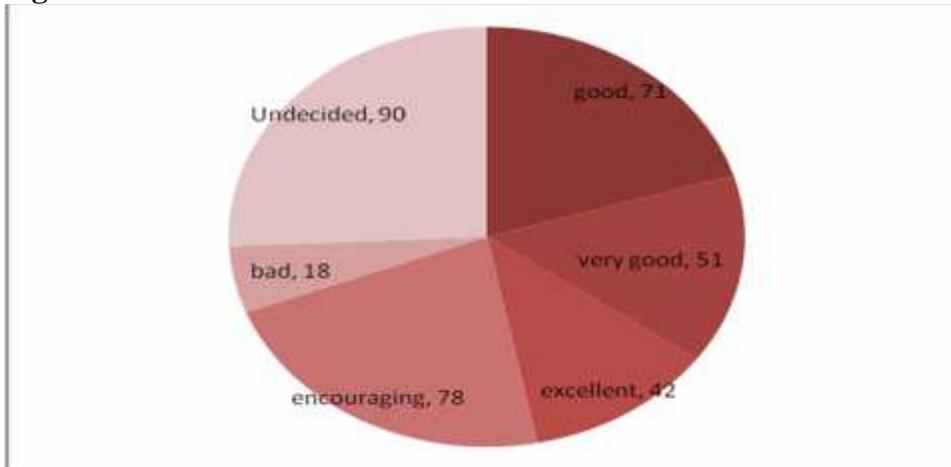
4.5.4 Perception of rural households on effectiveness of MFIs in rural areas

In another hand the researcher wanted to assess the perception of the rural households on the effectiveness of the MFIs to poor rural households, the respondents were required rank the degree of effectiveness of MFIs activities in the rural areas, the respondents were to choose among the very good, excellent, excellent, encouraging and bad, the table 4.16e and figure 4.12d below illustrate the rural households' views on the effectiveness of MFIs in rural areas.

Table 4.16e: Households' views on the effectiveness of MFIs

Views	Frequency	%
Good	71	20.3%
Very good	51	14.6%
Excellent	42	12%
Encouraging	78	22.3
Bad	18	5.1%
Undecided	90	25.7%
Total	350	100%

Figure 4.12e: Households' views on the MFIs' effectiveness



From table 4.16e and figure 4.12d above, ninety (90) households forms 25.7% of the total households fails to provide their views on the performance of the MFIs in rural areas, this may be due to the fact that most of the rural households are not aware with microfinance industry and they are not close to the services of MFIs, seventy eight (78) households representing 22.3% of the total households state that the performance of MFIs is encouraging, while seventy one (71) households representing 20.3 of the total households rank the effectiveness of MFIs in rural areas as good, fifty one (51) households representing 14.6% of the total households state that the effectiveness of MFIs on rural areas is very good followed by those who rank the effectiveness of MFIs to be encouraging and bad presented by forty two (42) and eighteen (18) households representing 12% and 5.1% of the total households respectively. From the above discussion, the effectiveness of MFIs to poor rural households over the years has been encouraging.

4.5.5 Summary

Most of the rural households have no good perception on the role of microfinance services in their day to day poverty elimination activities, this is due to the fact that most of the rural households have no tendency of reading not only professional

journals of such as microfinance industry but even other readings such as newspaper, lack of those journals in public or private centers, lack of awareness programs in microfinance industry in public television and radio which most of the rural households are access to and lack of awareness programs in microfinance industry conducted by the MFIs in rural areas. Only few rural households have high perception of microfinance service in poverty reduction of which most of them are educated with at least above primary education.

Most of the rural households are aware with only loan and credit services among the many other financial and related services offered by MFIs such as saving, insurance, pension, business trainings services and other services which are crucial to livelihood improvement of rural poor households and according to the views of many rural households the performance of MFIs to poor rural households over the years seems to be encouraging.

4.6 An assessment of Condition and loan Procedure of MFIs: A case of Pride Tanzania

One of the specific objectives of the research was to assess the Condition and loan Procedure of MFIs to poor rural households, the researcher used the case study of Pride Tanzania as one of the FinNGOs dealing with microfinance operating in Tanzania. This case study was selected to provide insight of condition and loan procedure set by the MFIs particularly in the FinNGOs and their suitability to the poor rural households in Tanzania, The researcher conducted documentary reviews of various documents of such as Pride Tanzania quarterly newsletters, website and other relevant researches and studies of Pride Tanzania. The detailed assessment of Condition and loan Procedure of MFIs is presented below:-

4.6.1 Profile of PRIDE Tz

Promotion of Rural Initiative and Development Enterprises Limited (PRIDE Tanzania) is a non-governmental organization (NGO) which was incorporated on 5th May 1993 under Chap 212 as a company limited by guarantee without share ownership. It started piloting micro finance operations in January 1994 with one branch in Arusha. The management and technical assistance of PRIDE Tz is provided by PRIDE Management Services Limited Africa, which is based in Nairobi, Kenya. As per Bilateral agreement the Bank of Tanzania (BOT) is the implementing agency of the programme on behalf of the government which among other things coordinate funding for the program while in another hand the Board of Directors responsible for strategic policy decisions and oversees the overall program implementation. (PRIDE Tanzania's newsletter, 2002, PRIDE Website, www.pride-tz.org)

The main objective is to provide financial services to Poor but economically active individuals owning and running businesses worth less than US \$ 700 in Tanzania, and this is in line with its mission statement. The mission of PRIDE Tz is to create a sustainable financial and information services network for small and micro-entrepreneurs in order to promote their business growth, enhance their income and create employment in Tanzania (PRIDE Website, www.pride-tz.org)

The main sources of PRIDE Tz funding are the grants from the Norwegian Agency for Development Cooperation, NORAD, under a Bilateral Agreement between the Government of Tanzania and the Royal Government of Norway from 1993 to 2001 whereby Swedish Government joined as a donor through SIDA late 2000. Other sources of funds are obtained from Helen Keller International, Plan International, British Council /DFID, and the P.C. Cornell Trust (PRIDE Website, www.pride-tz.org, Severine S. A.Kessy and Fratern M. Urrio in 2006)

In the year 1993 PRIDE Tz's micro lending operations started with a two year pilot phase in Arusha. The pilot phase also involved two other branches located in Tanga and Dar es Salaam, the main aims of this phase were introduce and test the possibility

to replicate the PRIDE model in Tanzania and allow time for capacity building and establish the network growth pattern. After the successful pilot phase in 1995, the second phase which was five – years the expansion phase established which aimed at network expansion, Movement towards operational sustainability and Building Capacity for Commercialization and Transformation. The target beneficiaries of PRIDE Tz are both men and women who are poor, but economically active. There is no client specific targeting; the main service offered by PRIDE Tz is the provision of micro loans to micro and small enterprises (MSEs). PRIDE's Loan menu has eight loan cycles with small loan amounts ranging from Tshs.50, 000 to 10,000,000. Clients have to graduate from lower to higher loan cycles and interest rate is charged are based on the loan terms range between 25 to 100 weeks depending on the loan size.

PRIDE Tz is currently operating with a network of 26 branches in seventeen regions in Tanzania Mainland and two branches in two regions in Zanzibar, Regions with PRIDE Tz branches are: Arusha, Tanga, Dar es Salaam, Moshi, Dodoma, Morogoro, Iringa, Mwanza, Shinyanga, Mbeya, Mara, Tabora, Kigoma, Singida , Kagera,Ruvuma, Zanzibar Town and West region and Pemba South region , PRIDE Tz has plan to establish other eleven (11) branches countrywide, the regions under plan for new branches are Rukwa,Lindi,Pemba North, Zanzibar North, Zanzibar South,Dar es salaam,Manyara,Tabora and Kagera.

4.6.2 PRIDE Tz's Lending policies and process

Group Lending

PRIDE Tz's offer various kinds of loans on solidarity group lending model adopted from the Grameen Bank model operating in Bangladesh, such loan are MEC loan and Fahari Loan, under this model, to be eligible, a client must join a self-selected solidarity group guarantee of 5 members called Enterprise Group and then 10 Solidarity groups combined into one large group of 50 called a market enterprise group (MEC), for ease administration and enhancement of group mechanism and use

three tier loan guarantee system to ensure loan repayment. The following are the lending conditions, terms and procedures of group lending of PRIDE Tz.:-

Formation of Group

An applicant of loans in PRIDE Tz is required to join the groups into two level, lower level group which is self-selected solidarity group guarantee of 5 members called Enterprise Group, the loan applicants are required to form this group of five self selected members as a precondition for loan consideration as the members guarantee one another in their individual group of five members. This group help the PRIDE Tz to easy management of loan repayment as it simplify the follow up of loan repayment as group members know each other better than the lender. In another hand upper level group known as market enterprise committee (MEC) consists of 50 members is formed by 10 Enterprises Groups (EG) of 5 members each.

The EG is headed by the chairperson and Secretary who are elected by the group members while MEC is managed by Executive Committee of 10 members comprising 2 members from each EG who elected by group members, the main duty of executive committee is to foster the solidarity among the group members and oversee loan repayment by the members. Then MEC meet weekly lasting for a maximum of 1 hour. In another hand the members of MEC may access the Fahari Loan by forming another solidarity group of 2-5 members who meet weekly lasting for a maximum of 20 minutes.

Training

Before the disbursement of the first loan, a new loan applicant who is already member of MEC is familiarized with PRIDE Tz's loan terms and conditions by attending one hour pre-loan training on weekly basis for the first four weeks, the loan applicant is obliged to pay Tshs 1,200 as registration fees per weeks for four weeks period and Tshs 1,500/= as loan Insurance Fund (LIF) per week for the period of six weeks, this LIF contribution is refundable if loan applicant postpone the programme.

The training is supplemented by the orientation among new MEC and EG group members who visit each other's place of business and residence to foster understanding among the group members which simply the group guarantee after the individual recipient of the loan (PRIDE Website, www.pride-tz.org, Kessy and Urrio in 2006)

Loan Process: Application and Execution

PRIDE Tz lending activities are guided by its by-laws and loan policy, the loan policy sets out conditions for accessing loans offered by the lender, to qualify for a loan one has to meet the following conditions:-

- (a) Must be a member of the solidarity group
- (b) Loans applied for must not exceed 1ml/- for MEC Loan and 15mill/= for Fahari loan.
- (c) Each loan applicants must attend weekly pre-loan training for four weeks period together with orientation among the group members in the business places and residences.
- (d) Loan applicant must have minimum loan insurance balance amount to 25% of loan amount except for the first loan cycle.
- (e) For new loan applicant to access the first loan cycle must save 1500 Mill/- per week for the weeks period as part of loan insurance scheme and refundable upon exit
- (f) Applicant for Fahari Loan must have collateral items pledged as additional guarantee to reinforce security supported by formal legal agreement.

The lending process follows the following sequence (see Box 1below):

Box 1: Loan Process- From Application to Execution

1: Loan Application Stage

group formation both Enterprises Group (EG) of 5 members and MEC group of 50 members , weekly pre-loan training of 4 weeks , weekly non refundable registration fees of Tsh1200/- for 4 consecutive weeks , loan Insurance Fund of Tsh 9,000/- paid weekly on equal installment, election of chairperson and Secretary and executive committee of EG and MEC group respectively .

2: Loan Approval Stage

Meeting of all members of EG to approve the loan, Meeting of all members of MEC to approve the loan in presence of credit officer of PRIDE Tz, Loan Approval by branch manager.

4: Loan Disbursement and repayment Follow Up

At this stage loan payment is Affected And Loan repayment Follow Up Starts

Sources: Constructed from data gathered from PRIDE Website, www.pride-tz.org visited on 20th June,2013, .Kessy and Urio in 2006 and Prof. Wangwe and Lwakatare, 2004)

Loan Repayment Procedure: Repayment period, Security, Interest rate etc.

Loan repayment follow up and weekly meeting

In order to foster the loan repayment the group members required to meet once a week lasting for a maximum of 1 hour, among other things the meeting discuss the loan repayment of the members, this kind of loan is guaranteed by the members in each another in the whole group, so when one or more member in a MEC group fail to repay the loan according to agreed terms, the loan payment of another members in the MEC group is stopped until the installment is paid, this technique pressurize the clients to repay the loan installments on agreed time (PRIDE Website, www.pride-tz.org, Severine S. A.Kessy and Fratern M. Urio, 2006, PRIDE Tanzania's newsletter, 2004)

Cost of borrowing and Loan security

According to the PRIDE Tz group loan has three forms of guarantee which are Enterprise Group (EG) first guarantee, MEC group second guarantee and Loan Insurance Fund (LIF) a third loan guarantee while an additional near collateral items pledged as additional guarantee to reinforce security supported by formal legal agreement for the case of Fahari Loan. The interest rate charged on the loan range between 24% to 30% per annum which varies indirectly with amount of the loan i.e. the higher the loan the lower the interest rate, other related cost of borrowing are registration fees, cost of passport size photography, weekly compulsory savings and the loan application fee. (PRIDE Website, Kessy and Urio, 2006, Prof. Wangwe and Lwakatare, 2004, PRIDE Tanzania's newsletter, 2002).

Loan Disbursement Procedure and Repayment terms

New clients in approved MEC receive loans following a 6-2 week stagger with 3-2 disbursements that is three clients receive the loan on the sixth week followed by another two clients in the EG in two weeks later,. The installment repayment period lies between weekly loan repayment for MEC and monthly loan repayment for Fahari Loan whereby each installment include the contribution of Loan Insurance Fund (LIF), the maturity period of the loan range between 6 to 12 months for MEC and between 6 to 24 months for Fahari Loan and the client is optional to select the maturity period of his/her loan within this limits, the loan allow no grace period of loan repayment. PRIDE Tz has eight loan cycles through which a client may graduate from small loan to a larger one and if the client want to repeat the loan must follow the sequence of the loan sizes that will be prescribed below and it take an interval of 2 weeks between loans (Pride Newsletter, 2004, PRIDE Website, Kessy and Urio, 2006 and Prof. Wangwe and Lwakatare, 2004)

Forms and Size of the Loan

The PRIDE Tz offer both short-term working capital loan and long term investment loan. According Kessy and Urrio in 2006 the PRIDE Tz loan sizes ranges from Tshs 50,000 (about US\$50) to Tshs 5,000,000 (about US\$5,000) as shown in Table 4.17 below. The current loan sizes were reviewed in 1996. Previously, the minimum and maximum loan sizes were Tshs 50,000 and Tshs 600,000 respectively. The higher loan sizes have been reviewed upwards overtime while the minimum loan size has not been reviewed since inception of the program.

Table 4.17 Classification and Weekly Repayment of PRIDE Tz Loans

No. of Loan	Loan Amount Tshs	Weekly Repayment Tshs	Loan Insurance Fund (LIF) Tshs	Total Weekly Repayment Tshs
1	50,000	2,300	1,500	3,800
2	150,000	5,400	1,500	6,900
3	300,000	9,300	1,500	10,800
4	500,000	14,000	1,500	15,500
5	1,000,000	27,100	1,500	28,600
6	2,000,000	51,100	1,500	52,600
7	3,000,000	52,700	1,500	54,200
8	5,000,000	69,500	1,500	71,000

Sources: Kessy and Urrio in 2006, PRIDE Tz records, 2003

Individual Lending

Also the PRIDE Tz offer the loan to individual person which not necessitate the formation of the group, the individual loans offered by PRIDE Tz is known as Ajira Loan, loan applicant will be only eligible for this type of loan if he/she is employee of the government or any reputable organization, Loan sizes range from Tshs 100,000 to TShs. 15Million or 15 times gross salary. This type of loan take less loan processing

time than group lending which normally take less than one week and secured by the employer such as government organization and other reputable organization (PRIDE Website)

Wholesale Lending

Also the PRIDE Tz has the programme to support the rural registered SACCOs and SACAS by offering them loans that are used to lend their members, PRIDE Tanzania has entered into a strategic alliance with IFAD sponsored Rural Financial Services Programme based in Mbeya to provide access to financial services for the rural areas.

The modality for collaboration with RFSP involves the provision of loans to rural based microfinance institutions such as SACCOS and SACAS, which in turn would lend the funds to their members. This type of loan take less than one week loan processing time and the loan size range from Tshs 10 million –50 million and is secured by the Board members of respective SACCOs or SACAS (PRIDE Website).

4.6.5 Summary

The PRIDE Tz plays an important role in fighting the poverty for providing financial services especially the lending service for more than sixteen years now, even though the PRIDE Tz have improved the client outreach by operating in 28 branches countrywide but still most of these branches centralized in the urban areas ,fore stance PRIDE Tz has one branch in the Town and West Region of Unguja that is urban region while there is no branches in Unguja North region and Unguja South region which are rural regions.

Group Lending offered by PRIDE Tz that is adopted from the Grameen Bank model operating in Bangladesh is more favorable and helpful to poor rural households as it ignore some of the pre loan conditions that limit the most of the poor rural households

to access the other forms of loans offered by other institutions, such waived pre loan conditions for the MEC loan are collateral items such as house, motor vehicle etc as most of the rural households have no acceptable valuable collateral items, other waived pre-loan condition is the employment guarantee as most of the rural households are not official employee. In another hand there is still some limitation to poor rural households in this MEC loan such as excessive transportation cost for rural client to travel weekly to attend the weekly meeting in PRIDE Tz urban office for the whole of repayment period, the loan size is too low for investment or business expansion purpose that generally not exceed Tsh 5Mill/-,the loan repayment period is too short especially for those who are supposed to repay their loans within six months while the lack of grace period of loan repayment and weekly repayment of interest, Loan Insurance Fund (LIF) and part of the principle of the loan slow the business growth of the rural small enterprises and long loan processing time especially for new client which normally take minimum of six weeks for the first loan disbursement in the group.

Furthermore the cost of borrowing is relatively high which include interest rate that range between 24%-30%, registration fees, weekly compulsory savings and the loan application fee. Training offered to the group members aims largely to orient the clients with loan terms and condition of the lenders and not building capacity of the clients in managing their business such as business record keeping, marketing skills and other entrepreneurial skills.

In another hand the individual landing offered by the PRIDE is relatively large to meet the need of long term investment but still this form of loan limit most of the rural households to access to as necessitate the client to be official employee of the government or other reputable organization while most of them are not official employee

CHAPTER FIVE

Summary, Conclusion and Recommendations

5.0 Introduction

This chapter provides summary, conclusion and recommendation of the study based on the research finding, presentation and analysis done. It also includes in brief the background information of the study, study objectives, research questions and organization of the thesis. This chapter, therefore, contains introduction, provides summary and conclusion and recommendation for practice and further study.

5.1 Summary of the Study

This study is about the effectiveness of microfinance services to poor rural households in Unguja, North Region, Tanzania. The objective was to explore out the perception of the rural households towards the microfinance sector in poverty alleviation or reduction. It also aims at identifying or examining the challenges facing the microfinance sector in Tanzania, identify the major sources of finance that rural households have access and assessing the favorability of loan terms and conditions of MFIs to poor rural households.

The research design was case study research design which employed both quantitative and qualitative research approaches. The study obtained data and information through questionnaires, focus group discussion, observation and documentary reviews whereby both quantitative and qualitative data analysis' techniques were used to analyze the data. The stratified random sampling technique was used to select respondents made up of the general public in different villages of the study area simple random sampling was used to select microfinance stakeholders such as politicians, leaders, MFIs staffs and

field experts, the number of respondents selected was 350 for rural households 50 for other stakeholders

5.2 Summary of the key Finding

- The microfinance industry still faces a number of challenges such as conditions and terms of loan, inadequate capital of MFIs, poor support from the MFIs, high interest rate, few MFIs that meet need and poor regulation and supervision of MFIs.
- Most of the rural households who received the loan from formal sources were charged high interest rate which relatively large for growth of rural small enterprises as compared to interest rate charged in the informal loans.
- The loan offered by MFIs are associated with high transaction cost such cost are application fees, services fees, ledger fees, cost of photograph for passport size, time spent on loan processing, collateral ,business registration, business proposal, Audited accounts, minimum non withdrawal balance, travel time and cost of searching the referee.
- Most of the MFIs offer only financial services and ignore non financial services which are supporting services to the borrower.
- There is direct relationship between the uses of formal loan or formal financial services and the level of education of the borrower i.e the higher the level of education ,the higher the degree of uses the formal financial services
- **Most** of the rural households have no good perception and not aware at all on the chance of microfinance services in their day to day poverty elimination activities.

-
- Group Lending offered by PRIDE Tz that is adopted from the Grameen Bank model operating in Bangladesh is more favorable and helpful to poor rural households as it ignore some of the pre loan conditions that limit the most of the poor rural households to access the other forms of loans.
 - In another hand there is still some limitation to poor rural households in this MEC loan such as excessive transportation cost y to attend the weekly meeting, loan size is too low for investment, lack of grace period of loan repayment and weekly repayment of interest and Loan Insurance Fund.
 - The individual landing offered by the PRIDE is relatively large to meet the need of long term investment but still this form of loan limit most of the rural households to access to as necessitate the client to be official employee of the government or other reputable organization while most of them are not official employee.

5.3 Conclusion

- Most researchers of microfinance industry approved that there is a direct relationship between access of financial services and livelihood improvement of the poor.
- Most of the rural households are not accessible to these services due to limited number of MFIs operating in rural regions, unfriendly loan requirements to the rural people including high interest rate and high valuable securities and low ceiling on unsecured loans.

-
- Most of the rural households are not aware with role of microfinance services, variety of financial and related services such as insurance, pension, saving and business training in their day to day poverty elimination activities.
 - Most of the rural households especially who are uneducated use the informal sources of loans such as Personal savings, support from relatives or family members Saving group, Rotating Saving and Credit Association (ROSCA),merchants and others whereby the large proportion of these loans are spent in consumption and social expenses rather than investment.
 - The group lending approach adopted by some MFIs from Grameen Bank model operating in Bangladesh is seem to be more favorable and helpful to poor rural households.
 - Some loan terms and condition are friendly to the poor rural households such terms and conditions are small amount of loan for investment purpose, high interest rate, employment guarantee, and high value of collateral items, proper business records and business registration.
 - Most of the financial services offered by the MFIs are not associated with non-financial supporting services such as services are business record keeping, marketing skills and other entrepreneurial skills and monitoring and evaluation skills.

5.4 Recommendations

5.4.1 Recommendations for Practice

The below recommendations are presented in order to improve the performance of MFIs in rural areas in Tanzania:-

- i) The government in collaboration of other MFIs stakeholders should establish the rural finance policy and strategies to improve the performance of MFIs in

rural regions due to the fact the current National Microfinance Policy of 2000 is implemented and achieved mostly in the urban areas.

- ii) The government should have the awareness programs on Microfinance services to poor rural households so as to improve perception of rural households in microfinance and their participation in Microfinance industry.
- iii) The interest rate on loan offered by MFIs should be lowered to reasonable rate by keeping in mind that most of the SMEs generate low rate of return, so the high interest rate affect the profitability of SMEs and approve the stunted growth, the MFIs should set interest rate to cover only their operational cost and inflation rate and reduce the rate of risky in the interest rate.
- iv) Security in rural areas is still challenging, apart from most of the rural properties such as houses are less valuable but also they are not accompanied by the ownership deeds because they are not formal registered. So there is need to innovatively search for alternative ways of securing the loans without necessitate the physical collateral.
- v) Short term loans are not needful for the investment purpose instead long term development loans are needed.
- vi) The government and MFIs should emphasize the business training to the poor rural households so as to enable the uses of loan/credit successfully such required trainings are Bookkeeping,marketing,enterprenuership,insurance and risk management, business planning etc.

5.4.2 Recommendations for further Studies

The research has brought to fore the effectiveness of microfinance services to poor rural households in Tanzania. To enhance development of Microfinance industry in

Tanzania more of such research should be conducted to various rural regions countrywide to bring to public domain the role of microfinance in poverty reduction, the challenges and the way forward. Furthermore the population size should be increased to cover most of the rural clients since larger samples are more representative of the population than a smaller sample.

The cost of borrowing including interest cost have been observed to be a serious problem, there is a need to conduct a study to determine cost of borrowing that would meet the operating expenses of MFIs and at the same time facilitate the growth their clients' business.

There is a need to conduct a comparative study between MFIs operations in rural areas and MFIs operating in urban areas. This would delineate the rural-urban structure of MFIs operations

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APPENDIX A:

RESEARCH QUESTIONNAIRS FOR INDIVIDUAL HOUSEHOLDS

Interviewee code no: _____

Location:

Shehia/Village _____

Date: _____ --

A: BASIC DATA

1. Household: Age _____ Sex :Male (),Female ()
Marital Status: Married (), Single () Divorce ().
2. Type of Family: Nuclear Family (), Extended Family (). Single Parent Family()
3. Family size/No of family members:
Male _____,Female _____ Children _____
4. Number of productive Family members _____,No of dependants _____
5. A:What is the type of education gained by Productive Family member
Formal (), Informal (), both: Formal &informal (), none ().
B: If it is formal, at what level: Primary (), Secondary (), Diploma (), Degree () Post graduate ()
- 6A.Is household participate in the Microfinance industry? Yes/No
If yes, specify the type of institution that household save or take loan
SACCOS (), Bank () FinNGO () Other NGO ()

B: ECONOMIC ACTIVITIES

1. The main economic activities of Household

A: -----

B: -----

C: -----

D: -----

2. A: If you are farmer, how many acres you have? -----

B: What is the type of agriculture?
Subsistence (), Commercial (), Both ()

C: What is the production techniques used?
Labour Intensive (), Machinery Techniques (),
Both ()

If it is Labour Intensive, What is your limitation for using
Machinery Techniques such as tractors?

- i. Capital for hiring /buying the machines such as tractors ()
- ii. Lack of knowledge for the technique ()
- iii. Not aware with techniques ()
- iv. State Other limitations-----

D: Are you using the rainy dependant agriculture or Irrigation
scheme?

- i. rainy dependant agriculture ()
- ii. Irrigation scheme ()

If it is rainy dependant agriculture, what your major
drawbacks for using the Irrigation scheme:

- a):Lack of capital for the scheme ()

b): Lack of the knowledge for the scheme ()

C): Lack of awareness for this scheme ()

d) Other reasons ()

3. If you are Pastoralist

i. State the type of animals you have-----

ii. How many are they ()

iii. Are they traditional -----improved breed-----
-----?

If they are traditional, what your limitation to improved
breed: a) Lack of Capital ().
B) Lack of Knowledge () c) Lack of
awareness () d) others ()

IV) Is it for commercial: ----- family uses:-----
----Both ----

4. If you are Fisherman

- i. State the mode of fishing you use
- a) local boats without engines-----,
 - b) Modern boats with engines-----
 - c) No boat at all -----

ii. Do you want to use improved mode of fishing such as modern fishing boats with engines: Yes () ,No ()

If yes what is your Limitation:

- A) Lack of capital () B) Lack of knowledge ()
C) Lack of awareness () D) other ()
)

5. If you are trader

i. State the type of trade you are dealing with-----

-----.

iii. Do you want to expand your business? Yes/No

a. If Yes what your limitation for business expansion?

- A) Lack of Capital () B)Lack of Entrepreneurial Skills ()
C) Others ().

6. What is your major market for your business: Town () .Local area () other ()

7. How do you determine the price of your product such as crops, animals, fishes etc.:

i. Scientific approach such as Cost/Profit/Volume analysis ()

ii. By Checking the Market price ()

iii. Other techniques ()

8. What is the major limitation for marketing of your business?

-
- a) Business competition ()
 - b) High Transportation cost to market place ()
 - c) Low demand of the product ()
 - d) Others ()

9. If you are dealing with perishable goods, what mode of storing you are using?

- a) Modern technique such as deep freezers ()
Hired/Owned
- b) Traditional methods ()
- c) No stored at all ()

10. Specify the major properties owned by the household

- A) Immovable properties such as land, house etc-----
--
- B) Motor Vehicle-----
- c) Others-----

11. What is the estimated value of the household owned properties?

- a) Below 3,000,000/- -----
- b) up to 6,000,000/- -----
- c) up to 9,000,000/------d)
- above 9,000,000/- -----

HOUSEHOLD INCOME AND EXPENDITURE

1. Identify Households income generating activities
2. Identify other sources of income if any
3. Identify your estimated annual income for the past five years

A: Year 1:----- B: Year 2:-----

C: Year 3:----- D: Year 4:-----

E: Year 5:-----

4. What is the major expenditure of the household's income spend their income during the last five years?

A: Subsistence, Food, Clothing and Shelters-----

B: School fees, Medicare and Transport-----
--
C: Investment -----

D: Entertainment/Festivals -----

E: Socio expenditure -----

5. Does Households income meet the family needs? Assess over the period of five years

SAVING AND CREDIT

(tick where appropriate)

A: Subsistence, Food, Clothing and Shelters-----

B: School fees, Medicare and Transport-----

--

C: Investment -----

D: Entertainment/Festivals -----

E: Social expenditure -----

4. Specify your weakness and threats to accessing the credit/loan from MFIs

14. What do you think to be major are your major challenges with microfinance institutions?
Accessing Loans Loan Repayments Collateral Interest Rates

15. Explain answer

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

6. What is Household perception towards the MFIs such as bank, SACCOS etc?

7. Is Household aware in existence of any Loan/Credit offering institution in the area? Yes/No. If yes, how are they related?

A: Member ----- B: Obtained support -----C: Given credit-----
D: Received training ----- E: Other -----

8. Does household a member of any cooperative group? Yes/NO.

If yes specify the economic activities of the group if any-----

Does the group ever accessed to credit /Loan for past five years?
Yes/No.-

8. What is Household future plan?

9. Any Households opinions/remarks/comments

10: Approximately how many stories dealing with microfinance industry have you read/heard in the past six months?

11. What is your best guess on the contribution of Microfinance industry in the poverty reduction process

A: Very Low -----B:Low----- C:Moderate -----
D:Very high----- E:High-----F:Undecided-----
--

12:Identify the best financial services that you expect to get/demand from MFIs

13.Comment on performance of MFIs in rural areas

APPENDIX:B

CHECKLIST FOR FOCUS GROUP DISCUSSION WITH LEADERS,POLITICIANS,MFIs STAFF,MFIs CLIENTS,FIELD EXPERTS AND OTHERS

1. Village/Street/Institution
2. Job designation
3. What your opinions/perception on microfinance in rural areas
4. How do you think about the awareness of rural households in financial services
5. Assess the strength, weakness, opportunities and threats (SWOT) of rural households to access the loan/credit from MFIs.
6. Identify the type/forms of financial institutions available in the rural areas
7. How do above institutions in 6 above relate with rural households
8. What types /forms of financial products and services are offered by the institutions named in 6 above.
9. What do you think to be the major challenges of MFIs in providing services in rural areas
10. What do you think to be the major achievements of MFIs in providing services in rural areas
11. Where, how and in what form do rural households save
12. How do you think to be the major sources/forms of finance due rural people are access to
13. What is your understanding and comments on the terms and conditions of loan set by the MFIs
14. State any problem related to the development of rural finance
15. General opinions regarding the Microfinance industry in Tanzania