

**CONTRIBUTION OF VILLAGE COMMUNITY BANKS IN  
HOUSEHOLD RICE PRODUCTION: A CASE OF MOROGORO  
DISTRICT**

**CONTRIBUTION OF VILLAGE COMMUNITY BANKS IN  
HOUSEHOLD RICE PRODUCTION: A CASE OF MOROGORO  
DISTRICT**

**By  
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**A Dissertation Submitted to the Institute of Development Studies in Partial  
Fulfillment of the Requirements for award of the Master of Science in  
Development Policy (MSc. DP) Degree of Mzumbe University**

**2015**

## **CERTIFICATION**

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation titled “Contribution of Village Community Bank in Improvement of house hold rice Production in Morogoro District, Tanzania” in partial fulfillment of the requirements award of the degree of Master of Science of Development Policy (MSc. DP) of Mzumbe University.

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## DECLARATION

I, Alice LadoHaule, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

**Signature** \_\_\_\_\_

**Date**\_\_\_\_\_

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## ACKNOWLEDGEMENT

I would like to give special thanks to the Almighty God who gave me special grace and favors, sound mind and health, which enabled me to successfully complete this research report.

Thanks should go to my major supervisor, Dr.Mamkwe Edward for her valuable comments and contributions during the preparation of this dissertation from the beginning to the end.

Thanks to my husband Maximillian John Mbawa and my daughters Diana and Cheris for their cooperation during the whole period of my studies at MzumbeUniversity and devoting their time to support me in every stage up to the completion of this report.

Thanks for all administrative staff of the Institute of Development Studies, Mzumbe University, my lecturers and all students (MSc.DP) 2013/2014 for advice and useful contribution all the time.

Thanks also to all respondents for their participation in one way or another in the study in terms of devoting their time to provide answers. Thanks to any other participant in giving advice and recommendations for improving the report through constructive ideas.

## **DEDICATION**

This study is dedicated to my father L ,F, Haule, my mother Richadis Akitanda and my lovely husband who had great support and inspiration in my academic accomplishment and my daughters Diana and Cherise for the love and tolerance they showed me when I was away and busy with studies.

## LIST OF ABBREVIATIONS AND ACRONYMS

AFSP	-	Accelerated Food Security Project
ARI	-	Agricultural Research Institute
ASA	-	Agricultural Seed Agency
ASDP	-	Agricultural Sector Development Strategy
CAN	-	Calcium Ammonium Nitrate
CBO	-	Community Bank Organizations
CGAP	-	Cooperatives Groups Association Projects
CRDB	-	Commercial Rural Development Bank
DAP	-	Di- Ammonium Phosphate.
DFS	-	Decentralized Financial Services
FGs	-	Farmers Groups
GDP	-	Growth Domestic
HIV/AIDS	-	Human Immuno Virus/Aquired Immuno Deficient Syndrome
ILO	-	Intentional labour Organization
LAMP	-	Lamp Management Program
MDGs	-	Millenium Development Goals
MFI <sub>s</sub>	-	Micro Finance Institutions
MMD	-	MasaMasuDabara
MSEs	-	Micro and Small Enterprises
MVIWATA	-	Network of farmers group
NAFCO	-	Nation al Agriculture and Food Cooperation
NAIVS	-	National Agricultural Inputs Voucher System
NCR	-	Norwegian Church Aid
NGO	-	Non-Governmental Organization
NRDS	-	National Rural Development Strategy
ROSCA	-	Rotating Savings and Loan, Associations
SACAS	-	Saving and Credit Associations
SACCOS	-	Savings and Credit Cooperative Organization

SAP	-	Structural Adjustment Programme
SEDIT	-	Social and Economic Development Initiation of Tanzania
SIDO	-	Small Industries Development Organization
T D V	-	Tanzania Development Vision
TFDA	-	Tanzania Food and Drugs Authority
TFSP	-	Tanzania Food Security Programme
URT	-	United Republic of Tanzania
VEO	-	Village Executive Officer
VICOBA	-	Village Community Bank
VSLA	-	Village Saving and Loan Association
WEO	-	Ward Executive Officer

## ABSTRACT

This study was conducted in Morogoro District, covering Mvuha and Ngerengere Wards. In Mvuha Ward, two Villages were involved, namely, Tulo and Msonge; while in Ngerengere Ward, Sinyaulime and Ngerengere villages were involved. Broadly the study investigated the contribution of Village Community Bank (VICOBA) in household rice production. The study was set to specifically accomplish the following objectives:; examining people perception towards VICOBA; determining the contribution of VICOBA in household rice production and exploring the constraints facing household rice production among VICOBA members. A Cross sectional research design was used where by quantitative and qualitative data were collected by using questionnaire and key informants interviews respectively. Qualitative data were analyzed by using content analysis while quantitative data were analyzed by using Statistical Package for Social Science (SPSS).

The findings indicated that, people had the perception that VICOBA was of much help in enabling investment in agriculture particulay in rice production. The results also revealed that VICOBA contributed to the development of household rice production by providing training and soft loan for purchasing of agricultural inputs like fertilizers and improved seeds. Small rice farming households face several challenges, including seasonality, trends and shocks.

The study concludes that, the knowledge of VICOBA to members on how to perform well in rice farming in saving and access to soft loans increase the income and improves their production as members can use the loans to buy agricultural inputs like improved seeds and fertilizer.

It is recommended from this study that, District Councils through Agricultural Departments in collaboration with SEDIT should provide full training to VICOBA groups on how to use modern technology of farming, such as seeds and fertilizers.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

This chapter presents introduction of the study that includes the background to the problem, statement of the problem, research objectives, research questions, significance of the study and limitations.

#### **1.2 Background to the Problem**

Globally, microfinance arose in the 1980s as a response to doubts about the capacity of the states or governments to deliver subsidized or cheap credits to poor communities. During the 1970s, the government provided subsidized credits to low-income households because the government and donors assumed that the poor required cheap credits at lower interest rates. This was looked at as a way to promoting socio-economic development and agricultural production by small landholders. In providing these cheap credits, donors set up credit unions that was inspired by the Raiffeisen model developed in Germany in 1864. The focus of these co-operative financial institutions was mostly on savings mobilization in an attempt to ‘teach poor farmers how to save (Ledgerwood, 1999). In the essence of developed countries, microfinance is the provision of financial services to low- income people.

Microfinance movement began as an economic development tool in the 1970s. Since, 1980s the field of microfinance has grown substantially and rapidly gained prominence. It is now successfully being implemented by schemes throughout the world; in Asia, Pacific, Africa, Latin America and more recently in Eastern and Western Europe (DFS, 2007). In the developed countries, microfinance institution was introduced in Central and Eastern Europe after the fall of the Berlin Wall. Microfinance today is already represented by a dynamic sector. With the banking sector antiquated and unable to respond to emerging needs, microfinance has proved capable of filling the gap by providing transitional support for people needing to enhance their own livelihood. The microfinance sector thus continues to expand and

become more a highly structured. Micro and small enterprises form the core of the Western European economic system, they represent 99% of the 2 million start-up enterprises that are created every year. One third of these enterprises are launched by the unemployed (DFS, 2007). Microfinance-like operations have been around in the U.S.A since the 1980s, an important turning point was in 1991 when a pioneer of microfinance in Latin America opened its doors in the U.S.A, eventually becoming with some 19,500 small business loans worth a total of more than \$119 million as of January 2010 (Knowledge@Wharton, 2011).

Microfinance Initiative was established in Africa as cooperation between the public authorities and private investors in developed countries. The mission was to contribute to the empowerment of poor people (exclusively rural poor) and to the creation of jobs, wealth and economic social sustainability. International organizations invested in MFIs were whether in more mature and large or in young and emerging MFIs in Africa. Some countries included are Nigeria, Ghana, Cameroon, Senegal, Mali, Tanzania, Uganda and Kenya (NIM, 2012). MFIs in Africa are dynamic and perform favorably compared with their counterparts in other global regions. Indeed, African MFIs in Africa pauses behind other global regions, a growing number of MFIs especially regulated and cooperative MFIs are profitable. Furthermore, many institutional models thrive in Africa, and this diversity provides good choices for clients (Lafourcade *et al.*, 2005).

Saving and credit societies were found to be important to Tanzania since independence. In 1961 the government of Tanzania mainland (Tanganyika) pointed out major three development enemies of the country including ignorance, disease and poverty. Unfortunately, all these enemies were found relatively more prominent in the rural areas than in urban part. It therefore directed the efforts of the government to the rural areas. According to URT (1997) cooperatives are heavily dependent on loans to run their various activities. Internal savings, creation of trust funds, rising of capital, creation of banks have been non-existent since 1970s. Cooperatives sought to put in practice the self-help principle. Therefore, these efforts

have been done through establishment micro cooperatives like VICOBA which is a microfinance Institution with self-help groups. The main aim of forming VICOBA is to unite the poor people and those people with low income who are majority in Tanzania found in rural areas. Through VICOBA, the group members are expected to save and share the financial and technical resources. They jointly save their money so that in the future they get soft loans from them by paying small interest rate which is taken as income to their group. Hence they solve their problems and change their social well-being.

Village Community Banks have been reported to benefit the poorer men and women in developing countries since their establishment. In Tanzania, VICOBA and other informal financial institutions have reached 27.9% of rural communities who were initially unsaved. Much as the grassroots communities have been served by (VICOBA). Since its inception, VICOBA has benefited the poorer group of people in developing countries who were initially termed as the “unbankables” by the formal microfinance setting. Through VICOBA, poor rural women and men have been able to save or obtain loans to help them set up or improve business, invest in long term life needs such as health, education or deal with emergencies (ILO, 2008). Also, VICOBA have empowered its members who are the sole owners in different skills such as governance, accountability, business management and have enhanced women’s confidence and improved their status in the community (SEMIT, 2008).

In Tanzania, VICOBA was originally adopted from Niger, in West Africa, where they were popularly known as “Mata MasoDubara” (MMD). The model was initiated in Tanzania in 2000 with the aim of empowering less privileged people in both urban and rural settings. VICOBA in Tanzania has reached the grassroots communities as from scope survey done in 2011. The survey revealed that, up to 27.9% of the rural communities who were initially un-served became served by informal financial institutions such as VICOBA, Rotating Savings and Credit Association (ROSCAs), and Village Savings and Loan Associations (VSLAs). VICOBA started in Morogoro Rural in 2003, initiated by SEMIT and Orguth through

a project called Land and Agricultural Management Programme (LAMP). There are more than 92 VICOBA groups in Morogoro Rural, 48 VICOBA groups from Mvuha Ward and 51 VICOBA groups in Ngerengere Ward (SEMIT, 2008).

According to SEMIT (2008), VICOBA is a grassroots based lending model, which focuses on fostering participant's ability to innovate and manage viable income generating activities. SEMIT Corporation cooperates with other non-governmental organizations within and outside the Government institutions particularly the Ministry of Planning, Economy and Empowerment, and Poverty Eradication Division in establishing and managing this VICOBA system in different parts of Tanzania. The main objective of this project is to support government efforts to raise the income of citizens and eliminating poverty (Grant *et al.*, 2002).

SEMIT created VICOBA groups containing 25 to 30 members for each group, who were provided with trainings to build capacity of members to manage their projects. SEMIT provides technical skills to group members through training. Members are equipped with knowledge on the meaning and importance of a VICOBA group, leadership committee, rules and regulations, conflict resolution skills, saving and credit operations guidelines, any cross cutting issues relevant to each particular community such as HIV/AIDS and finally entrepreneurship skills (SEMIT, 2008). Donors are encouraged to support the efforts of members to fund it. Funds are used to provide concessional loans to members for their business. The organization also has been researching and preparing network marketing (market links) for small producers who participated in this program (LAMP Global Report, 2007). For a longtime, provision of micro credit services to low income people has been hindered by lack of collaterals for small borrowers. Most communities nowadays have village banks from which members borrow small loans. Therefore if the community especially members of the village bank, had been provided with training in business skills they will be able to utilize the loans efficiently and run successful businesses.

The majority of the population served by the village bank is illiterate or semi-literate which makes it more challenging in business management (Norwegian Church Aid Annual Report, 2010).

Tanzania Government has formulated policies which have negative and positive impact to development of formal and informal financial institutions. Formal financial institutions include commercial banks while the informal category comprises SACCOS, Savings and Credit Associations (SACAs), CBOs, NGOs, and VICOBA. The formal and informal financial institution aim at eradicating poverty by ensuring community people have access to capital for purpose of improving their economic activities such as agriculture and commerce (Cabon, 2002).

In spite of mobilizing the resources, training is part and parcel of all community lending model including VICOBA. Through training group members obtain knowledge on better use and management of the resource obtained. The training also changes the behavior of members on how to conduct and manage business. Various policies for formal and informal microfinance institution have been imposed to SMEs but many people do not know policy opportunities available to them for their development (Wenthing, 2001). Likewise VICOBA has been in existence in Tanzania for more than a decade but its contribution in increasing agricultural production remain indistinct.

Tanzania is endowed with enough fertile arable land, diverse climatic zones and plenty of water sources all across the country. However, only 24% out of about 44 million hectares of the total land area suitable for Agriculture is utilized, mainly by smallholder farmers cultivating average farm sizes of between 0.9 hectares and 3.0 hectares using traditional cultivation methods. Only 10 % of the arable land is ploughed by tractor and production is determined by rainfall. Both crops and livestock are adversely affected by periodical droughts. Small-scale farmers lack capital, skills and can only manage to cultivate for subsistence. Though irrigation holds the key to stabilizing agricultural production to improve food security, increase

farmers' productivity and incomes, and to produce higher valued crops, only 326,492 hectares out the 2.3 million hectares of high-potential land for irrigation are developed. Usage of agricultural inputs is quite low. Tanzania uses only 9kg per hectare of fertilizer and only 10% of farmers use improved seed. Low levels of technology, excessive reliance on rainfed agriculture, insufficient agricultural extension services, low labour productivity, deficient transportation and marketing infrastructure and facilities are the major constraints impeding a rapid growth of the sector (URT, 1997).

The aggregate national food availability in Tanzania is not of plenty, but rather a critical balance between production and needs. The major staples include maize, sorghum, millet, rice, wheat, pulses (mainly beans), cassava, potatoes, bananas and plantains. Among food crops, cereals are the major crops grown in Tanzania. The area planted with cereals 4,798,071 hectares represents 61% of total planted area followed by roots and tubers 14%, pulses 12% and oil seeds 7%. Among cereals, maize production is higher than any other cereal in Tanzania with a total production of over 75% of total cereal produced. Production patterns oscillate dramatically, according to the shifting weather conditions in a given harvest year. In the past 10 years, for instance, maize production has varied considerably, ranging from a high of 2,638 million tonnes in 2006/7, to a low of 2,107 million tones in 2009/2010. Annual staples demand in Tanzania is about 11 million tons with maize and rice accounting for half of the total. Tanzania's average yields for maize and rice are far below the African average. Low productivity of cereals in Tanzania is attributed to by dependency on rain-fed agriculture and low usage of fertilizer, and improved seeds and pesticides. most Tanzanians living in rural areas, an estimated 85% of the 263,000 residents (URT, 1997).

Morogoro District community is engaged in subsistence agriculture, farming crops such as maize, rice, beans, bananas, potatoes, yams, coffee, and cardamom on the slopes of the Ulunguru and Nguu mountains. It also raises crops such as maize, cassava, sorghum, sweet potatoes, cotton, sisal, and sunflowers in the fertile soil of

the District's eastern and southern uplands. Despite its proximity to Dar es Salaam, the undisputed economic and social "heart" of the country - Morogoro remains at a developmental disadvantage, suffering from a lack of infrastructure and food security. In Morogoro district, rice is the main crops in the ditrict as both food crop and cash crop compared to maize, simply because few people are engaged in maize production and other crops.

### **1.3 Problem Statement**

The main aims of VICOBA is to unite the rural people and enable them save and share financial and technical resources to improve the social and economic status of the members. In this line of thinking, VICOBA enables members to get soft loans by paying small interest rate which is taken as income to the group members. However, it is difficult for VICOBA members to access sufficient loans for buying agricultural inputs (DFS, 2007). However, studies on evaluation of VICOBA shows that these are helpful to the community both socially and economically (Kihongo, 2005; Mkombe, 2005).

As the contribution of VICOBA in household rice production among small holder farmers remain deficient, this study sought to investigate the same in Morogoro District.

### **1.4 Objectives of the Study**

#### **1.4.1 General objectives**

The broad objective of the study was therefore to investigate the contribution of VICOBA in household rice production among VICOBA group members in Morogoro District.

#### **1.4.2 Specific objectives**

The study specifically sought to accomplish the following objectives;

- (i) Examine people's perception towards VICOBA.
- (ii) Determine the contribution of VICOBA in household rice production.

- (iii) Explore the challenges facing household rice production among VICOBA members.

### **1.5 Research Questions**

- (i) What is the perception of people towards VICOBA?
- (ii) What is the contribution of VICOBA to the household rice production among members?
- (iii) (iii) What are the challenges facing household rice production among VICOBA members?

### **1.6 Significance of the Study**

The findings of the study contributes knowledge on the importance of engaging in VICOBA. The findings of the study also inform both governmental and non-governmental institutions on better techniques of operating VICOBA, also the research findings may be beneficial to Morogoro District Council since they provide useful information for ongoing operations of VICOBA. Also the study findings increase awareness to community and other stakeholders available in the area on the situation of VICOBA that can increase positive action towards strengthening the group. The current study is useful to cooperatives officers, community development officers and other agents for rural communities, Further more the, findings provide useful knowledge to policy makers and other implementators on contribution of VICOBA in relation to rice production.

### **1.7 Scope of the Study**

This study was conducted in Morogoro District. It concentrated on the contribution of Village Community Banks in household rice production in the district. It specifically looked on peoples' perception toward VICOBA; their contribution on household rice production and challenges facing members in rice production. Respondents were drawn from within the district.

### **1.8 Limitations of the Study**

The researcher faced limitations during data collection like finance and time, poor attendance of respondents, rejection to answering the question. During data collection, some of the respondents demanded some money for them to be interviewed. Most of the respondents believed that the study conducted was a profit project for the researcher, thus demanding some cash for them to participate in interview and questionnaire completion.

To solve this problem the researcher made it clear to the respondents the purpose of the study as typically academic. Evidence like a letter from University and identity card were used to justify this. Time also was a problem because of limitations of university guide, to solve this I used research assistants to help in the field work. Low attendance of the respondents was also a limitation to this study since most of the group members were busy with agricultural activities because it was during cultivation. To solve this I followed the respondents to the farms to collect data.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents the review of related literature of the study. It is divided into two major parts, namely, Theoretical literature and empirical literature reviews.

#### **2.2 Theoretical Literature Review**

##### **2.2.1 Definition of Key Terms**

##### **2.2.2 Agriculture**

Agriculture is the science and practice of activities relating to production, processing, marketing, distribution, utilization and trade of food, feed and fiber (Acharya, 2006). This definition implies that agriculture development state must address not only farmers but also those in marketing, trade processing and agribusiness.

##### **2.2.3 Microfinance**

Amino (2005) defines microfinance as the provision of financial services to the low-income households and Micro and Small Enterprises (MSEs). March *et al.* (1999) define microfinance as “small scale and finance services for the poor. Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises, (CGPA, 2012a).

##### **2.2.4 Village**

A village refers to a small community or group of houses in a rural area, larger than a hamlet and usually smaller than a town (Oxford, 2008). Through often villages are located in rural areas, they are normally permanent, with fixed dwellings; however, temporary village can occur. Further, the size of the population in rural areas range from a few hundreds to few thousand (sometimes tens of thousands). In Tanzania, a village was known as Ujamaa village. It was first used by President Julius Nyerere in

1967 to refer to settlements where people would: live and work together for the good of all (Dean and McHenry, 1981). According to URT (1997b) a village means a village registered as such the local Government (District Authorities) Act No. 25, 1982. In this study, a village is a clustered human settlement or community, larger than a hamlet but smaller than a town where dwellers are fairly close to one another, not scattered broadly over the landscape as a dispersed settlement.

### **2.2.5 Community**

Community is defined as a group of people with common needs, while United Nation Development Plan (UNDP) defined community as group of people living in a geographically defined, or a group that interacts because of common social, economic, or political interests (TASAF, 2005) . Oxford (2008) defines community as group of people living in the same place or having a particular characteristic in common, or it can be a group of people living together in one place especially one practicing common; or it can be a group of people living together in one place especially one practicing common ownership. Community does contain interest groups and they are made up of individuals who make them up. The individual men, women and children, some rich, some poor, do not just co-exist in a shared space. They interact in many different ways, some visible, some invisible (Schouten & Moriarty, 2003). Community in this study refers to a group of individuals having something in common; including problems, interest, reside or work in the same area or institution, who voluntarily decided to put their resources together in a same pool in order to solve their common and individual socio economic problems.

### **2.2.6 Bank**

Oxford Dictionary defines a bank as “an establishment for custody of money, which it pays out on customer’s order (Oxford, 2008). A Bank can be defined as an establishment authorized by a government to accept deposits, pay interest, clear cheque, make loans, act as an intermediary in financial transactions, and provide other financial services to its customers (Business dictionary, 2013). For the sake of this study a bank is a financial institution which deals with deposits and advances

and related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

### **2.2.7 Community Banks**

The term community banks refers to an independent, locally-owned that focus on providing traditional banking services in their local communities. They obtain most of their core deposits locally and make many of their loans to local businesses (FDIC, 2012). Usually community banks operate as independent institutions and do not affiliate with larger bank chains. They operate exclusively in and derive its funds from the community in which it is based. It is sometimes easier to obtain a loan from a community bank because it may have better knowledge of the local market.

### **2.2.8 Village Saving and Loan Associations (VS & LAs)**

Village Saving and Loan Associations (VS & LAs) is entirely self-managing and does not receive external capitalization. VS & LAs is defined as self-selected group of people(usually unregistered) who pool their money into a fund from which members can borrow. The money is paid back with interest, causing the fund to grow (Allen, 2005; Allen, 2006). From this perception a Village Savings and Associations (is primarily a savings clubs, which have proven popular in the world. The approach was developed by CARE Niger builds on the ROSCA model and creates VS & LA (Allen, 2006).

### **2.2.9 Village Community Banks (VICOBA)**

According to ORGUT-SEDIT (2008) phrase “Village Community Banks” (VICOBA) are referred to informal village based savings and credit group which are mainly based on lending scheme with a focus on fostering participant’s ability to innovate and manage viable income generating activities through entrepreneurship training. In this study, therefore (VICOBA) are taken as a unity of people who have voluntarily decided to put their resources together in a same pool in order to solve their common and individual socio-economic problems.

### **2.2.10 Microfinance**

Microfinance is a wide concept including several different financial services, but sometimes the term microfinance is used synonymous with microcredit. This are only small loans provided to the poor and low-income earners (Armendariz & Morduch, 2010).

According to UN (2005) microfinance refers to loans, savings, insurance, transfer, services, micro-credit loans and other financial products targeted at low-income clients. But Menon (2005) defines microfinance or micro-credit as the extension of small loans to individuals who are too poor to qualify for traditional bank loans, as they have no assets to be offered as guarantee. So to say microfinance provides financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. According to Ledgerwood (1999), microfinance is not simply banking, it is a development tool. Since it offers financial services to underserved, impoverished communities and these services include savings accounts, insurance, health care and personal development. For this study the term ‘microfinance’ means small loans that are provided to the low income and or poor people who would otherwise have no other means of gaining financial services from financial institutions.

### **2.2.11 The Microfinance Institution (MFI)**

The microfinance institution is an organization that provides financial services to the poor (CGAP, 2012). It is also common that MFI provide non-financial services like social intermediation, that is training about finance, cooperatives and group formation. For this study, microfinance institutions involved is informal MFIs as self-help group in Tanzania known as VICOBA originated from East Asia known as Village savings and lending/loan associations (VS & LA) and or Self-Help Group (SHG).

### **2.3 The Importance of Microfinance Institution**

Many Tanzanians, whose majority come from rural areas, and whose incomes are very low, access to financial services offers the possibility for them to manage scarce household and enterprise resources more effectively, protection against risks, provision for the future, and taking of advantage of investment opportunities. At the household level, financial services allow higher standards of living to be achieved with the same resource base. While for enterprises and farmers, it can facilitate the recreation of income growth (URT, 2000). The following are the importance of MFIs contribution towards socio economic development.

Firstly, MFIs satisfies basic needs and protection by helping individuals and households to meet basic needs and protection against risks, hence creating chance or possibility of establishing small generating activities. Secondly, MFIs improves economic welfare of the community and enterprise stability of low income households. There is a possibility of greater enterprise development if the community is well off. Third, these institutions empowers people of all kind economically hence promoting gender equality and improve household well-being. Fourthly, they provide education on saving. Before an individual gets a loan he/she has to make small savings either at home or to that particular institution, that help to create awareness on the importance of saving in business.

Another thing is that, they are important for business and investment growth in the economy due to the fact that they have impact on capital accumulation including human and physical capital, and on the rate of technology progress. Also, they have a direct impact on the poverty reduction, by widening access to the poor. Because it includes it includes contemporary problems (like overcoming extreme poverty).

#### **2.3.1 Background of the rise of microfinance**

Microfinances arose in the 1980s as a response to doubts supported by research findings, about the capacity of the state to deliver subsidised (that is, cheap) credit to

poor farmers. During the 1970s, the governments of Tanzania provided subsidised credit to low-income households in rural areas.

Governments and international donors assumed that the poor required cheap credit (that is, credit at lower interest rates) and saw this as a way to promote agricultural production by small landholders. In addition to providing subsidised credit, donors set up credit unions in rural areas, inspired by the Raiffeisen model developed in Germany in 1864.

The focus of these co-operative financial institutions was mostly on savings mobilisation with an attempt to teach poor farmers how to save. In the mid-1980s, this model of subsidised, targeted credit supported by many donors was the object of steady criticism, because most programs accumulated large loan losses and required frequent recapitalisation to continue their operations. It became more evident that market-based solutions were required. This led to a new approach that considered microfinance as an integral part of the overall financial system. Emphasis shifted from the rapid disbursement of subsidised loans to target populations towards the building up of local, sustainable institutions to serve the poor. Since the 1980s the field of microfinance has grown substantially. Donors actively support and encourage microfinance activities, focusing on MFIs that are committed to achieving substantial outreach and financial sustainability (UN, 2005).

### **2.3.2 Reasons for Microfinance growth**

There are various reasons that explain the growth of microfinance. Some of these are the promise of reaching the poor. Microfinance can support income generation for enterprises operated by low-income household the promise of financial sustainability. Microfinance activities can help to build financially self-sufficient, subsidy-free, often locally managed institutions. The potential to build on traditional systems very often MFIs have built their methodologies on traditional mechanisms, which are well known among their clients (Dhaka, 2013 ).

The contribution of microfinance to strengthening and expanding existing formal financial systems. Microfinance activities can strengthen existing formal financial institutions, such as credit union networks, commercial banks and state-run financial institutions by expanding their markets for both savings and credit, and potentially, by increasing their profitability.

There is a growing number of success stories. There is an increasing number of well-documented success stories of innovative microfinance schemes in settings as diverse as rural Bangladesh, urban Bolivia, and rural Mali. This is in stark contrast to the records of state-run specialised financial institutions, which have received large amounts of funding over the past few decades but have failed in terms of both financial sustainability and outreach to the poor.

There is availability of better financial products as a result of experimentation and innovation. The innovations that have shown the most promising are concerned with addressing problems such as :

- Lack of collateral by using group-based and character-based approaches;
- Repayment discipline through high frequency repayment collection, the use of social peer pressure, and the promise of larger repeat loans;
- Transaction costs by moving some of these costs down to group level and by increasing outreach;
- Designing staff incentives to achieve greater outreach and high loan repayments;
- Providing savings services that meet the needs of small savers.

Large numbers of MFIs have introduced individual lending (1000-5000 USD) as opposed to group lending. Generally the amount involved is larger and repayment periods are longer. In many cases the loans are used to purchase fixed assets

### **2.3.3 Microfinance providers**

Microfinance services are provided by three types of sources: formal institutions, such as rural banks and cooperatives; semiformal institutions, such as non-government organizations; and informal sources such as money lenders and shopkeepers. Institutional microfinance is defined to include microfinance services provided by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services.

In spite of some progress made in financial reforms prior to 2003 in Tanzania access by large segments of the rural and urban population to financial services remained stunted. Government, in collaboration with the donor community had to act to facilitate microfinance development by initiating a microfinance policy formulation process in 1996, with a National microfinance policy document which was approved for implementation in 2001.

The policy articulated the vision and strategy for the development of a sustainable microfinance industry as an integral part of the financial sector, specifying the roles of the key stake-holders i.e. Government and its principal agencies in policy formulation and implementation, the different institutional providers of microfinance services and the donor community. The principal providers of microfinance services are savings and credit co-operative (SACCOS) and several foreign donor-assisted NGOs.

Similar to the situation in other nations, there was really a need for Tanzania to regulate microfinance operations for obvious reasons including the need (1) to avoid abuse by operators and (2) streamline operations to ensure efficiency and better outreach to the poor in both rural and urban areas, where micro financial services are required. Doing so will also encourage foreign donors to partake in microfinance development thus enhancement of poverty alleviation and economic development (URT, 2000).

### **2.3.4 Policy Review**

In order to get out of poverty trap, the country developed the Tanzanian Development Vision 2025. The Development Vision was later translated by Poverty Reduction Strategy of 2000-2003 which was succeeded by the current, National Strategy for Growth and Reduction of Poverty (NSGRP) or commonly known in Kiswahili as 'MKUKUTA' of 2005-2010.

The NSGRP is country policy towards reduction of poverty thus all development agents (State organizations and non-state organizations) are tied to implement poverty reduction initiatives under the guidance of NSGRP (URT, 2005).

Among the strategies, all the policies sought to enable the poor people come out of poverty by providing them with means and capacity so that they can invest into income generating activities and get income. One of the means is capital, but, given the fact that they don't meet conditions (mostly collateral), which have been put by financial institutions, the poor people fail to access capital. The establishment of microfinance institutions was thus important as they can provide loans to the active poor people with soft conditions that take into consideration the need and capacity of the poor. As part of the solution, different organizations have assisted people in formation of informal/formal groups and associations like SACCOS and Village Community Banks (VICOBA) program (MoFEA, 2009).

### **2.4 Structures and procedures common to VICOBA groups**

Implementation of VICOBA training methodology goes over four phases. These are: Introductory phase, Intensive training phase, Development phase, Maturity phase. In introductory phase; The objective is to identify client groups, acquaint themselves with the basic characteristics of VICOBA methodology and recruit them into the programmer. Intensive training phase; 3- 4 months the objective is to enable group members understand clearly how better to manage their group activities and provide business management skills that will make them be able to select, plan and manage their IGAs Development phase - 4 months or more. The objective is to assist the group to become self-governing. The Field trainers assist the groups to move

towards independence. Maturity phase: - 3 months or more. Objective is to assist the group to become independent from the project. The Field trainers will visit the groups at the end of each month to evaluate group's performance and stability (SEDIT, 2008).

#### **2.4.1 Farmers' groups and their activities**

Farmers groups can be categorized into two, namely, formal and informal groups. The formal groups have clearly defined structures and written rules which govern the behavior of the members while the informal ones lack the structures and the written rules. Nombo (1995) has defined farmers groups as a composition of man and/ or women who come together to pursue a common interest related to individual or group improvement in the spheres of economic and social development. On the other hand, Zumba (1997) defines farmers groups as a collection of people, joined together with a partial are intention. The author added that the group members should be co-operative; have group activities and defined constitution or policy. Generally, farmer's groups, among other activities, deal with communal agricultural production; saving and credit income generation and provision of agricultural services (Nombo, 1995). In some cases the groups perform certain tasks in technology development particularly on farm adopter research and extension. According to the definitions and activities above, IG's can generally be prepared as unit of co-operatives.

Tanzania has a rich diversity of farmers' groups with different purposes which have been in existence for many years. Many agricultural development projects have facilitated group formation and worked with farmer groups in various ways often building on indigenous, mostly informal village producer groups (Lema & Kapange, 2006).

#### **2.4.2 Agricultural finance**

Tanzania's economy is largely agricultural, with over 78% of the working population relying on this sector. Agriculture contributes a sizeable proportion of the

GDP (over 27%), a major source of foreign exchange earnings (over 30%) and food security. Besides its importance to the economy and people's livelihood, the sector continues to face substantial growth limitations. One of these limitations is lack of financing.

Agricultural finance in Tanzania has traditionally been limited to providing credit to large agricultural producers and processors. Little emphasis has been to small scale farmers particularly in the provision of credit, insurance and payments facilities.

In the effort to address these limitations, FSDT works with different stakeholders to facilitate the access to financial services in the agriculture sector. FSDT realizes that the primary need in Tanzania is for agricultural finance that focuses on producers, processors and service providers to close the value chain loop (FSDF, 2011).

The main strategic priorities for FSDT in the agricultural finance are:

- Monetizing surplus agricultural production (over and above what farmers need to feed their households) to provide cash that can service other needs.
- The need for increased investment in assets and other mechanisms that increase agricultural productivity, for example, small-scale irrigation and processing for value addition.
- Development of risk management tools and systems specific to agriculture, especially the ones with relevant methodologies and that synchronies the financial service requirements with agricultural cycles (that is, warehouse receipts and related insurance products).

It is important to note that, the success of agricultural finance is also closely linked to other factors. Results of the study show that other factors affecting agribusiness apart from financing are access to infrastructure (for example, roads, connectivity, water and irrigation) markets, information (financial advisory resources, usage of credible business advisory resources, and exposure to appropriate agricultural advice/support) and social capital (access to group networks and support structures).

Therefore the success of agricultural finance is closely linked to the access farmers have on those aspects. The provision of such access is beyond the FSDT's mandate, but its presence or absence clearly affects FSDT's decisions to invest in specific projects hence the need to involve a holistic approach. Agriculture remains the dominant sector in Tanzania's economy and its performance has a significant effect on output and corresponding income and poverty levels, to achieve the broad set of MDGs that target reducing poverty by 2015. Tanzania requires accelerated growth, currently pegged at about 6-7% growth in annual Growth Domestic Product GDP and greater equality in growth and services delivery (URT, 2005). Growth of agricultural production and productivity is needed to raise rural income, to support the increasing numbers dependent on the industry and to meet the food and raw materials needs of the fast growing urban population. Enhancing agricultural productivity contributes to industrial growth by providing cheap labour capital investment, foreign exchange and markets for consumer goods (FAO, 2001).

Zumba (1997) cited by Mushi (2000) argues that small scale farmers in Tanzania need to work in groups so as to improve their standard of living. It has been argued that farmers working in groups are believed to make careful observation and conduct small scale trials of new ideas. This is possible where local networks exist as they facilitate communication among members and non-members and hence increase the rate of dissemination and of research findings and technology as well.

Currently, the government of Tanzania has put more effort to address the agricultural sector so as to improve agricultural productivity in rural areas. This effort is participatory with focus on forming farmers groups that are well organized and proactive; second farmers groups are properly linked to the nation level. In many cases, local farmers groups are not well organized in spite of their high potential. Briefing and training of farmer group is therefore a priority. In many cases farmer groups develop spontaneously but without proper links to the national level. In such cases, better communication policies and mechanisms are needed for uniting most farmers organizations and groups under one umbrella (FAO, 2001).

Over the past decade agricultural sector reforms in Tanzania have been characterized by strong decentralization and de-concentration. Agricultural research has been largely de-concentrated to the zonal level while agricultural extension has been concentrated and eventually decentralized to the district level. Since Tanzania's structural adjustment phase during the mid-1990, there has been a pressing need at local Government Authority LGA level to develop a pluralistic approach to service provision and effective local interaction with farmers that create an enabling environment for the private sector and civil society organizations, to expand their roles in agricultural innovation many NGO are involved in farmer empowerment group formation, adult education and technology transfer, some areas based development programmers as well as NGO supported projects have experimented with improving access to technology for poorer small holders through farmer empowerment and through carefully targeted investments aiming to deliver public goods and rectify market failures.

### **2.4.3 Rural finance**

FSDT strategy on the rural finance is to engage with different stakeholders to address the challenges on the access of the financial services in the rural areas. This is again on the context that majority of the Tanzanian population (over 78%) live in rural areas engaging in various economic activities including agribusinesses. However, according to FinScope (2009) over 60% have no access to financial services. The strategic priorities in this area are to build capacity of the communities and institutions to innovate and explore the possibilities for linkages in the agribusiness value chain. This aims to build sustainable systems at the grass root level. The key driver on this area is support of the Informal Financial Institutions (IFIs), popularly known as "savings groups".

The IFIs are channels such as Village Savings & Loan Associations (VSLAs), Village Community Banks (VICOBAs), Savings & Credit Associations (SACAs), and Rotating Savings and Credit Associations (ROSCAs). It is evident that the IFIs are important in the Tanzania financial market, particularly in terms of outreach,

relevance and convenience in the rural areas. According to FinScope Survey (2009), a larger percentage of the population (27%) relies on informal channels compared to the formal channel (12%) for financial access. This finding is also evidenced by the diagnostic survey of the nature of the demand for and supply of agricultural finance as well as MSE 2010 in Tanzania. The survey findings show that out of 46% of the financially served agribusinesses under Ag Firms category about 30% are informally served, and out of 32% of financially served MSEs about 12% are served through informal means. In an effort to spearhead IFIs and rural finance growth, FSDT has over the years been supporting initiatives to build capable informal financial institutions in the country (SEDT, 2008).

#### **2.4.4 Importance of rural financial services to agriculture development**

Rural finance can be defined as a process of enabling people to mobilize and allocate financial resources for the productive use. The concept of rural finances as a means is currently one of the top agenda in the debate on poverty alleviation. Conventionally rural finance was conceived as credit provision, leading to bias terms like agricultural credit and agricultural development loan funds, thereby underscoring savings. One of the debates on rural finance is how to promote and facilitate the evolution of Rural Financial Service (RFS) necessary for smallholder farmers to get access to improved agricultural technology and thus enhance their productivity.

RFS play a role of facilitating the accumulation and reinvestment of wealth thereby accelerating rural economic growth. In Tanzania, the colonial and post-colonial governments supported and have continued to support subsidized agricultural credit. Provision of cheap credit to smallholder farmers has not been a successful strategy in Tanzania and many other developing countries. One of the reasons is that the benefits are intercepted by rural elite and/or progressive farmers before they reach the majority small peasant farmers (Ndashau, 1996). Historically, saving and credit societies (SAC) as people's Banks were started way back in 1849 in Germany, where the poor people established them to fight against exploitation by money lenders (ACCOSA, 1980).

The societies were later on introduced in the developing countries with the help of UNA/USAID Assistance programmed the growth of saving and credit societies have been facing a number of constraints and most important is the poor participation of the target group (Bee, 1995). In the 1990's more school as become more active in conducting studies on informal financial system (IFS) based on social capital that meets the needs of the poor communities and flourish particularly among the poor who have limited access to formal financial institutions (FFIs).

The success of RFS, depends on social relations between providers and clients as well as within the community members. The community knows who is credit-worthy, who is likely to default, who is likely to be a reliable contributor to group savings scheme (Goodland, 1999). The application of tradition banking procedures in rural areas has been pointed out as one of the challenges to bankers and policy makers (OECD, 1991).

#### **2.4.5 The relationship between National microfinance policy 2000 and VICOBA**

The National Microfinance policy 2000 is the policy guided by the vision of formation of microfinance institution throughout the country. The policy allows a wide range of institution to be involved in the provision of services including specialized and non-specialized banks, non-bank financial institution, rural community banks, cooperative banks, SACCOS and NGO's. The National Microfinance Policy covers all policy aspects related to the financial instruments and institutions relevant to rural finance. Although the policy has been able to explain various things it is considered to be outdated policy. This policy needs a thorough review to provide clear objectives that address a conducive business environment for small entities and informal institutions such as Village Community Banks (Kironde, 2002).

#### **2.4.6 The role of rural finance services to rice production improvement**

The role of financial services in rural development include; enhancing agriculture development and food security; facilitating rural resource mobilization and

allocation to sound investment; integration of rural development within macro, economic development, making rural people more self-reliant and self-sufficient economically, socially and culturally, and provision of financial intermediation services (Shao, 1988).

RFSs empower people by allowing them to create their own jobs and revenue for instance, microfinance providing credit and saving services to the self-employed poor, enable them to start up or expand small income generating activities (Coates, 2000).

Saving has several important roles, though continue to be overlooked by many poverty programmers. It has been observed that poor households will save even if the return to liquid assets is negative, and the reason is that, their motive for saving is not take advantage of financial opportunities but rather to set up a buffer stock to help them smooth consumption and deal with emergencies.(Zeller, 1999, Deaton 1991, cited by Fafchamps 1999). However, De soto (Cited in financial times, December 6-12, 2000) argues that assets saved and accumulated by poor in developing countries cannot easily be used to produce additional value because their property rights are recognized only within the limited informal economy in which poor operates, availability of saving enable households to increase future investment options, reduces, vulnerability as an Insurance substitute and discourages unproductive consumption (Bee, 1995).

Currently, the government of Tanzania has put more effort to address the agricultural sector so as to improve productivity in rural areas. This effort is participatory with focus on forming farmers groups that are well organized and proactive, second farmers groups are properly linked to the nation level. In many cases, local farmers groups are not well organized, in spite of their high potential. Briefing and training of farmer group is therefore a priority. In many cases farmer groups develop spontaneously but without proper links to the national level. In such cases, better

communication policies and mechanisms for uniting most farmers' organizations and groups under one umbrella (URT, 1997).

## **2.5 The Tanzania Agricultural Policy**

Although the number and nature of guidelines that constitute an agricultural policy is vast and complex, the ultimate goal is the improvement of the well-being of people whose principal occupation and way of life is based on agriculture. Most of the people are smallholder and livestock keepers, who do not produce surplus. Therefore, the focus of this policy is to commercialize agriculture so as to increase income levels (URT, 1997).

### **2.5.1 Agricultural Development Theories**

There has been a sharp transition in economic doctrine with regard to the relative contribution of agriculture and its industrial development to the national growth. There has been an emphasis on the significance of growth in agricultural production and productivity for the total development process (Itayanyi, 1971).

According to Smith and Todoro (2006), in the twenty century all food production increase was obtained by bringing new land into production, but today food production must come from high yields and increased output per hectare, furthermore word transition from resources based to science based system of agriculture has been taking place within a single century.

Itayami and Ruttan (1971) found that, the problem of agricultural sector is not that of transforming a static agricultural sector into a modern dynamic sector, but of accelerating the rate of growth of agricultural output and productivity consistent with the growth of other sectors of a modernizing economy. Moreover, a theory of agricultural development should provide insight into the dynamic agricultural growth (Itayami and Ruttan (1971). Characterised agricultural development into SIV approaches namely frontier model, the diffusion model, the high pay off input model and the induced innovation model.

According to Itayami and Ruttan (1971 and Ruttan (1984), technical changes require the acquisition of new husbandry skills, acquisition from non-traditional resources such as new seeds, new chemicals and new equipment and development of new skills in dealing with natural resources, input and product market intuitions.

### **2.5.2 Millennium Development Goal and agriculture**

From the eight MDGS, Tanzania has adopted five as priorities in its major policy documents and National action plans. These include Education, Health, Agriculture, HIV/AIDS, Water and infrastructure. Environment and Gender are treated as cross cutting issues (URT, 2004).

### **2.5.3 Access to credit for agricultural finance**

Finance public and private sector agricultural financing in Tanzania is low due to unavailability of long term financing for investment in the sector. Lending to agriculture by financial institutions has drastically declined because of economic liberalization and privatization.

Tanzanian agriculture is characterized by smallholder producers considered risky and expensive to lend. Furthermore, agriculture's low profitability does not allow farmers and agribusiness to earn adequate returns for sustaining livelihoods and re-investing in the sector. Besides, financial management capacity of the rice producers is limited. In view of this, farmers would be facilitated to form farmers groups and associations to strengthen their bargaining power and accessibility to credits. Besides, the strategy would also support establishing of contract farming scheme as one way of alleviating the lack of formal farm credit among the smallholder farmers as well as providing access to extension services, farm inputs and product markets. On input suppliers, the strategy would assist in scaling up agricultural inputs guarantee pilot scheme arrangement to the rice producing areas to facilitate timely availability of agro-inputs to farmers. This intervention is expected to encourage rural-based agro- dealers to carefully screen their customers and extend credit to them as well as extending the benefits of the Guarantee Fund (GF) beyond the

primary recipients. In this way the capacity of agro-dealers to access credit to meet incremental working capital requirements for acquisition and distribution of inputs would be strengthened. In addition to the above mentioned strategies, the Government is in the process of establishing an agricultural bank as a long term strategy (UTR, 2009).

#### **2.5.4 Fertilizer marketing and distribution in rice production**

Tanzania acknowledges that increased use of modern inputs (fertilizers, agrochemicals, seeds, and farm implements) is a pre-requisite for achieving sufficient agricultural productivity and growth to meet economic development, poverty reduction and food security goals (URT, 2009).

The current ongoing government efforts of providing subsidized fertilizers to farmers would complement the NRDS. The subsidy is effected through the use of voucher system and covers farmers producing food crops that include rice, maize, sorghum / millet, sunflower and cotton. The strategy would focus on, strengthening the capacity of agro-dealers to access input credits and agribusiness skills, ensuring proper use of inputs for increased rice production and productivity; and, producing and distributing of agricultural inputs vouchers.

#### **2.5.5 The role of agriculture in economic development**

According to Nkamleu *et al.* (2007) agriculture in low income countries employs the great bulk of the total labour force, while in Africa more than 60% of its population is engaged in Agriculture. The sectors contribution since 1990`s has been ranging from 50% to 67% of GDP in low income countries relying on traditional production methods of most exclusive application of human and animal labour to land (Morris *et al.*, 2001). Lecaillon *et al* (1987) argued that, the time a country reaches mature stage of the development process the center of gravity of the economy moves away from agriculture toward industry and services.

The role of agriculture in and its contribution to the process of economy and social development can be explored at two different levels; first, at its most aggregate level, its role is to provide a flow of net resources to the rest of the economy, while the potential agricultural surplus has to be converted into a net transfer in order to provide capital to the incipient industrial and service sectors; secondly at its disaggregated level agriculture contributes to each of the process of development, such as employment, improved food consumption, food security, poverty alleviation balance of payments (in the form of foreign exchange earnings) and price stability.

In fact, the overall growth performance of the economy and improvement of the living standard of people is highly dependent on that happens in Agriculture (Kashuliza *et al.*, 2002). The progress in poverty reduction likewise is highly dependent on the growth of the agriculture sector, because the incidence and severity of poverty is high in rural areas than urban areas (Kashuliza *et al.*, 2002).

Development of the agriculture sector as one of the means of improving economic growth is a commitment of the government Tanzania. This is demonstrated by various national policy documents such as the Vision 2015, National Strategy for economic Growth and reduction of Poverty and Rural Development Strategy (Curt, 2006). However, agriculture production of food and cash crop is not impressive despite several policy declarations to improve agricultural production such as the latest 2009/2010 “Kilimo Kwanza”.

Bonnard *et al* (1997) observed in Ghana that while agricultural production is stagnant or declining, population is growing fast and the available natural resources are also diminishing rapidly. In Tanzania, the proportion of households in rural areas that suffer from food in sufficiency is as high as 77% (URT, 1999). Also, in order to address the problem of rapid growing population, poor storage, and agronomic practices coupled with unreliable climatic conditions which greatly programme through the Tanzania Food Security Programme (TFSP) (Makundi, 1996). This was to be used as a cohesive guide or blue point for government planners and donors

alike to ensure that the goal of food security is achieved as quickly and efficiently as possible. However this programme is yet to achieve this goal due to a number of constraints. When faced with food insecurity, rural households have different responses to reduce risks associated with each type of food insecurity before receiving or seeking external assistance (Watts, 1983).

These are known as food insecurity coping strategies. These strategies will vary by region, community, social class, ethnic groups, household, sex season severity and duration of the potentiality disruptive condition (Corbett, 1988). The right to food, which implies food security is one of the most consistently mentioned aspect in international human rights documents but it is one of the most frequently violated in recent times (Lover, 2003). Concerns generated by the food crisis of the mid 1970s led to world leaders accepting the common responsibility of the international community to abolish hunger and malnutrition (Deverenx, 2000). Targets set by the world food summit in 1996, for the reduction of hunger have largely failed (FAO, 2003). The goal of reducing the 798 million undernourished people by half in the year 2015 can now be reached only if the annual reductions can be accelerated to 26 million per year. The anticipated decline is more than 12 times the actual pace of reduction per year which at the moment.

#### **2.5.6 Constraints to agricultural sector development**

One of the difficult realities is that agriculture makes those pre occupied be vulnerable due to unreliability of income flow which means that the chances of being poor while relying on a farm income are much higher than with more solid sources of income. Given the present level of agricultural productivity, the significant non-farm activities is potential threat for deepening poverty in rural Tanzania. This is partly reflected by the high rate of rural to urban migration in the recent years. The negated manifested in various malfunctioning and failures of established systems, has overtime led to a dangerous vicious circle of effects, low productivity, little production, reduced income and diminishing purchasing power. Other failures include economic and social deprivation, degeneration of incentives,

frustration and apathy less production, less income, growing poverty and low productivity (URT, 2009).

Despite some impressive macroeconomic achievements resulting from the reform programmers', agricultural growth and rural poverty reduction continue to present daunting challenges. In response to these and other pertinent development issues the Government adopted the TDV 2025. The Tanzania Development Vision envisages raising the general standard of living of Tanzanians by ensuring food security, improving income levels and increasing export earnings. Agriculture has numerous weaknesses including low production and productivity, underdeveloped supporting facilities, use of inappropriate technology, dependence on rain fed agriculture and impediments to food market access only to mention a few.

TDV of 2025 is in line with MDGS number one which is dedicating effort to eradicating extreme poverty and hunger. The potentials of farmers Groups (FGS) to rural poverty alleviation is stipulated by ASDP which stresses the importance's of increasing the voice of farmers in local planning process through placing greater control of resources allocation in the hands of groups and communities.

## **2.6 Rice Development**

Rice is the second most important food and commercial crop in Tanzania after maize. It is among the major sources of employment, income and food security for Tanzania farming households. Tanzania is the second largest producer of rice in Southern Africa after Madagascar with production level of 818,000tonnes (USDA world rice statistics, 2007).

The cultivated area is 681,000 ha; this represents 18 % of under rain fed conditions, irrigated land presents 29 % of the total with most of it in small village level traditional irrigations. The average yield is very low, 1-1.5 tones per ha. Farmers grow a number of traditional varieties, these varieties have long maturity and yield is

affected with irregular rainfall pattern and occurrence of pests which contribute to the yield decline.

### **2.6.1 National trends of rice production and consumption**

In Tanzania, rice is one of the widely grown crops and is the second most important food crop in terms of number of households, area planted and production volume. Besides meeting local consumption demands, the rice sector is a major source of income and employment in rural areas. The leading regions in rice production are Shinyanga, Tabora, Mwanza, Mbeya, Rukwa and Morogoro. Others include Kilimanjaro, Arusha, Manyara, Iringa, Mara, Tanga and Kigoma. Total area under rice cultivation in 2005 was 702,000 hectares of which 90 percent is under small scale farmers and the rest under large scale. Rice is grown under three major ecosystems namely rain-fed lowland, upland rice and irrigated (URT, 2009).

### **2.6.2 Village Community Bank and access to agricultural inputs**

Many countries in the world implement policies to support their farmers increase of crop production and productivity. Some of these policies can be in form of subsidy. Tanzania depends mainly on agriculture for economic growth and had reintroduced agricultural input subsidies in 2003/2004 to support technology adoption by smallholder farmers in the country

This move was necessitated by the fact that the utilization level of improved agricultural inputs was very low by regional and international standards. As a result the country experienced low and declining production and productivity. Maize production and productivity in the Big Four regions of the Southern Highlands namely Ruvuma, Mbeya, Iringa and Rukwa began to decline because the soils required greater use of fertilizers

The initial strategy involved the Government getting into contract with transporters to subsidize them in transporting the fertilizers and also part of the consignments. This system was weak in accounting for the fertilizers. To address this issue, the

Government initiated a pilot in two districts in 2007/08 to test the use of vouchers. The pilot was scaled up as National Agricultural Inputs Voucher System (NAIVS) in 56 districts in 2008/09 providing vouchers to about 740,000 households, or about 30% of the estimated 2.5 million eligible farmers. Owing the success stories of the pilot NAIVS (URT, 2012).

Development partners in particular the World Bank became interested to support the Government in implementing the NAIVS. The World Bank began supporting the scaling up and implementation of the NAIVS through the Accelerated Food Security Project (AFSP). The development objective of the AFSP is to contribute to higher food production and productivity in targeted areas by improving farmers' access to critical agricultural inputs. The project is in line with the Government's longer-term objective of promoting adoption and efficient operation.

The Government of the United Republic of Tanzania is implementing the National Agricultural Input Voucher Scheme (NAIVS) as part of its efforts to achieve greater food security by increasing food production and productivity. The World Bank supports the scaling up and implementation of the NAIVS through the Accelerated Food Security Project (AFSP). The development objective of the AFSP is to contribute to higher food production and productivity in targeted areas by improving farmers' access to critical agricultural inputs (URT, 2003).

The project is in line with the government's longer-term objective of promoting adoption and efficient use of critical productivity enhancing inputs. The NAIVS focuses on maize and rice, the main staple crops in Tanzania. The target areas are the high agro-ecological potential areas for these crops, but it has expanded to areas. Throughout the country that grow these crops. The NAIVS provides vouchers for a 50% subsidy on a package of fertilizers and improved seeds directly to farmers growing rice and maize in target areas (URT, 2003).

The eligibility criteria include all households in the selected regions cultivating less than one hectare of maize or rice, with the highest priority being given to female headed households and resource-poor farmers who have not used fertilizer in the past five years. Beneficiaries are eligible to receive the vouchers for a maximum of three years. The voucher distribution is to be complemented by a number of critical activities to ensure its success, including an awareness campaign, supporting the expansion of agro-dealers network, strengthening the national seed systems, and monitoring and evaluation. The implementation arrangements for the NAIVS include two key features: a participatory and transparent targeting mechanism using a farmer-elected Village Voucher Committee (VVC), and strengthening and deepening the network of private sector agro-dealers to promote sustainable access to agro-inputs in rural areas (URT, 2012).

Tanzania has traditionally grown local varieties of rice which have descended from the seeds originally imported by Arab traders before 1960. These varieties are like Supa, Behenge, Kula na bwana, Kalimantan and many others which are well adapted to the climate and the taste preference of the Tanzanians, but they are relatively low yielding, averaging 1 – 1.5 tons per acre. Rice is among few crops that have an enormous number of improved varieties developed and released by the national research institutions. Paradoxically, there is no significant use of improved seed by farmers nor are rice seeds distributed by the 15 private seed companies operating in Tanzania today. Hence, most of the seeds planted by majority of farmers are obtained either by using their own seed or by farmer to farmer exchange (URT, 2009).

Despite the efforts of research institutions to develop various varieties with more productivity patterns, drought and disease tolerance, there is no strong farmers' demand for them. This has been a major constraint to farm input suppliers to sell these seeds. First and foremost, farmer's awareness of the quality, availability, marketability of produce of these seeds is very low. It is a fact that most of the farmers lack knowledge on the improved seeds hence stick to traditionally preferred

varieties with are not economically efficient but have prominent aromatic and palatability characteristics.

As rice is self-pollinating crop, the quantities of seeds required are not high and continuous which is another reason why agro dealers are not so interested to sell these seeds. Supply of certified rice seeds from Agricultural Research Institute (ARI) and Agricultural Seed Agency (ASA) is low. Both are engaged in multiplying and distributing improved varieties. ASA in collaboration with the district authorities has an innovative approach to bring the seeds nearer to the farmers and make it more affordable by using agro-dealers and the village shops. ASA produces “Quality Declared Production System” . Common fertilizers used particularly in rice fields range from organic to inorganic. Organic fertilizers are farm yard manure and compost which are found locally and not very widely used. Inorganic fertilizers such as Urea, Triple Super Phosphate (TSP), Di-Ammonium Phosphate (DAP), Ammonium Sulphate (S.A) and Calcium Ammonium Nitrate (CAN ) are widely preferred (URT, 2012).

### **2.6.3 Agricultural inputs supply services, fertilizers, seed and pesticides**

Prior to 1986 agricultural policies reforms had put in place a pan-territorial pricing for inputs and outputs, heavy subsidies on fertilizer parastatal Agricultural, marketing institutions and inbuilt credit system in which loans, supplied in kind, were repaid by deducting from produce sales through crops single marketing channels, subsidies both explicit and implicit embodied in the system led to a rapid increase in the use of inputs especially fertilizer, and particularly in remote areas. Analysts argue that the relatively remote southern regions benefited from the system. These policies required huge budgets for subsidies, incurred large losses due to inefficiencies in put distribution by parastatals and actual cost to contend with poor rural infrastructure while delivering inputs. The heavy fiscal burden on the government that followed necessitated reforms.

## **2.6.4 Opportunities and Constraints in the Rice Production Projects**

### **2.6.5 Opportunities**

Existence of improved seed varieties with higher productivity, tolerance to diseases and water efficiency. Private seed companies those are also ready to invest in multiplication and distribution of improved rice seeds. Rice is among the crops that will be given priority in the national agenda for agriculture agriculture first (KILIMO KWANZA). Available advice from rice research institutions with trainers and required skills. In the country there are three rice research and breeding centers in Morogoro and one rice training centre in Kilimanjaro (Rice Sector Strategy, 2008).

International research on rice is much advanced. High market value of rice with ever increasing price. Large unsatisfied domestic market demand. The urban market is always faced by seasonal rice shortages leading to price hikes every year. The urban population Dar es salaam has 4.3% growth rate per annum offering more market for rice. Unused processing capacities of integrated and small milling plants with ability to mill more rice at the high quality and grade according to the needs of the market. Political will of the Government to enhance production and productivity of rice as seen through Government effort on establishing a National Rice Development Strategy (Rice Sector Strategy, 2008 ).

Suitable policy environment such as exemption of taxes on agricultural inputs e.g. machinery, fertilizers, and subsidy on agricultural inputs such as fertilizers, improved seeds and pesticides. Farmer's willingness to form or join small farmers' groups at village levels with some connected to a network of farmer groups (MVIWATA) at regional levels, existence of some large irrigation schemes both traditional and modern where growth potentials are high with farmers more organized and receptive to agriculture market development programs, willingness of development partners to support and the sector development (Rice sector strategy, 2008).

### **2.6.6 Constraints to rice production**

At a glance, the rice sub sector seems to be functioning well. A deeper assessment and analysis indicates that the sub sector is faced with a number of both structural and operational constraints hindering realization of its outspoken potentials in productivity and quality. The team has identified some major constraints such as lack of availability and limited knowledge on improved seeds with higher productivity, absence of effort directed to disseminating improved seed varieties to the farmers despite plenty of improved seed varieties which exist. Furthermore, farmers lack knowledge and skills on better agronomic practice and post-harvest management. slow adoption of new and better practices such that where irrigation schemes exist the water management is mostly poor. Lack of direct business relationship between farmers and the processors/millers who are key actors in rice marketing also constitute another challenge. Marketing is still very much linked to traditional relationships with local agents and brokers and that most of the farmers are dealing individually with the existing problem. In the meantime, there are only few farmers' organizations to be found in the sector and mostly limited to small production groups of 20-40 members at the village level (Rice Sector Strategy, 2008)

Further more, there is a no collective representation of rice producers both at regional and national levels, Farmers do not have access to financial services due to distance to banks, they lack appropriate financial products for farmers and missing microfinance institutions near to the farmers and lack of reliable commercial storage facilities especially close to farmers' production areas. All the warehouses used are owned by millers and are located in town/urban centers. Farmers only have their traditional storage facilities with limited capacities and cleanliness, lack relevant market information price, quality, market areas of high demand and transport costs (Rice Sector Strategy, 2008).

## **2.7 Theory of Rural Finance and Social Capital**

### **2.7.1 Rural finance, agricultural finance and microfinance**

According to the CGAP (2003) definition, rural finance refers to the provision of a range of financial services to the inhabitants of all income levels in rural areas involved both in agricultural and/or non-agricultural activities. Its aim is to increase access to financial services for rural inhabitants rather on a regional or location basis than on a sector or activity basis. Agricultural finance, especially relevant to developing countries, often constitutes the most noticeable part in rural finance. It is assumed that the majority of people living in rural areas are involved in agricultural activities and consequently agriculture generates. Agricultural finance, thus, is a subset of rural finance which aims at increasing access to financial services for those involve agricultural activities, such as input supply, production, distribution and marketing. The specificity of microfinance is that it focuses on the poor and aims at providing financial services, such as savings, credit, payment transfers, and insurance to the poor and low income households which are denied access to traditional sources of finance.

### **2.7.2 Theory of Agricultural Production**

Agricultural products it is particularly clear that quality is important in determining price and even market structure, and for this reason agricultural economics is the first to develop the economics of quality, starting with the hedonic approaches. Most of these theories are based on the realities of agricultural products in agricultural markets (Bowbrick, 1996).

## **2.8 Empirical Literature Review**

Mkombe (2005) conducted a study on VICOBA in Matombo ward Morogoro Rural District .The study revealed that Microfinance can play a great role in reducing poverty and vulnerability when it is complemented by non- financial services, also the poor does not only need credit but they also need other things. The experiences gained from VICOBA show that the poor need training, savings participation, capital formation techniques and abiding to internal regulations.

Study conducted by Verhan (2012) on mushrooming of VICOBA in Tanzania if it really makes differences because it has been reported to benefit the poor men and women in developing countries. Another study was done in Arumeru District to evaluate how VICOBA have benefited the poor, to assess the services, achievements and challenges pertaining to VICOBA in Arumeru Districts. Sample of 96 respondents was selected for the study. The study revealed that VICOBA members of Muhorere, Mchele mchele and Mwangeza groups have benefited as members and sole owners of the banks. Members have been empowered in different skills and received different services such as soft loans savings shares, training and social or emergence loans.

The study done by Kihongo (2005) on impact assessment of VICOBA found that the need for implementation of the project towards improving the positive impacts through strategic positioning of VICOBA project as part of realizing the importance's of micro finance intervention to poverty alleviation in Ukonga Ward.

Herman (2005) did the study on women group Micro credit scheme development. Mbezi ward–Dar es Salaam, Tanzania. The study explored ways in which the community based organizations could be used as instruments to alleviate poverty. The aim was to explore the extent to which the Community Base Organization (CBOs) are practical dynamic and potential actors in promoting desired social economic development activities in the struggle to alleviate poverty. Micro-credit, micro-financing and macro-enterprises are terms that have been used to describe and define the situation in which small loans are extended to people for the purposes of setting up small and usually self-employment projects that generates income.

Githinji (2009) studied the factors influencing sustainability of microfinance institution in Kenya, the aim were to establish the factors that influence sustainability of microfinance institutional (MFIs) in Kenya and to establish the relationship between financial and institutional sustainability of MFIs. The study found that in terms of the period that the microfinance institutions had been

operating, the majority of ( 61%) MFIs have existed for more than 10 years. On the number of clients, the study found that on average, the majority of microfinance institutions have up to 200,000 clients. Regarding the number of branches each of the MFIs had, the study revealed that the majority of MFIs had between 21 and 100 branches.

The study found out in terms of number of employees that, most of the MFIs were medium sized enterprise with between 50 and 200 employees. On the level of MFI sustainability as represented by return on assets, most of the MFIs were below the medium level of performance. The same was the case for sustainability as measured by return on equity. Thus, most of the microfinance institutions were not financially sustainable as measured by both return on assets and return on equity. The study found that 96% of the MFIs asserted that the form of incorporation had the last influence on their sustainability levels. It was also noted that the flexibility of loan repayment least influenced MFI's sustainability levels by 50% as compared to 33% that asserted it has a low influence. The study also found that 86% of the MFIs agreed that the level of support they receive in form of subsidies and grants influenced their sustainability. Hence, 71% of MFIs agrees that donor involvement in form of loans or capacity building had major influence on their levels of sustainability, conclusively the study found that the lending model used by the MFIs, the average size of savings mobilized, the amounts of loans and disbursed were major influence on the sustainability levels of MFI, therefore, influenced the relationship between financial and institutional sustainability in MFIs.

Luyirika (2010) did the study on the role of microfinance in the socio-economic development of women in a community in Uganda. The aim was to determine the role of microfinance in the socio-economic development of women. The finding of the study established that the MFIs had been operating in Mpigi Town Council since the early 1990s giving out loans, training the clients, sensitizing them about the organization and other cross cutting issues like HIV/AIDS, food security and enterprise development as well as conducting supervision and monitoring of the loan

beneficiaries' projects. The beneficiaries mentioned that they had utilized the loans to pay school fees for the children, to buy property like land, furniture and house, start up business enterprises and because of these benefits, they asserted affirmatively that micro-credit had played a big role in the socio-economic development of the women in the community.

There were some challenges faced by the clients as they accessed and utilized the loan like high interest rate, short repayment period, lack of security, rigid policies, small amounts given at a time, diversion of funds, and difficulties in full filling the repayment schedules. The community regarded MFIs as a central engine to economic growth although negatively they were looked at as being rigid and not sensitive to their clients' needs and problems and they were regarded as property snatchers because they confiscated property of defaulters. Findings also established that there was a great role played by micro-credit in the socio-economic development of women in a community. This was because the women have been able to start businesses and earn income, have been able to purchase property like land, furniture and solar, have been able to participate in the leadership roles, have become more self-confident and taken back children to school. These were some of the things they were not able to do or were doing with a lot of hardships before they became involved with microfinance.

Dhaka (2013) studied outreach and sustainability of Nepalese microfinance Institutions, the paper was set to empirically test an argument that the more Microfinance Institutions, more Microfinance Institutions (MFIs) aim for financial sustainability the less will be their impact on poverty reduction and hence there is tradeoff between outreach to the poor and financial sustainability based on the (2011) data of 33 Nepales MFIs reporting in microfinance information . It has been found that the institutional design and mission are the main factors that affect the performance of MFI. Further, donors also play a vital role especially in helping MFIs achieve Financial Self-Sufficiency and also depth of outreach to a certain extent. It is interesting to note that most of the growth in microfinance industry over

the last ten years has taken place in the absence of specific financial sector policies for microfinance. Although this is true, a comprehensive policy for the microfinance industry is essential. Microfinance need to be treated as a vital part of the financial system, with the special needs and features of microfinance operations and institution recognized in financial policies and regulations.

Thus, the argument that the more MFIs aim for financial sustainability the less will be their impact on poverty reduction and hence, there is tradeoff between outreach to the poor and financial sustainability is lightly relevant. Finally, the research uncovered that there still exists a dilemma between social (outreach) performance and financial (sustainability) performance. There is a trade-off between outreach and sustainability. Nepalese MFIs need to find innovative ways of achieving double bottom-line that is achieving social performance (including poverty reduction) and financial performance (hence growth potential and future capacity) simultaneously. Breadth and depth of outreach can be increased through financial sustainability.

Allen (2006) studied about Rural Member-Based Microfinance Institutions in Babati District, Tanzania. perceptions about the impacts of the rural member-based microfinance institutions on member's socio-economic situation as well as their perceptions about the contribution to poverty reduction, The majority think that being a member of SACCOS and VICOBA has had positive impacts on their socio-economic situation. For instance in income increase and being able to pay school fees, and the majority also believes that it can lead to poverty reduction. The results of this study indicate that these member-based MFIs can help people to increase their income, to diversify their activities which decrease the vulnerability, to smooth consumption and afford basic things, pay school fees, manage risk and work as a security in case of emergencies. However, this study also, indicated that there is no guarantee that microfinance leads or does not lead to poverty reduction.

The study indicates several obstacles for these MFIs to work effectively, in which the biggest obstacles include low repayment status, lack of capital and lack of

education in both entrepreneurship and how these MFIs work and operate. Additionally, short repayment time and unproductive investments are among the obstacles mentioned. These obstacles can affect each other, for example lack of education might lead to unproductive investments and late repayments, which in turn create a low capital within the MFI. This study shows that even though it does not lead directly to poverty reduction these member-based MFIs are helpful and this might indicate that they are needed to help people not to become more and deeper stuck in poverty. Microfinance is not only positive or negative, for example it depends on how the MFIs are operating, on the knowledge among the members and how investments are made.

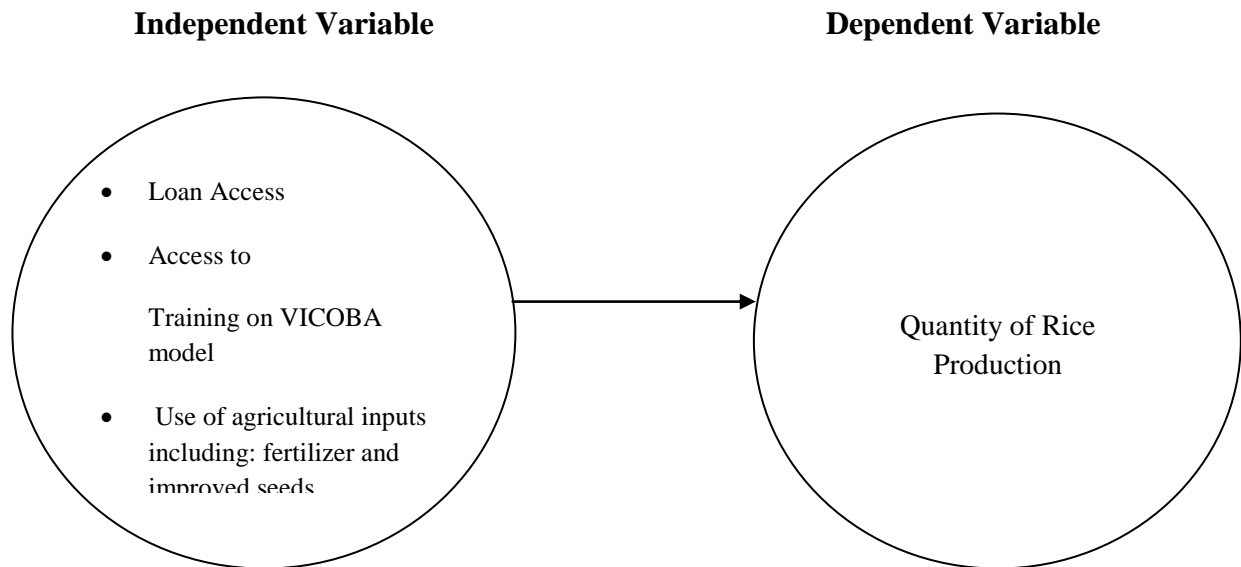
## **2.9 Knowledge gap**

Reviewed studies indicate that, microfinance is not the only way and cannot alone lead to poverty reduction. The above review shows that limited studies have been done in Tanzania on VICOBA particularly household rice production. It in this light that the researcher perceived the justification to undertake such a study in order to fill this knowledge gap by on investigating the contribution of VICOBA in household rice production.

## **2.10 Conceptual Framework**

The conceptual framework is the narrative outline presentation of variables to be studied and hypothetical relationships between and among variables. In order to meet the objectives of the research and identify the variables for data collection, a conceptual framework has been developed. The independent variables include loans accessed by members, which implies that if the members are able to get loans they can be able to get high production simply because community members get the chances of the buying inputs for the rice production. Ather independent variables include Training of VICOBA members on how to operate the model such as training on how to keep shares, training of how to produce more with relation to training about agricultural techniques and methods. Access to agricultural inputs was another independent variables which contribute to rice production in the sense that,

if household access agricultural inputs are given in time production will be improved. Agricultural inputs considered were fertilizer and improved seeds. The use of fertilizer and improved seeds affect quantity of rice produced if use in proper way as they given advice from extension officers particularly agricultural workers.



**Figure 2.1: Conceptual framework**

**Source: Researcher's own construct (2014) as Adopted from CGAP (2003)**

## **CHAPTER THREE**

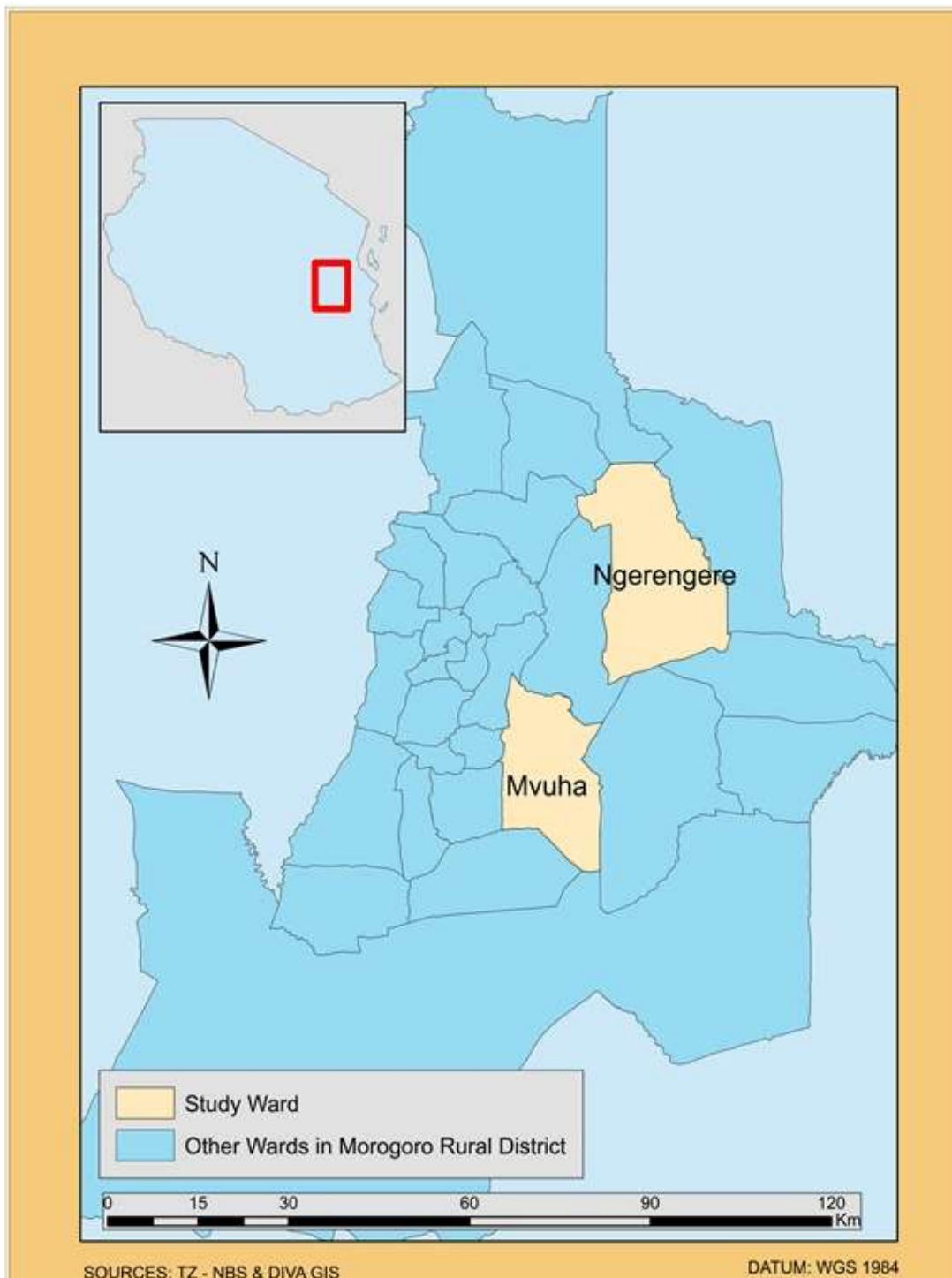
### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents research methodologies adapted to this study. This entail research design and approach, study population and unity of analysis, sample size and sampling techniques and sampling procedures, types and source od data, data collection methods, and data processing and analysis.

#### **3.2 Study Area**

The study was conducted in Morogoro District, focussing on Mvuha and Ngerengere Wards. In Mvuha Ward the study was conducted in two Villages, namely; Tulo and Msonge and in Ngerengere Ward the study conducted in two Villages namely Sinyaulime and Kiwege. The District was selected because it has many VICOBA groups which engaged in agricultural activities particulary rice production. Morogoro District is among the 6 districts in Morogoro Region. The District is located in the North east of Morogoro Region between  $6^{\circ}00'$  and  $8^{\circ}$  latitude south of equator also between longitudes  $36^{\circ}00'$  and  $38^{\circ}00'$  East of Greenwich. It is bordered by Bagamoyo and Kisarawe District Coast Region to the East. Kilombero District to the South and Mvomero District to the North and West. The District has total area of 11,925km that is 16.34% of the total area of Morogoro Region.



**Figure 3.1: The Map of Morogoro District showing Study Wards**

**Source: Morogoro Profile, (2010)**

### **3.3 Research Design**

Research design is a set of advance decisions that makes up a master plan specifying the methods and procedures for collecting and analysing the needed information. In this study, a cross-sectional research design was adopted. Cross sectional research design is the type of research design where by studies are carried out at time point or over a short period. They are usually conducted to estimate the prevalence of the out come of interest for a given population. The design enables a researcher to collect data at one point in time. The design is economical in terms of financial, time and manpower resources.

### **3.4 Study Population and Sampling procedures**

#### **3.4.1 Study Population**

The study population included VICOBA Group members in Morogoro District that are engaging in rice production, Extension officers, Cooperative Officers, District VICOBA coordinator, Community Development Officers ,Ward Executive Officers (WEO) and Village Executive Officers (VEOs).

#### **3.4.2 Sampling Procedures**

The research used a purposive sampling and simple random sampling techniques. Purposive sampling was used to potential respondents that were known in advance, and then selected based on the fact that the selected members had relevant knowledge and experience with which to contribute to the study (Flick, 2009). In this case, Extension officers, Cooperative Officers and District VICOBA coordinators and Community Development Officers, Ward Executive Officers and Village Executive Officers were purposively included in the study. This group of respondents was subject of an in-depth interview. Simple random sampling was applied to respondents from VICOBA groups. These cohorts of respondents were subject for questionnaires survey.

### 3.5 Sample Size

The sample size involved 67 respondents. This was drawn from district level and ward level. From the district, the study included 1 Community Development Officer, 1 Agricultural Extension Officer, Cooperatives Officer and 1 Vicoba District Coordinator. The Community Development Officer was included because she was responsible in coordinating VICOBA projects and also responsible for informing and registering community Organization in the district level. Agricultural Exentension Officer was envolved simply because he is responsible about agricultural issues such as advising VICOBA members on better farming techniques and the use of emproved seeds, Cooperatives Officers was envolved because they are responsible in giving advice to VICOBA members about the advantages of forming groups and saving.

From the ward level the study included 2 Ward Executive Officers, ( WEO) one from each ward; 2 Village Exacutive Officers (1 from each Village), 4 VICOBA Group 2 groups from each village where by in Mvuha ward 37 members were included from Tulo village 15 members were envolved included 6 males and 9 females; and Msonge village 22 members were involved including 10 males and 11 females.

**Table 3.1: Population Composition and sample size**

Level	Respondents	Number
Dsistrict	Community development officer (CDO)	1
	Agricultural Extension officer (AEO)	1
	Cooperative officer (CO)	1
	District vicoba coordinater (DVC)	1
Ward	Ward executive officer (WEO)	2
	Village executive officer (VEO)	2
	Vicoba members	59
	<b>Total</b>	<b>67</b>

**Source:** Researcher's own construct , 2014

### **3.6 Data Sources**

Data were obtained from both primary and secondary sources, mainly because there is no single source of information that provides a comprehensive and complete perspective on a study (Kothari, 2004). Primary data were obtained from villagers who are VICOBA group members. Primary data were also recorded from Community Development Officers, Village Executive Officer, Ward Executive Officer, District VICOBA Coordinators and Cooperative officer who were the key informants. Secondary data were obtained from different sources including books, websites and other related agricultural and MFI including VICOBA reports.

### **3.7 Data Collection Methods**

The study used three data collection methods, namely; documentary review, questionnaires survey and in-depth interviews. All these methods were used to complement each other and to ensure that much and detailed information was collected. The main method was questionnaires. The main reason of choosing this method was its freedom from biasness of the researcher, so that the answers are in respondents' own words (Kothari, 2004).

#### **3.7.1 Questionnaire**

Questionnaires is defined as research instrument consisting of a series of question and other prompts for the of gathering information from respondents (Kothari, 2004). This method of data collection is quite popular, particularly in case of big enquiries The questionnaires was administered to VICOBA members from two wards. The aim was to get information concerning VICOBA, and if it has any contribution to rice production project and livelihood improvement.

#### **3.7.2 Documentary review**

Documentary review was used to obtain secondary data which were obtained from different sources including reports, books, websites and journals , articles concerning VICOBA and agriculture financing. Other reviewed documents included Morogoro

Rural District profile 2010/2011 and VICOBA Document from District VICOBA Coordinator.

### **3.7.3 Key informants Interviews**

Interview were carried out to collect primary data from District VICOBA Coordinators, Community Development Officer, Extension Officer and Cooperatives officers Ward Executive Officers. Interviews focused on perception of communities towards VICOBA, contribution of VICOBA in household rice production and advantage in delivering of training to VICOBA group members, processes and guiding principles of VICOBA groups.

### **3.8 Data Processing and Analysis**

In this study data from questionnaire were analysed by using Statistical Packages for Social Science ( SPSS) computer soft ware Version 16.0 . Under this, Codes were developed and templates were created. Editing and coding of the questionnaire was done and data were entered into SPSS cleaning and Verification of the entered data was done so as to remove committed errors like illogical errors. Qualitative data were analysed by using content analysis method. Data analysis was done by using SPSS version 16.0 in concomitant with Microsoft Excel of Windows 7 professional 2010. By SPSS Analysis was done in descriptive statistics were by frequencies and multiple response were acquired. Presentstion of findings in various level of analysis presented was done using percentage, tables, figure and charts.

## CHAPTER FOUR

### FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents the results and discussion of the findings of the study based on the research questions and objectives of the study. It begins by presenting and explaining the socio-economic characteristics of the respondents in relations to the variables. It also provides the discussions on perception of community towards VICOBA, the contribution of VICOBA in household rice production and the constraints facing rice production.

#### 4.2 Background characteristics of the respondents

It was important to find out from respondents the age, sex, education levels and marital status as these characteristics would affect their participation in VICOBA

**4.2.1** The table below is about age of respondents

**Table 4.1: Age of respondents**

<b>Age Group</b>	<b>Number</b>	<b>Percent</b>
18-25	3	4.3
26-33	27	39.1
34-41	17	24.6
42-49	15	21.7
50-57	5	8.7
58 and Above	1	1.4
<b>Total</b>	<b>67</b>	<b>100</b>

**Source:** Field Data, 2014

Table 4.1 shows that 39.1% of respondents were aged between 26-33 years, 24.6% were aged between 34-41 years, 21.7% were aged between 42-49 years and 8.7% were aged between 50-57 years. In the same view, 4.3% respondents were aged between 18-25 and only 1.4% were 58 years and above. The results shows that, most of the respondents were aged between 26-33 which is productive age to number of economic activities including rice production.

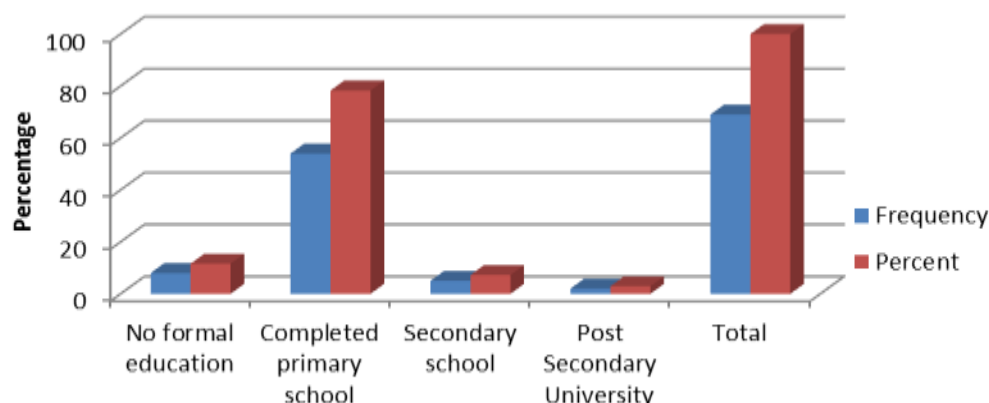
**4.2.2** The table below shows about respondents by major economic activity

**Table 4.2: Respondents major economic activity**

Occupation	Sex		Total
	Male	Female	
Farmer	29(42.00%)	28 (40.60%)	57(82.60%)
Business	0(0%)	5 (7.2%)	6 (11.6%)
Employed	0(0%)	2 (2.9%)	2 (2.9%)
Local arts	3(4.3%)	1 (1.4%)	1 (1.4%)
Others	1(1.4%)	0(0%)	1 (1.4%)

**Source:** Field Data, 2014

The results in Table 4.2 shows that 82.6% of respondents were farmers of whom 42% were male and 40.6% were female. Otherwise, 11.6% of respondents were involved in business, from which 7.2% were female and 4.3% were male. Moreover, up to 2.9% were employed and 1.4% of respondents are involved in other activities such as local arts. The results shows that most of the respondents were farmers by occupation .The findings are also supported by fact that about (77.9%) male and (22.1%) female of rural population own farm as observed by Censu (2002).



**Figure 4.1: Distribution of respondents according to education level**

**Source:** Field Data, 2014

The results in Fig 4.1 shows that 75% of respondents had completed primary school education, and about 20% of the respondents had completed secondary school education. The implication of the results is that most of the village people have completed primary school education. The results are supported by Regnar *et al* (2002) who established that, the level of education is an important factor in coping with poverty and particularly coping with risk and uncertainties related to agricultural production. Regnar considered the ultimate objectives of education is to increase labour productivity for farmers and thus very important for their ability to utilize efficiently the advice and information offered by the extension officers and other development agents.

**Table 4.3: Respondents according to marital status**

Marital Status	Frequency	Percentage
Married	54	78.3
Single	7	10.1
Widow	3	4.3
Widower	3	4.3
<b>Total</b>	<b>67</b>	<b>100.0</b>

**Source:** Field Data, 2014

The results in Table 4.3 indicate 78.3% of the respondents were married while 10.1% of respondents were single and 7.2 % were widowed and 4.3% of the respondents widower. These findings are supported by findings from the household budget survey of 2007. Household budget survey (2007) shows that 59.7% of the adults aged fifteen years and above were married while 28.2% were single. In Tanzania by 2007, widowed were 6.2% while 5.8 were divorced. The observation made during field work found that, married couples were participating more in VICOBA compared to un married, simply because they had a lot to do that required money, such activities like paying school fees for their children and other home use. When asked on how she use the money which she obtained from VICOBA, one respondents said that the money which she got from VICOBA was used to pay school fees for her children and home use like buying food. Consequently, what they produce do not suffice selling as members mainly produce for subsistence use only.

**Table 4.4: Source of information on VICOBA**

<b>Information source</b>	<b>Frequency</b>	<b>Percent</b>
Attending special course on VICOBA	42	59.4
Seminars / Workshops	15	17.4
Media	10	14.5
<b>Total</b>	<b>67</b>	<b>100.0</b>

**Source:** Field Data, 2014

The results in Table 4.4 shows that 59% of the respondents got to know about VICOBA through attending special courses on VICOBA, and only 17.4% of respondents said that they became aware of VICOBA through media, semina and workshop, and only 14.5% said that they became aware of VICOBA through media. This implies that most of the village people have no access to different media like magazine also radio and Television, as others do not have money to buy magazines and newspapers. Also, others live far away from the place where they can get those newspapers also the infrastructural systems are not good which hinder from getting them.

### 4.3 Perceptions towards VICOBA

The study also explored to establish on perception of members of groups towards VICOBA in their activities.

**Table 4.5: Perceptions towards VICOBA**

<b>Rate</b>	<b>Frequency</b>	<b>Percent</b>
Very Good	35	52.2
Good	19	28.4
Satisfactory	13	19.4
<b>Total</b>	<b>67</b>	<b>100.0</b>

**Source:** Field Data, 2014

The results in Table 4.5 shows that about 52.2% of respondents rated their perception towards VICOBA as very good in terms of helping group members enhance their livelihood. About 28.4% of respondents rated their perception towards VICOBA as good; and about 19.4% perceived VICOBA at satisfactory level. This results have an implication that VICOBA activities are perceived positively by the group members at large. This might be attributed to by the good systems that group members had put in place to help operational activities of VICOBA.

**Table 4.6: Advantage of engaging in VICOBA**

<b>Advantages</b>	<b>Frequency</b>	<b>Percent</b>
Paying school fees for children	27	40.3
Housing building	2	38.8
Business investing	10	14.9
Investing in agriculture (rice farming)	26	3.0
All mentioned	2	3.0
<b>Total</b>	<b>67</b>	<b>100.0</b>

**Source:** Field Data, 2014

The results in Table 4.5 show that 40.3% of respondents said that VICOBA helped them to pay school fees for their children; 38.8% said that VICOBA helped them to invest in agriculture (rice farming) and about 14.9% appreciated that VICOBA helped them to invest in business; whereas 3.0% appreciated that VICOBA helped them build houses. The appreciation was also demonstrated by one of the interviewees who asserted that *“I used the money which I got from VICOBA to pay my children school fees and other services like medical services and home use”*.

**Table 4.7: Major sources of livelihood**

Major Source of Livelihood	Frequency	Percent
Agriculture	62	89.9
Small Business	5	11.1
<b>Total</b>	<b>67</b>	<b>100.0</b>

**Source:** Field data , 2014

The results in Table 4.6 presents the results on respondents main sources of livelihoods. Responses indicate that the main sources of livelihood was agriculture at 89.9%, followed by small business at 11.1. This results shows that most of of the respondents engage much in agriculture. These findings are also consistent with those reported by Household budget survey (2007). According to Household budget survey (2007), the percentage of rural population which depended on agriculture as main economic activity was (72.3%) which also confirms the higher proportion of the population tied to agriculture.

When asked to elaborate further on the sources of the livelihood in relation to VICOBA, a Ward Executive Officer from Mvuha said;

*“Despite the fact that most of the people in this ward depend much on agriculture, also they are involved in other economic activities like brick making and fuel wood selling”.* Group members tends to use money which they get from VICOBA to invest in these other activities. Responses also indicated that, income from these other economic activities were used to buy household stuff like food, clothes and paying school fees for the children, as well as meeting other expenses.

#### **4.4 Contribution of VICOBA in Household Rice Production**

**Table 4.8: Contribution of VICOBA in rice production**

Type of contribution	Frequency	Percent
Loans to support agricultural activities	50	67.8
Training on better farming techniques	16	37.1
Provision of agricultural inputs	3	5.1
<b>Total</b>	<b>67</b>	<b>100.0</b>

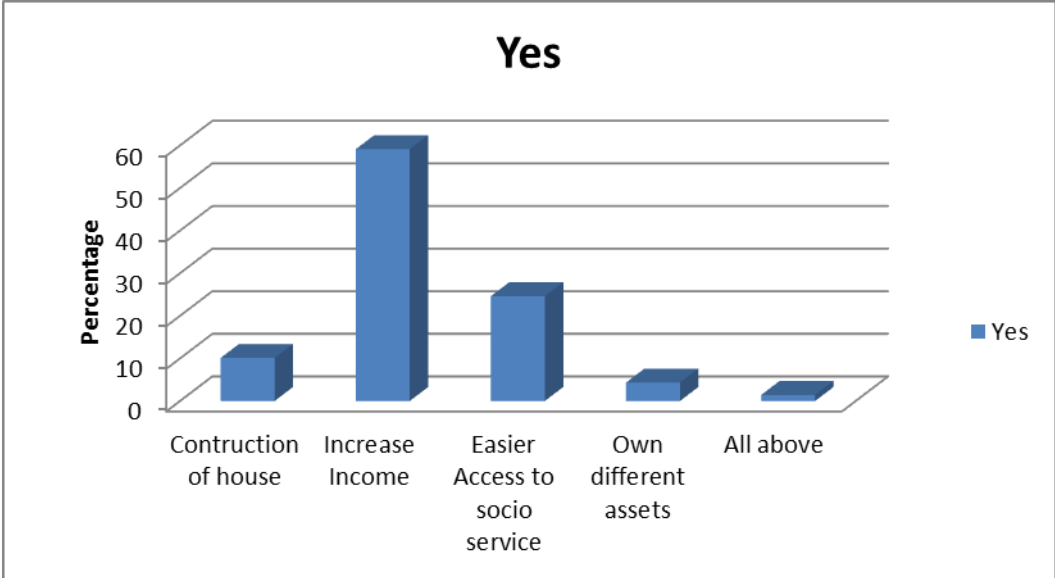
**Source:** Field data , 2014

The results in Table 4.7 shows that 67.8% of respondents said that VICOBA contributed much in obtaining loans to support agricultural activities particularly rice production; 37.1% appreciated that, VICOBA helped in training for better farming techniques; whereas 5.1% said provision of agricultural inputs. These findings relates to the World Bank’s (1995) observation which revealed that large parts of Tanzania depend on agriculture, which is predominantly smallholder and subsistence in nature, marked by backward technology and low use of modern inputs.

To evidence the contribution of VICOBA in rice production, one of the group members from Tulo village asserted *“that money which I got from VICOBA helped much to buy improved seeds, and other agricultural inputs like fertilizers”*.

**4.4.1 Contribution of VICOBA to the improvement of Livelihood**

The respondents 67 (100%) reported to have been benefited by the VICOBA in one way or another specific contribution of VICOBA has been clearly reflected in Figure 4.2



**Figure 4.2: Contribution of VICOBA to the improvement of livelihood**

**Source:** Field data, 2014

Findings from Figure 4.2 indicate that, 59.1% of respondents reported that benefits of VICOBA is through increasing income, 24.6% said it help to access socio

services, 10.1% said it help in construction of houses. While 4.3% of respondents said VICOBA helped to own different assets. The findings are also supported by evaluation study on Livelihood and trade program which indicated that improved local banking process under VICOBA framework has been an important drive for growth and reduction of income poverty. This has been through reduction of the percent of poor population that do not have access to formal banking system (NCA, 2013).

The findings are also supported by Shoo (2001) in the study on the role of small-scale enterprises on poverty alleviation. The study found that, majority of low-income earners agreed that the income generated from their participation in micro-financing lending schemes was spent for education of their children and sometimes themselves. Ofcourse, part of the income was used to access to health services. Thomas (2001) argued that, one of the benefits of microfinance is that, lending increases more investment in housing and sanitation as a result of increased income to some borrowers.

When asked about the role of VICOBA on improving livelihood of people from Mvuha Ward about contribution of VICOBA in improvement of livelihood said that: *“The money which i got from VICOBA helped much on school fees payments for my children, buying improved seeds, fertilizers and other agricultural inputs”*.

When enquired of the VICOBA’s contribution to improvement of livelihood of the groups, the chairperson of one VICOBA association confirmed that he use money which he got from VICOBA to build house and paying school fees for his children.

When asked to respond on the amount of rice produced after engaging in VICOBA, the respondents expressed the appreciation that, the amount of harvest they got after engaging in VICOBA is much higher than before. This was simply because they had acquired big farms. They were also able to purchase and use improved seeds and fertilizer through using money the got from VICOBA. As a result they had to start

producin not only for subsistance use but aslo for selling to earn income to enhance their living standards.

**Table 4.9: Income generating activities of VICOBA members**

Activities	Responses	Percent of Cases
	N	
Horticulture	50	77.3%
Agriculture	51	75.3%
Small business	49	74.2%
Food vending	35	53.0%

**Source:** Field data, 2014

The results in Table 4.8 show that, about 77.3% of respondents were dealing with horticulture and about 75.3% of respondents engaged in rice farming. While about 74.2% of respondents were small business people, 53.0% of respondents were doing food vending. The result shows that most of the VICOBA members are participated more in agriculture activities than other activities.

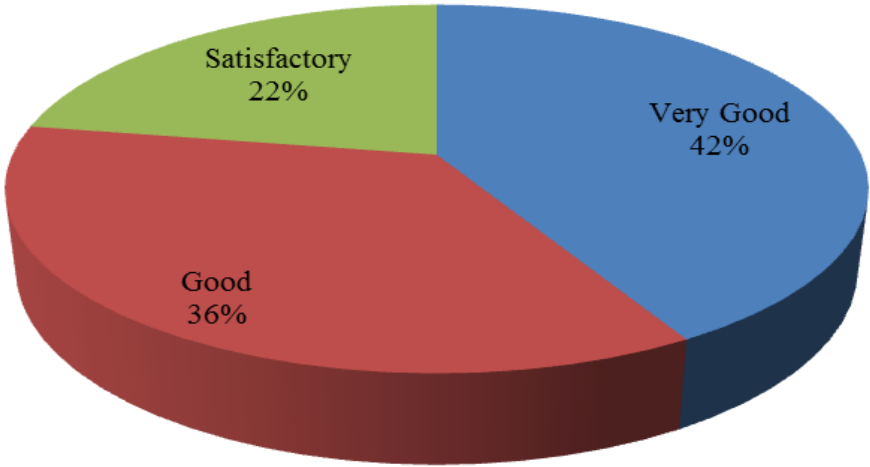
**Table 4.10: Activities of VICOBA after receiving loans**

Activity	Responses	Percent of Cases
	N	
Rice farming	53	79.1%
Investing share	52	77.6%
Supporting each other	47	70.1%
Training and knowledge	41	61.2%

**Source:** Field data , 2014

The results in Table 4.10 show that, 79.1% of respondents acknowledged that, after receiving loans they used the money for rice farming, especially buying of improved seeds; in the same line, 77.6% of respondents said that after receiving loans they used it in investing share to VICOBA; and about 70.1% of respondents says that after receiving loans the money they got they used it for supporting each other in activities like ceremonies and funerals. Up to 61.2% of respondents sdeclared to have been using the money for training and knowledge sharing.

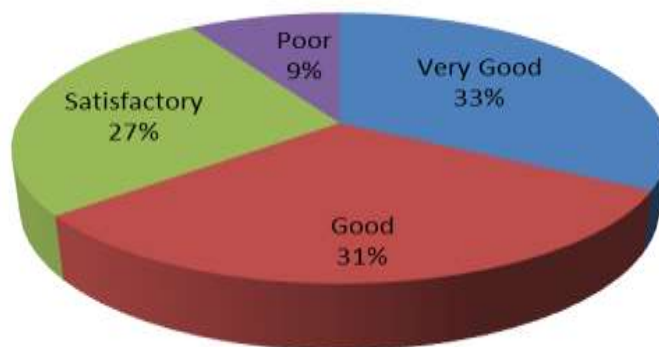
The findings are consistent with the study by Luyirika (2010), which reported that, the loans were used to pay school fees for the children; buy properties like land, furniture and house; and start up business enterprises. Because of these benefits, they asserted affirmatively that micro-credit had played a big role in the socio-economic development of the women in the community



**Figure 4.3: Performance Rate of VICOBA**

**Source:** Field Data, 2014.

The results Table 4.3 presents the rate of performance of VICOBA. It indicates that, up to 42% of respondents rated the performance of VICOBA as very good; this suggests that that, VICOBA members were happy and that their objectives have been met. On the other hand, 36% of respondents rated the performance rate of VICOBA as good; whereas about 22% of respondents rated the VICOBA performance as satisfactory. This results indicates that VICOBA model perform well since many members perceive it useful to engage in this model particularly in rice production.



**Figure 4.4: Performance Rate of VICOBA Training**

**Source;** Field data 2014

The results in Figure 4.4 shows that, 33% of respondents rated the performance of VICOBA in terms of training as very good; and 27% of respondents rated the training of VICOBA as satisfactory; and 31% of respondents rated the performance rate of VICOBA good; and 9% of respondents rated the performance of VICOBA in terms of training as very poor. This results indicate that members perceived the training as important to VICOBA they they enhanced their capacity to participate more in rice production. Findings presents an impression that District Council, especially Agricultural Development must be responsible in helping VICOBA groups in ways like giving subsidized inputs and various training on better farming techniques.

#### **4.5 Challenges facing VICOBA members in Household Rice Production**

The Table below shows more about challenges facing VICOBA members in household rice production

**Table 4.11: Challenges to Household Rice Production**

<b>Constraint</b>	<b>Frequency</b>	<b>Percent</b>
Seasonality (long rains, short rains, dry season)	27	42.2
Trends (decline in yields, increase in population)	30	46.9
Shocks (drought, pest and diseases, price rises ,floods)	7	10.9
<b>Total</b>	<b>67</b>	<b>100.0</b>

**Source;** Field Data, 2014

The results in Table 4.11 shows that 42.2.% of the respondents perceived that one of the challenges of rice production is seasonality; 46.9% perceived trends, which implies decline in yields; and 10.9% perceived shocks also as one of the challenges of rice production. The results imply that agricultural activities face a lot of challenges that is why what they produce are not enough for selling; in fact what members harves has been mainly for subsistence use only. When members were asked to elaborate on other challenges facing VICOBA project implementation, they cited challenges relating to lack of agricultural inputs, expectation of money and grants from government or donors, little value of share, low level of education as well as the amount of rice produced are sometimes low due to seasonal trends.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

The analysis and discussion focused on the contribution of VICOBA in household rice production. It looked on the demographic characteristic of the respondents (age, marital status, education level and occupation). The study also described how VICOBA helped members in rice production. The study revealed that VICOBA contributed much in household rice production by providing soft loans and training on modern farming practices like the importance of using fertilizers and improved seeds to VICOBA member farmers. that the study also established that VICOBA helped much the group members to get loans to support agricultural activities especially rice farming by purchasing the fertilizers and improved seeds.

The findings indicated that if VICOBA were given priority it could have helped members to invest highly in the rice production. The study also revealed that agriculture development especially household rice production is possible in Mvuha and Ngerengere wards if the community members join and draw support from VICOBA to access the training and the loans. Small rice farming households need continuous training on saving, participation in training and on how to use better farming methods, improved seeds and other agricultural inputs such as fertilizer, pesticides and insecticides. Also the experience obtained shows that, VICOBA saving and lending model is a unique and most effective tool for development of rural communities because rural people are engaging much in agricultural development. It was also observed that the VICOBA group members had realized the benefits changes in their income since they had a guaranteed access to loans

#### 5.2 Conclusion

The study concludes that the knowledge of VICOBA members to perform well in rice farming, in saving and access to soft loans increases the income and improve

their production because members can buy agricultural in-puts like improved seeds and fertilizer.

It is also concludes that participation of group members in VICOBA activities ensures capital accumulation through saving shares, taking loans and loans repayments.

### **5.3 Recommendations**

The study recommends that the District Councils through Agricultural Department in collaboration with SEDIT provide full training to VICOBA groups on how to use modern technology of agriculture like use of improved seeds and fertilizers. The study also recommends the need for irrigation scheme as to enhance rice production and combat the problem low production due to droughts. It is also recommended that the Government enact different policies which favors the informal financial settings such as VICOBA since the current microfinance policy in use favors the formal and semi-formal financial institutions which are legally registered by the Bank of Tanzania.

### **5.4 Policy Implications**

The policy implication of the study is that, Government particularly agricultural sector, should establish programmes to teach VICOBA members continuously on modern farming practices like use of fertilizers and improved seed because it contribute to increased production. Moreover, the district council should find the means for provision of appropriate skill regarding agricultural production which can be done during training on how to use the loans. The study also recommends the district council to enact the way in which people themselves can participate in agricultural specific rice production.

### **5.5 Areas for Future Research**

Research on the contribution of VICOBA in agricultural production should be conducted in other districts in Tanzania because the microcredit programs are being implemented in many other districts in the country. This is very important because the effectiveness of the programmes may differ from one district to another due to different Institutional frame works and community behavior.

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## APPENDICES

### Appendix 1: Questionnaire

#### Introduction

I am Alice Haule a student from Mzumbe University pursuing Masters of Science Degree in Development Policy (Msc DP). I respectfully request your assistance in filling this questionnaire by giving your views concerning contribution of Village Community Bank in household rice production in Morogoro District. I assure that your opinion and suggestion given will be treated with high degree of discretion.

#### SECTION A

##### Personal Information

1. Sex of respondent

a. Male ( )

b. Female ( )

2. Age (number of years).....

3. Marital status of the household head

a. Married ( )

b. Single ( )

c. Widow ( )

d. Widower ( )

e. Separated ( )

4. What is the highest education level do you have

a. No formal education ( )

b. Completed primary school ( )

c. Secondary school ( )

d. PostSecondaryUniversity ( )

e. Others (specify) ( )

5. Main source of Income
- a. Farming ( )
  - b. Local Arts ( )
  - c. Employed (wage earning) ( )
  - d. Business ( )
- Others ( ) specify .....

6 Name of the village.....

7 What is the farm size have you invest in rice production .....Hectares

**SECTION B: VICOBA and agricultural improvement**

8. What are the advantages of engaging in VICOBA
- a. Paying school fees for children ( )
  - b. Housing building ( )
  - c. Business investing ( )
  - d. Investing in agriculture (rice farming) ( )

Others specify.....

9. If yes how did you acquire the idea about VIKOBA

- 1. Media
- 2. Seminar or workshop
- 3. Attending special course on VICOBA
- 4. Others

pecify.....

10. Do you think VICOBA have benefited you to improve you life any way

- 1. Yes
- 2. No

11. What kind of development / improvement you have acquired after joining VICOBA?

- 1. Constructing house

2. Increasing Income
  3. Being able to get other social services such as education and health services
  4. Own different assets such as livestock and bicycle
  5. Others specify.
12. Income generating activities of VICOBA members
- (i) Rice farming
  - (ii) Horticulture
  - (iii) Small business
  - (iv) Food vending
13. Activities of VICOBA as mentioned by Respondents
- (i) Investing shares
  - (ii) Borrowing money for Rice farming
  - (iii) Training and knowledge sharing
  - (iv) Supporting each other
14. How do you rate the performance of VICOBA in terms of sharing the knowledge and resource together
- (a) Very good
  - (b) Good
  - (c) Satisfactory
  - (d) Poor
  - (e) Worse
15. How are the training concerning VICOBA have improved your performance in rice production
- (a) Very good
  - (b) Good
  - (c) Satisfactory
  - (d) Poor
  - (e) Worse

16. What are challenges facing VICOBA in house hold rice production.
17. What measures should be taken to deal with the challenges you have mentioned.
18. What is the amount of rice produced after engaging in VICOBA Compared before engaging in VICOBA.

## **Appendix II: A Checklist of Items for Discussion with Key Informants**

### **Introduction**

I am Alice Haule a student from Mzumbe University pursuing Masters Degree of Science in Development Policy (Msc DP). I respectfully request your assistance in filling this questionnaire by giving your views concerning contribution of Vicoba in improvement of agricultural project in Morogoro District.

Currently, I am conducting a study titled “contribution of VICOBA in household rice production in Morogoro District”. I assure that your opinion and suggestion given will be treated with high degree of confidentiality,

1. Advantages of VICOBA to the rice farming house hold
2. How the communities perceive VICOBA
3. Extent to which VICOBA help house hold rice production.
4. Extend to which the project provide adequate Training the members Group members
5. General process and guiding principles of VICOBA Project.