

**ASSESSMENT OF THE INFLUENCE OF MICRO-FINANCE LOANS TO
SMALL SCALE SUGAR CANE GROWERS:**

A CASE OF KILOMBERO SUGAR CANE OUT GROWERS

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SMALL SCALE SUGAR CANE GROWERS:**

A CASE OF KILOMBERO SUGAR CANE OUT GROWERS

By,

John Ngano Nhyamah

**A Dissertation submitted in Partial fulfilment of the requirements for the degree
of Masters of Business Administration Corporate Management (MBA-CM) at
Mzumbe University Morogoro Tanzania**

Year 2013

CERTIFICATION

To School Board

I am submitting hereby a thesis written by: **John Ngano Nhyamah** Titled: “**Assessment of the Influence of Micro-Finance Loans to Small Scale Sugar Cane Growers: A Case of Kilombero Sugar Cane Out Growers** ”

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DEDICATION

I dedicate this thesis to my beloved parents, Mr. and Mrs. Ngano Dotto and my wife Mrs Flora Ngano. They have been my source of inspiration and for sure, I owe them a lot in my life. To my children, William, Michael, Emmanuel, Agnes and Veronica. This dissertation is also dedicated to poor small scale farmers that live in pathetic condition and hoping that the recommendations offered in the study will provide an input toward improving their welfare.

ABBREVIATIONS AND ACRONYMS

BOT	Bank of Tanzania
FFI	Formal Financial Institutions
FCGA	Farmers cane growers Associations
GDP	Gross Domestic Product
KSCL	Kilombero Sugar Company Limited
KCGA	Kidatu Cane Growers Association
MFI	Micro finance Institution
MSF	Micro and small Firms
MDG	Millennium Development Goals
MUSGA	Msolwa Ujamaa Sugar Cane Growers Association
MFI	Micro-Financial Institutions
NGO	Non Government Organization
NBC	National bank of commerce
NMB	National Micro Finance Bank
PASS	Private Agricultural Sector Support
PRIDE	Promotion of Rural Initiative Development Enterprises
RCGA	Ruembe Cane Growers Association
ROSCA	Rotating savings and Credit Association
SACCOS	Savings and Credit Cooperative Society
SEDA	Small Enterprises Development Agency
SPSS	Statistical Package for Social Science
SPF	Sugar Processing Factories
SCULT	Savings and Credit Cooperative union League of Tanzania
S O B	School of Business
SME	Small and medium enterprise
SSSCG	Small Scale Sugar Cane Grower
UNCDF	United Nations Capital Development Fund

ABSTRACT

This study attempted to assess the role played by loans provided by Micro Finance Institutions (MFIs) to Small scale sugar cane out growers in Tanzania, a case study of Kilombero District in Morogoro Region. Currently, SMEs contributes significantly to Employment, Income generation and stimulation of the economic growth in both urban and rural areas in Tanzania. SMEs contribute about 40% to the country's Gross Domestic Product (GDP) (this is according to SMEs Development policy 2003). In Tanzania it is estimated that every year only 5.7% of the school leavers get employed in public sector while the remaining 94.4% end up being absorbed by SMEs sector. For these reasons there is a need for the government to provide conducive environment for the growth and sustainability of the SMEs in the country through loans/agricultural credit. The sample size was 78 respondents selected through random sampling drawn from population of 398 small scale cane growers at Kilombero District both from MFIs and FCGA to fulfil the requirements of the study. Both primary and secondary data were used or employed. The former used questionnaires and interviews, while the latter was used through reviewing documents in terms of performance reports, articles magazine. Both quantitative and qualitative data were also analyzed. The responses from the interviews were coded, summarized and entered in a computer. The data were analyzed using Statistical Packages for Social Science (SPSS) version 16. Part of the analysis was based on descriptive statistics to describe the responses, characteristics of the data and information.

The findings were presented in form of figures, tables and graphs. The findings of the study revealed that collateral, security requirement and high interest rates were the major problems for SSSCG to secure loans from MFIs. Most of SSSCG 50(64.1%) agreed that loan improve agricultural production. The study also revealed that 33(42.3%) had primary level education this was a problem especially on the processing of agricultural credits from financial institutions. Majority obtained loan from SACCOS and other informal sources. The study also revealed that loan acquired had positive influence in the growth of agriculture. Requirement of collateral was a major problem in accessing of

loan by small scale sugar cane growers it was supported by 65(83.3%) of all small scale farmer-respondents.

From the study, it is concluded that there is significant impact of microfinance loan scheme on small scale sugar cane production since farmers' access to microcredit also means access to better financial products and services. Thus, despite problems encountered by small scale sugar cane farmers in accessing loans from banks, loans from microfinance banks and SACCOS has to some extent helped farmers to reduce poverty and boost production through financial system that meets their needs.

Lastly, the researcher recommends that in order to succeed and develop, small scale sugar cane growers (SSSCG) all over the country should be assisted in improving cooperative societies. The cooperative approach is one of the best means of self-protection for small farmers mainly due to its self-help concept and member's participation. It is therefore vital for the government to strengthen cooperative credit and improve efficiency of agricultural credit supply by providing innovative financing scheme to SSSCG who lack collateral and minimize long processing of documents and other requirements.

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CHAPTER ONE

1.0 Introduction

This part is set to give the background of primary issues regarding to SMEs and Micro finance institutions /SACCOSs in the country. As stated in the abstract, chapter one will put the research issues in the context, and therefore the background information, statement of the problem, the objectives, research questions and the rationale of the study will be given.

The role of SMEs in Tanzania's economy as for sub sector is its contribution to the national and socio economic development that can be seen in different parameters; such as generating income and employment, major supplier of goods and services to people.

In the Tanzanian context SMEs are defined according to sector employment size, and capital investment in machinery .also SMEs are defined as micro, small and medium size enterprises in non-formal activities, including manufacturing, mining, commerce and services. A micro enterprise is the one with fewer than five employees, a small enterprise with 5-49 employees, a medium enterprise with 50-99 employees and the large one with more than 100 employees. Capital investment ranges from less than Tzshs 5 million to over Tzshs 800 million. This definition would exclude a number of informal economic enterprises such as peasant farmers and Tanzanians engaged in lower level income generating activities. Farmer's cane growers association is the one of SMEs operating in rural areas in Kilombero district this is where the study was carried.

1.1 Background information

The Tanzania Development Vision predicted that by the year 2005, Tanzania should have created a strong, diversified resilient and competitive economy that can effectively cope with the challenges of development and that can also easily and confidently adapt

to the changing market and technological conditions in the regional and global economy (SMEs Development policy, 2003).

The Economic Reform Programmers implemented by the Tanzanian Government have been based on the philosophy that Tanzania is committed to a market economy whereby the private sector will take the leading role in creating income, employment and growth of the country's economy. On the other hand, the state will be the producer of public goods, play a regulatory role to level the playing field and create conducive environment for the private sector to take lead in driving economic growth, this philosophy is evident in almost all policy statements made since 1986 and particularly after 1996.

This private sector has started playing an even increasing role in creating income and employment, The SMSs account for a larger share of the active enterprises in Tanzania.

In fact SMEs are the base for private sector led growth. SMEs importance as they are to the economy, still have been facing a number of problems despite the on- going reform programs. This is due to a number of factors, one of which is the persistent culture that has not recognized the value of entrepreneurial initiatives in improving the lives of the people.

The current research suggests that the most important constraints on SMEs development in Tanzania are to be found in strategic financial decision factors (Arnold, 1998 and Barrow, 1995), In one way or the other, SMEs need a great support from the Micro-Financial Institutions which are providing services in the country, ESRF (2000) found that 94.8 percent of the SMEs demanded credit, but only 7percent had access to formal credit.

1.1.1 Strategic issues of the scheme to Farmers Cane Growers Associations

MISSION

“The mission of Farmers Cane Growers Associations is to be the leading Association in the provision of high quality services including farm inputs, machinery, training, credit facilities and advisory services to registered members who grow and sell sugar cane to Kilombero mills. Help them with advice on production of other cash and food crops for mutual benefit of the Association and its members” (SSSCG)

The benefit that accrue to registered members include increased cane production, better cane prices, assistance throughout the cane production cycles and hence higher standards of living. In addition, members also get advice on crop husbandry, fertilizer use, herbicide use and assistance in the production of other cash crops and food crops, other benefits includes education of HIV/AIDS, gender sensitivity, land laws and environmental protection. All these leads to improved quality of life of the members, complementing other poverty reduction efforts.

VISION:

“The vision of Farmers Cane Growers Associations is to be the leading producer of sugarcane in Tanzania, through an extensive expansion programmed and a reorganization of its structure and services, increase the membership of the association and Revenue through increase of acreage and productivity through loans received from micro- financial institutions.

Goals

Farmers Cane Growers Association growers endeavor to do the following:

To reduce poverty amongst its members (SSSCG). This is the most critical goals in the existence and operations of Farmers Associations growers.

To provide credit facilities to the members; assisting them in cane development is key in the achievement of the mission and vision of Farmers Associations growers.

To be involved in land preparation, supply of seed cane, weeding, acquisition and supply of fertilizers and herbicides; to access credit facilities either in cash or in kind and extend the same to members;

To establish a savings and credit co-operative society, a trust fund and can Transport Association that will cater for other identified financial needs of the members.

To offer training and advisory services to members on best agricultural practices, e.g use of fertilizers, pesticides, herbicides and crop husbandry;

Negotiate with the miller for remunerative prices of cane including the mode and time of payments on behalf of the members. This is very important in ensuring that the price of the farmers are paid by the miller for cane delivered, covers all the costs of cane growing and provide a reasonable profit margin;

To assist members in other services such as cane cutting, cane loading and transportation to the mill according to the harvesting schedule. This ensures that there is minimal or no wastage of mature cane that should be harvested and delivered to the factory;

To be a spokesman and a representative of the members, with the third parties in different for a regarding all matters related to cane business. These safeguarding the rights of the members and ensure that they are protected against unfair competition.

Lastly, is to increase the membership of the association through provision of high quality service.

Core values

An Associations culture is normally shaped by certain fundamental beliefs and practices. Values therefore become foundations of an Associations Culture. Farmers Associations growers has realized that the way it relates to its members and other stakeholders is crucial in the achievement of its goals and objectives. The following core values are essential to the performance management of Farmers Growers Associations and the staff members.

Commitment to deliver of superior services to all members of the association.
Commitment to transparency and accountability in management;
Belief in competence and performance as the basis for reward in the Association;
Respect for the individual and his/her contribution to Organizational success;
Commitment to continue learning;
Commitment to team working.

In referring to the above Mission, Vision, Goals and core values of the scheme, there is a need of considering about loans and its growth in achieving objectives.

1.1.2 The SACCOS

According to Nyasingo (2006) formal financial intermediaries such as Commercial banks often do not serve poor household because they lack traditional collateral and the other reason is high cost of small transactions by dealing with such group of customers. One of the appropriate and ideal funding institutions among the many dealing with financing the poor groups is the cooperatives through SACCOS which actually has a long historical background. In 1810 Welsh social reformer-Robert Owen and pioneer of the Corporative movement from Newtons in Mid-Wales persuade forms of Cooperative organization although he was not successful. In 1828 William King promoted Owen`s idea by setting up a cooperatives store in Brigton.

SACCOS are among the Microfinance institutions solely dedicated to the promotion of thrift among its members and the creation of credit through financial intermediation at a low rate of interest. SACCOS are formed by individuals who are bound together occupationally, residentially or socially. Regarding occupation, Employees at work place have formed SACCOS to enable them get needed credit. This is the same way to the Farmers such as Small scale sugar cane out growers at Kilombero.

Microfinance

Microfinance is a term used to describe financial services for those without access to traditional formal banking. The term ‘micro-credit’ was first coined in the 1970s to indicate the provision of loans to the poor to establish income-generating projects, while the term ‘microfinance’ has come to be used since the late 1990s to indicate the so-called second revolution in credit theory and policy that are customer-centred rather than product-centred (Elahi and Rahman 2006). This definition will be applied throughout this study.

Microcredit

Microcredit is the process of lending capital in small amounts to poor people who are traditionally considered not bankable to enable them to invest in self-employment (Kasim and Jayasooria, 2001). The World Bank (2006) describes microcredit as “a process in which poor families borrow large amounts (or lump sums) of money at one time and repay the amount in a stream of small, manageable payments over a realistic time period using social collateral in the short run and institutional credit history in the long run”.

Rural finance

World Bank (2005) defined rural finance as the provision of a range of financial services such as savings, credit, payments and insurance to rural individuals, households, and enterprises, both farm and non-farm, on a sustainable basis. It includes financing for agriculture and agro processing.

Small farmers

In this study the terms smallholder, family farmers and small scale growers will interchangeably be used. Lipton (2004) defines family farms as operated farm units in which most labour and enterprise come from within the farm household, which devotes significant parts of its working time to the farm. At the same time, family farms can also

make significant use of labour from the broader local community and from extended family and social networks (Toulmin and Gueye 2004).

1.2 Statement of the Problem

Although SMEs have different sources from which to finance their operations such as owners equity, borrowing from banks and other sources, stock exchanges, venture capital, internally generated income/profits and so on, researches have shown that small scale sugar cane out growers are subjected to greater business and financial risks than larger business entities. These risks are due to their limited resources and lack of financial stability which contributes more to their natural death (Arnold, 1998).The problem of funds availability has to be looked at not only from the demand side but also from the supply side. Whether internal or external, the provider of finance is always concerned with his/her risk or return ratio.

The risk and return aspects make most of small scale sugar cane out growers in developing countries face some difficulties because suppliers of funds are more concerned with their returns.

For the case of large businesses, funds are available either through public equity market or debt markets while for the case of SMEs, these markets are not there or are too difficult to be accessed. The inaccessibility to financial markets pose funds acquisition problems for SMEs because the initial funding provided by the original owners is not enough to guarantee growth and sustainability during the subsequent phases of the firms life cycles(Arnold,1998).

The problems with the development of SMEs in developing countries is that majority of them do not exhibit any identifiable growth (Olomi, 1998).Those which are trying to grow are faced with limited resources particularly capital, and most of them collapse and die natural death. Nevertheless, the sector is still found predominantly in low growth areas, earning low revenues due to a number of constraints such as lack of access to

markets, capital(sources of finance),business skills working tools difficulties in collecting receivables and licensing regulations(Rutashobya,1995).

However, it appears that there have been some significant contributions made by small scale sugar cane growers to the economy of Tanzania as a whole in recent years, most of the small scale sugar cane growers in Kilombero District are said to receive farming loans from various financial institutions. Khan and Rahaman, (2007) noted that agricultural credit is one of the important intervention in increasing small scale agricultural production. The achievement of the Millennium Development Goals (MDG) will therefore depend mainly on the successful implementation of microcredit systems to improve small scale farming systems. This study therefore intends to assess if an increase in sugar cane production by small scale sugar cane growers (in this case KCGA, MUCGA and RCGA) is associated with the loans/ credits received from financial institutions.

The shortcoming in these studies is that most of them are not suggesting the ways which are real suitable for solving problems which existing between the MFIs and SMEs. They are not showing what the MFIs have to do and the SMEs have to do in a real sense to get loans easily and which ways they can accommodate so that they can be benefited from these loans and return them in appropriate time. Some have failed to bring these three players i.e Government, MFIs and SMEs in one table for the mutual and effective agreement.

1.3 Research Objectives

1.3.1 General research objective

The general objective of the study was to:

To assess the influence of Micro-Finance Loans received by Small scale Sugar Cane Growers.(in this case KCGA, MUCGA and RCGA) if has impact on its growth.

1.3.2 Specific research objectives

Specific research objectives of the study are the following:

1. To examine the uses of agricultural credit received by small scale sugar cane growers at kilombero.
2. Examine the procedures/Qualification of accessing credits at Kilombero District
3. To assess the influence of loans on the performance of small scale sugar cane out growers
4. To examine the challenges faced by micro finance institutions/Saccos as the financing entity at Kilombero.

1.4 Research Questions

Specifically the formulations of this study will be guided by the following research questions:

1. What is the extent of uses of the agricultural credit received by small scale sugar cane growers at kilombero?
2. What is the procedures/qualification of accessing credit at Kilombero District?
3. What is the influence of loans on the growth of small scale sugar cane out growers at Kilombero?
4. What challenges are faced by micro finance institutions/saccos as the financing entity at kilombero?

1.5 Significance of the Study

Since in our present situation the economy of most developing countries is depending much on the SMEs and Tanzania is among the developing countries, the entrepreneurs who are in the rural and urban areas such as the sugar cane growers have much to contribute to the economy of the country. A part from providing subsistence income to the operators, the SMEs is becoming leading employers slowly replacing the declining

public sector as the major employer. The SMEs as an economic sector, they are supposed to be given financial backup which is reliable and accessible. Therefore the study aimed on assessing the influence of Micro finance loans to small scale sugar cane out growers through SACCOSs and sees how they can raise the economic development of the country. It has become acceptable that SMEs in the country needs special help, particularly in their formative periods. This study will bring awareness to the SMEs on how they can benefits from the available SACCOSs and how they can access these SACCOSs for the credit facilities which they can utilize effectively for their benefit and that of the nation as a whole. The study expected to bring to light the benefits and question of whether the loans provided by financial institutions was really helping in the growth of the small scale sugar cane out growers at Kilombero. This study will generate recommendation which will bring insight to the finance to find ways which will make sure that the financial institutions provide loans to small scale cane growers in an affordable interest. It will also act as a guide for future planning, monitoring and evaluation of credit facilities among small scale for the credit facilities which they can utilize effectively for their benefits and that of the nation as a whole farmers in Tanzania .Also intends to propose the best ways in which agricultural credits can benefit small scale sugar cane growers and lastly add knowledge to the exiting literature on the topic. It is hoped that when this work is completed, Small Scale Sugar Cane Growers will be able to access more funds as loans from micro-finance banks to boost agricultural production in Kilombero. The researcher anticipates that government will make micro-finance banks available and accessible in all areas where small scale farmers mostly reside. This will also help small scale farmers in Kilombero to produce more sugar cane to sustainable levels for the populace and raw materials for industrial advancement.

1.6 Scope of the Study

The study is confined to Small Scale Sugar Cane Growers only. The study is geared towards assessing the impacts of loans/credit facilities which are received by Small Scale Sugar Cane Growers, other agricultural aspects will not be part of this study.

1.7 Limitations of the Study

The present study is anticipated to have its own limitation of time and resources as an individual student researcher. However, considerable care and thought will be exercised in making the study as scientific, systematic and as objective as possible. The researcher anticipates that he may not have access to some needed information. Some respondents may ignore/reject to respond to questionnaires/checklist mailed or sent to them.

Time and financial constraints meant that the study will not include other small scale crop growers in the country. Selecting just one group of small scale crop growers is to ensure that sufficient time is allocated to the respondents to answer the questionnaires and respond to the interview questions.

1.8 Organization of the Study/Dissertation

This chapter has provided a brief introduction to the research. The research problem was identified and both objectives and research questions were defined. The review of the literature follows in the next chapter. The review includes relevant studies on the influence of loan to farmers, accessibility of credit/loans by small scale farmers'. It describes the history and origin of the loan and credit systems, discusses the role of loan to the farmers in developing countries. It also discusses the type and sources for loan in Tanzania. The methodology used in the research is outlined in Chapter three. This gives an account of how the research was conducted. The research area is described and sampling and data collection are discussed. The results of the research are presented and discussed in Chapter four. The closing chapter summarises the results from the research and conclusion are drawn. Recommendations arising from the research and related areas requiring further research are also presented.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review will provide a range of literatures and briefly underling the main components which are direct or indirect related to the problem to be studied. It is a summary of what is documented on issues related to impact of loans provided by Micro financial Institutions thus the macro finance institutions/SACCOS to the Farmers Associations (SMEs) growth in Tanzania.

2.2 The SMEs in the Economy

Small and medium enterprises represent a major segment in any economy and are usually the largest employer in most countries and cannot be ignored (Mbamba, 1999) They are the major business sector and back bone in the industrial world. SMEs play crucial role in Tanzania economy. According to Mbamba (1999), in Tanzania by 1993,12% of the rural and 34% of the urban work force were employed by SMEs. However despite significant improvements in Macro-economic management and positive reforms in Tanzania, a large majority remain trapped in inform sector where they operate micro and small enterprises earning low incomes and sustaining poor quality jobs. Majority of Tanzania population is estimated to be making their living on subsistence agriculture and SMEs activities.

It is estimated that SMEs contribute 35% to the GDP and 20% of the total labour force, (Mwamila and Temu, 2004).A number of studies indicated that SMEs entrepreneurs in Tanzania are considered to be potential in creating jobs and contributing towards economic growth. In addition, the government has emphases the importance of the informal sector as part of SMEs in war against poverty in a number of ways, for example in October 2004: a Peruvian economist, Prof. Hernando de Soto, was to prepare the

ground for the implementation of a Programme to formalize properties and business in Tanzania, popularly known by its Kiswahili acronym MKURABITA. The programme is aimed at integrating the Tanzanian informal sector into the mainstream economy.

The role of SMEs in Tanzania's economy as sub sectors contribution to the national and socio- economic development can be seen in the following parameters.

- i. It generates income and employment;
- ii. Is a major supplier of goods and services to the people
- iii. It contributes about 50% of industrial products (GDP); and
- iv. It is a main creator of new products, new services and new entrepreneurs.

2.3 The SMEs sector in Tanzania

The Tanzanian government defines SMEs according to sector employment size, and capital investment in machinery. Accordingly, SMEs are defined as micro, small and medium size enterprises in non-formal activities, including manufacturing mining, commerce and services. A micro- enterprise is the one with fewer than five employees, small enterprises with 5- 49 employees, medium enterprises with 50 - 99 employees and large enterprises with more 100 employees. Capital investments range from less than T\shs 5 million to over Tshs 800 million. This definition would exclude a number of informal economic enterprises such as peasants, farmers and Tanzanian engaged in lower- level income generating activities.

2.4 The financial sector in Tanzania

In 1991, the Government of Tanzania introduced financial sector reforms in line with the broader economic reform policy aimed at liberalization of the economy. Oketch, and Ndulu, (1997) noted that the main goals of the financial sector reforms were to enable banks to operate on a commercial basis by allowing private ownership and decision making on institutional level. The key components of the reforms were: liberalisation of interest rates; elimination of directed credit; restructuring of state-owned financial

institutions (including CRDB); encouraging the entry of private ownership; and strengthening the regulatory and supervisory role of the Bank of Tanzania. In 1996, NBC was subdivided into a commercial bank, NBC, and the National Microfinance Bank (NMB), and CRDB was restructured and privatized.

The Cooperatives Societies Act was also introduced in 1991. The Act created the legal framework for cooperatives to be established as privately-owned equity-based institutions registered under the Ministry of Cooperatives and Marketing. The Act applies to all types of cooperatives, be that an agricultural production society or a SACCO. The main principle established by the Act was volunteerism and self-regulation (The Cooperative Societies Act 2003).

However, despite these reforms, access to finance for poor Tanzanians – particularly in rural areas – remained limited. In 1996, the government, in collaboration with the donor community, initiated a microfinance policy formulation process that started with a national demand-side study. A draft National Microfinance Policy was discussed by stakeholders in 1999 and approved by the Government in 2001 (Oketch, and Ndulu, 1997).

The policy reflects the government's recognition of the microfinance sector as an integral part of the financial sector Oketch, and Ndulu, (1997). The policy led to the Microfinance Companies and Micro Credit Activities Regulations of 2004, which govern microfinance companies (under the supervisory authority of the Bank of Tanzania, as well as the Savings and Credit Cooperative Societies Regulations and Financial Cooperative Societies Regulations of 2004). The regulations on savings and credit cooperatives came into effect in March 2005 and stipulate that cooperatives with capital exceeding Tshs 800 million (around US\$ 707,280), are subject to regulation and supervision by the Bank of Tanzania. Cooperatives with capital below this amount, is subject to regulation and supervision by the Registrar of Cooperatives under the Ministry of Cooperatives and Marketing.

2.5 Microfinance Policy in Tanzania

The main objective of the National Microfinance Policy of 2001 is to establish a basis for evolution of an efficient and effective micro-financial system in the country that serves the low- income segment of the society and thereby contributes to the economic growth and improve people's wellbeing. This is based on the fact that the access to financial services by the low income earners gives them an opportunity of managing scarce household and enterprise resources more efficiently, protecting against risks and providing investment opportunities for economic returns (Kessy and Urrio, 2006). This policy is guided by a vision of achieving wide spread of microfinance throughout the country, made possible by institutions operating on commercial principles. Since the launching of the National Microfinance Policy in 2001, microfinance industry in Tanzania has increased significantly, with many players entering the field and several institutions are now involved.

2.6 Types of Microfinance Institutions in Tanzania

Generally, there are two types of MFI, namely the informal microfinance institutions which include money lenders and money traders who charges interests in the form of cash or in kind. Others are such as Rotating Savings and Credit Associations (ROSCA) and Accumulated Savings and credit Association (ASCAS). In second category is the semi-formal microfinance institution like NGOs microfinance such as the promotion of Rural Development Enterprises (PRIDE), Small Enterprises Development Assistance (SEDA) and Foundation for International Community Assistance (FINCA) that offers micro-credit to the people. Another type of microfinance highly promoted in Tanzania is the "Credit and Saving Cooperative Unions" (SACCOS). Both SACCOS and NGOs MFIs are referred to as semi or quasi formal financial institutions.

In order to operate the MFI have to obtain official registration from appropriate government authorities (i.e. The Registrar of Cooperatives and Non-Financial Government Agencies and Departments). Various authors have established that, the overall goal of MFI as development organizations is to serve the financial needs of un-served on under-served markets as a mean of meeting development objectives.

2.7 The Impacts of MFI Worldwide

The promotion of microfinance started over two decades. This promotion intends to enable poor people access easily to credit for poverty alleviation. There has been an interest growing to find out the impact of this microfinance on poverty alleviation. Khandker (2005) did a study on Microfinance and Poverty in Bangladesh and found positive effects on poverty alleviation rates. He found that between 1991/92 and 1998/99, moderate poverty in all villages declined by 17%. Among program participants who had been members since 1991/92, their poverty rates declined by more than 20%. Khandker (2005) estimates that more than half of this reduction is directly attributable to microfinance, and finds the impact to be greater for extreme poverty than moderate poverty. The author further found out that microfinance programs reduced average village poverty level by 1% each year in program areas. Microfinance thus helps not only poor participants but also the local economy. According to Khandker (2005) microfinance accounted for 40% of the entire reduction of moderate poverty in rural Bangladesh.

Mk Nelly and Christopher (1999) did a study on the impact of credit with education on mothers and their young children's nutrition in Bolivia by assigning communities to either a program or control group. This was followed by baseline data collection, thereby allowing program impact to be measured through simple comparison between the treatment and the control group. Mk Nelly and Christopher (1999) study found a positive impact on income. Their results show that the majority of participants (67%) of the credit with education program in Bolivia felt that their incomes had increased or

increased greatly since they joined the program. Additionally, Mk Nelly and Christopher (1999) find that clients of Lower Rural Bank Credit with education program in Ghana increased their incomes by 36 US dollar compared to US dollar 18 for non-clients per month.

2.8 The role of MFIs in Developing SMEs

The National micro finance policy (2000) covers the provision of financial services to small and micro enterprises in rural area as well as in urban sector that are engaged in all types of legal economic activities. The agricultural and Livestock policy is aimed at the development of agricultural and livestock activities that are performed by both small farmers and livestock keepers. Priority is given to resources based enterprises particularly activities that add value to agricultural products.

While setting proper goals to manage the business, MFIs have to set a system of controls so as to measure performance of SMEs. Checks and metrics help owners manage organizational activities. A firm cannot control the external factors affecting the value of finance as well as its environment such as customers and competitors but it can be controlled by the MFIs for benefit of all parties. Lack of proper control on internal activities can eventually lead to business failure, so the MFIs have the role of educating the whole management of SMEs. Controls can be implemented in several aspects of the business. Controls can be set in place to measure the quality and quantity of production. Certain financial controls are needed to measure the overall financial performance of the business. A good control system will establish standards, measure, performance, compare performance against standards and then provide for a way to correct procedures where needed. So all this have to be done with close supervision of MFIs [.http://www.innovationhabitude.com/files/Research_papers-Why_Business_Fail-Titus-05-32.doc](http://www.innovationhabitude.com/files/Research_papers-Why_Business_Fail-Titus-05-32.doc).

MFIs have the roles of assisting SMEs operating in the informal economy to become formal micro-enterprises; so as to contribute in the economy of the nation, MFIs has to assist SMEs with small enterprises in efforts to become small enterprises: as well as assist SMEs with small enterprises to grow into medium- enterprises and medium size enterprises to become large-enterprises. With proportional efforts to raise awareness of Tanzania small scale sugar cane out growers contribution of the economy, micro-financial institutions have the role to encourage and to set objectives for reaching, small scale sugar cane out growers. Account managers and relationship managers need to understand how to work with these clients, identify client needs, and coach small scale sugar cane out growers in the lending approach process.

Another role is to provide a guide in financing SME entrepreneurs, designed to impart basic information to SME owners on sources of financing, terms and conditions, preparing financial Proposals and negotiating for credit he guide should be distributed widely throughout the country and more precisely in Dar es salaam in both English and Kiswahili and supported by information sessions the purpose is to get the message out to these owners in order to improve to source Financing (Lois Stevenson and Annette Stonge,2005).

2.9 The Role of the Agricultural Sector in Tanzania

The agriculture sector plays an important role in the Tanzanian economy and possesses the potential to advance the country's objectives of growth and poverty reduction. The performance of the overall Tanzanian economy has been driven by the performance of the agriculture sector, due to its large share in the economy. Agriculture in Tanzania employs the majority of the poor, and has strong consumption linkages with other sectors. In 2004, the sector contributed approximately 51% of foreign exchange, 75 % of total employment and 47 % of the Gross Domestic Product (GDP). Smallholder farming dominates agricultural production, and a large proportion is for subsistence. Since poverty is predominantly a rural phenomenon, and agriculture is a major economic

activity for rural population, it follows that success in poverty Reduction depends critically on performance of the agriculture sector.

In Tanzania, agriculture is dominated by small-scale farmers, who cultivate various types of cash and food crops for subsistence. They cultivate farm sizes ranging between 0.9 to 3.0 hectares each (Tanzania National Website, 2008). Sugar cane is an important cash and export crop in Tanzania and a source of income for many small-scale growers, also earning the country foreign currency. According to Mbilinyi (1997), small-scale sugar cane growing is only significant for Kilombero and Mtibwa. It is estimated that 40-50% of sugar cane in Kilombero is produced by small-scale farmers (Kamuzora, 2011).

Sugarcane is an important commercial crop in Tanzania. It is the main source of sugar produced for both export and domestic consumption. Currently, most sugarcane is grown in estates, owned by the Sugar Processing Factories (SPF) as well as small scale growers. The contribution of small-scale farmers to the industry has gradually increased in recent years.

Tanzania's annual sugar production is in the region of 250,000 – 300,000 tons. Tanzania used to import about 200,000 tonnes per annum to offset the production shortfall, but this figure has decreased as production has increased following improved rainfall and access to loans by small scale sugar Cane growers. It was expected that output will increase to 317,000 metric tons between June 2008 and March 2009, from 265,000 tons in the same period a year earlier. Tanzania aims to produce 400,000 tons by 2010.

Agricultural credit is very important for sustainable agricultural development to be achieved in any country of the world. Imoudu and Onaksapnome (1992) contended that agricultural loan is a crucial input in smallholder agriculture because it enables small scale farmers to establish and expand their farms as this would increase their income and ability to repay loan.

Proponents of microfinance argue that small loans to poor people could serve as a powerful tool for alleviating poverty (Khan and Rahaman, 2007). This is consistent with

the UNCDF's (2009) claim that microcredit for farmers provides a potent tool for expanding economic opportunities and reducing the vulnerabilities of the poor. Asiama and Osei (2007) have noted that this is possible because microfinance helps the poor to meet their basic needs therefore improving household income. Similarly, Khan and Rahaman (2007), Robinson (2001), Otero (1999) and Wehrell *et al.* (2002) arguing from a sociological perspective asserted that access to credit provides the poor with productive capital that helps to build up their sense of dignity, autonomy, and self-confidence, and hence are motivated to become participants in the rural economy. Likewise, Pronyk *et al.* (2007) argue that microcredit presents the poor with income, food, shelter, education and health and can therefore have immediate and long term consequences.

2.10 Loan

Kasim and Jayasooria, ((2001) describes a loan as the act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as open-ended credit up to a specified ceiling amount.

2.10.1 Meaning & Scope of Credit in Agriculture

Credit has been regarded as a condition which enables a person to extend his control, as distinct from ownership of resources. It represents the borrowing power of the individual who wants to make use of certain resource during a certain period, through their temporary control, and promises to return them along with the price for temporarily using them. Agricultural credit is, thus essentially, an operation of securing money from one source or the other by creating the confidence that the amount of loan would be invested in productive operations so that the lender will get back the loan with interest as per agreement.

Agricultural credit involves extending the net cultivable area by bringing waste and fallow land under cultivation, providing manures and fertilizers, protection of land, the

provision of irrigation, making large amounts of fixed and working capital available to agriculture, changing farm organization, enlarging its share of gross national product and increasing labour return in agriculture. Adequate and timely finance enhances the withholding capacity by the producers and their bargaining position. Right type of credit also avoids: marketing problems. Credit, thus, injects an element of healthy competition and concrete commercial calculations in farm operations. The subsistence farming gives way to commercial farming, the simple process of production makes room for mechanized operations and Latitudinal changes sweep the length and breadth of the countryside. Agricultural credit can ignite the process of managerial skills involved in the farm enterprises. Thus, the role of credit consists in laying the foundation alone of farm revolution and maintaining the structure built upon it

2.10.2 Agricultural Credit to Small Scale Growers

Every modern business is operated on own capital or borrowed capital. Similarly, farming also requires capital. The need for farm credit in increasing production and effective utilization of farm resources is quite clear. Agricultural credit is an important financial support that a small farmer can get in order to bridge the gap between his income and expenditure in the field. Agricultural credit is an essential ingredient in the growth strategy of agricultural sector. Farming not only requires credit in the form of improved seeds, fertilizer and modern implements but also requires liquid capital for financing the harvesting, haulage of produce and other similar farm operation also (Mbilinyi, 1997). Agriculture credit is a social necessity for agriculture development in Tanzania. The concept of such credit should be clearly understood by policy makers and bankers. Agriculture credit is seemed as the only way of eliminating the two major problems of Tanzania's rural economy. Firstly, the persistently poor income of small farmers due to low per acre yield and secondly, perpetual losses encountered due to no recovery of credit. Agriculture credit gave to farmers an independent economic and social identity (Kamuzora, A.K. 2011).

2.10.3 Types of agricultural loans

Agricultural loans are categorized as short-term, intermediate-term or long-term, depending on their maturity. Lenders often describe loans by the purpose or terms of the loan. For example short-term loans are often used for operating expenses. Loan maturity usually matches the length of the agricultural production cycle (e.g. 3 to 18 months), hence a short-term loan. However, this may be described as line-of-credit financing under a credit commitment, which specifies the amount and timing of the disbursements and payments of the loan. The line-of-credit may be a single disbursement due at a specified future date or a revolving line-of-credit in which the borrower may borrow and repay as needed during a specified time period, usually subject to a maximum borrowing level. On a non-revolving line-of-credit, a borrower is entitled to a specified amount of funds, and repayment does not allow the borrower to draw those funds again. A non-revolving line-of-credit is sometimes referred to as a draw note.

Intermediate-term loans are used to finance depreciable assets such as machinery, equipment, breeding livestock and improvements. In addition, intermediate-term loans are sometimes used to restructure a borrower's balance sheet to provided additional working capital. Lenders often describe them as capital, or instalment, loans. Loans usually range from 18 months to 10 years.

Long-term loans are used to acquire, construct and develop land and buildings, and usually are amortized over periods longer than 10 years. Lenders may describe them as real estate mortgages because they are usually secured by real estate. Long-term loans are sometimes referred to as contract financing, in which case a seller provides financing directly to a buyer.

Loan Documents

Loan transactions typically include several documents for the borrower to sign, depending upon the type of loan. The note or promissory note is a document in which the borrower agrees to repay a loan at a stipulated interest rate within a specified period of time. The note may specify a variable, fixed or adjustable rate, and whether line-of-

credit financing is being used. A loan agreement is a written agreement between a lender and a borrower stipulating the terms and conditions associated with a financing transaction, and the expectations and rights of the parties involved. The loan agreement may indicate reporting requirements, possible sanctions for lack of borrower performance and any restrictions placed on a borrower.

A security agreement is a legal document signed by a borrower granting a security interest to a lender in specified personal property pledged as collateral to secure a loan. Essentially, a security agreement states what happens to the collateral if a borrower fails to perform as promised. A financing statement is a document filed by a lender with public official. The statement reports the security interest or lien on the borrower's non-real estate assets. The mortgage serves the same purpose in financing real estate.

2.10.4 Terms and conditions of the loan

As discussed earlier, a borrower needs to understand the note and loan agreement completely. This section outlines the primary loan terms and conditions included in most notes and loan agreements.

2.10.5 Factors to obtain credit or extend loans

The possibilities for a farmer to obtain credit for a larger farm investment are somewhat greater than for smaller rural firms. So far credit to agriculture has been largely allocated to a small number of agricultural enterprises, while a large number of individual family farms have been excluded from agricultural and rural capital market due to the credit constraints they have faced (Angelova & Bojnec, 2011). The most relevant factor for extending an already existing loan regarding the importance of available collateral versus the expected cash-flow generation from the loan is more cash flow than asset-based lending, while only asset-based lending seems to be the least important, if there is enough collateral wealth that can be easily liquidated in case of default

2.10.6 Effects of loan received by SSSCG.

The impact of microfinance is not a simplistic debate on whether it is transformative or ruinous; it is much more complex. Thus far literature reviews of empirical research on the impact of microfinance on the poor found controversial (and inconclusive) findings.

Makina and Malobola (2004) classify such findings into a three-fold typology:

Those studies that find beneficial socio-economic impacts, such as income stability and growth, reduced income inequality, reduced vulnerability, employment, nutrition and health improvements, school attendance, strengthened social networks, and women's empowerment (e.g. Afrane 2002; Barnes 1996; Barnes and Keogh 1999; Beck et al. 2004; Hietalahti and Linden 2006; Hossain and Knight 2008; Khandker 2001; Schuler et al. 1997; UNICEF 1997; Wright 2000);

Those studies that allude to negative impacts, such as the exploitation of women, unchanged poverty levels, increased income inequality, increased workloads, high interest rates and loan repayment, creating dependencies, and creating barriers to sustainable local economic and social development (e.g. Adams and Von Pischke 1992; Bateman and Chang 2009; Buckley 1997; Copestake 2002; Goetz and Sen Gupta 1996; Kabeer 1998; Rogaly 1996).

Those studies that show mixed impacts. For example, benefits for the poor but not for the poorest (e.g. Copestake et al. 2001; Hulme and Mosley 1996; Morduch 1998; Mosley and Hulme 1998; Zaman 2001); or helping the poor to better manage the money they have (Rutherford 1996:2) but not directly or sufficiently increasing income, empowering women, etc. (e.g. Husain et al. 2010; Mayoux 1999; Rahman 1998). Karnani (2007) argues that money spent on microfinances could be better used for other interventions, like supporting large labour-intensive industries for job creation. And there is literature that argues that a single intervention (like microfinance) is much less effective as an anti-poverty resource than simultaneous efforts that combine microfinance, health, education, etc. (Lipton 1996).

2.10.7 Importance of Agricultural credit

Agricultural credit enhances productivity and promotes standard of living by breaking vicious cycle of poverty of small scale farmers. Adegeye and Ditto (1985), described agricultural credit as the process of obtaining control over the use of money, goods and services in the present in exchange for a promise to repay at a future date. The crucial role of credit in agricultural production and development can also be appraised from the perspective of the quantity of problems emanating from the lack of it. In modern farming business in Nigeria, provision of agricultural credit is not enough but efficient use of such credit has become an important factor in order to increase productivity. Ogunfowora *et al.* (1972) reported that credit is not only needed for farming purposes, but also for family and consumption expenses; especially during the off season period. Credit has also been discovered to be a major constraint on the intensification of both large and small scale farming (Von-Prisckiecke 1986). The absence of rural banks or their unwillingness to meet credit need of rural farmers largely account for the wide influence of informal lending institutions on agricultural production in the rural areas. Abe (1982) reported that non-institutional creditors accounts for 70% of the total credits received by Nigerian farming population. However, with the present situation in Nigeria, these sources could hardly meet the increasing demand for credit by farmers.

2.10.8 Why small-scale farming merits Loan support

Small-scale farming merits practical support for a number of reasons, recognised to a greater or lesser degree by policy-makers: it can make more efficient use of labour than large-scale farm enterprise and, in certain respects, it is more adaptable and less risky; and it contributes importantly to national, local and household food security, and to poverty reduction. In addition, because they are such a large proportion of the global population, support to small farmers is important for social stability.

2.10.9 Lack of Knowledge and Financial Resources

A study by Siyao, (2012) at Kilombero revealed that Small-Scale Sugar Cane lack of information on how to secure agricultural credits. This was indicated by 34 (44%) respondents who included 16 (21%) males and (18) 23% females. The small scale Sugar cane growers pointed out that if they are given affordable loans productivity will increase, as well as income from sugar cane growing. Hence they will be able to pay back the loans and at least buy a radio or television and printed materials that will enable them to get more agricultural information.

2.10.10 Sources of Credit to Farmers in Other Parts in Africa

A study conducted in Nigeria by Bolarinwa and Fakoya (2011) disclosed that majority (64.0% and 76.0%) of farmers obtained credits from relative/friends and moneylenders respectively while 12.0% and 25.6% of farmers' secured loan from commercial banks and Nigeria Agricultural and Rural Development bank. It is obvious that these farmers depended on informal creditors who charge exorbitant interest rates. They have not been able to exploit the low interest rate charge by formal credit institution.

2.11 Problems in Financing Small Scale Farmers

Literature on financing small scale farmers by Bolarinwa and Fakoya (2011), Asiamand Osei, (2007) and Khan, and Rahaman, (2007) revealed that provision of sustainable and adequate financial services to resource-poor rural households faces many challenges, including limited capacity of financial service providers and low level of client education. Most commercial banks are not interested in moving into the rural areas due to the low income levels, lack of scale economies, and poor infrastructure in the rural areas. Also few banks actually understand the most common economic activity in rural areas, i.e. agriculture, and those who do may be reluctant to serve the agricultural sector, given its seasonality and the inherent risks of farming. They also may be hesitant to finance rural micro- and small enterprises, given their difficulties to access markets, and the lack of experience and capacity of their promoters.

2.12 Previous Studies on Impacts of Agricultural Credits

There have been many studies on the impacts of credit constraints on agricultural production and

rural income, because access to credit is often found to be a key factor for improving productivity and rural living standards in less developed countries. Carter (1989) found that credit had a positive impact on production and can be expected to reduce the pattern of structurally unbalanced growth in Nicaraguan agriculture. Zeller, Diagne, and Mataya (1998) concluded that participation in an agricultural credit program was able to raise the cropping share for hybrid maize and tobacco, and membership in credit programs had a sizable effect on crop income in Malawi. This implies that expansion of credit access can have beneficial effects on agricultural production and rural incomes. Similarly, other studies have found negative effects of lack of access to credit on agricultural production or profitability in developing countries, for example, Duong and Izumida (2002) in Vietnam; Freeman, Ehui, and Jabbar (1998) in Ethiopia and Kenya.

2.13 Impact of Collateral on Microfinance Institutions' Lending Perspective of Lending

In lending by MFIs, Collateral is a requirement but it has a certain degree to which it is considered very crucial. It was found out that it is usually large forms of loans which require collateral and that it depends on the duration for which the borrower is to take while paying back the loan. According to the loans' issuing officer of Pride MFI, collateral is compared with several other requirements for instance, the residential status of the intending borrowers. Usually before lending to the borrower, the borrower is required to provide certain information concerning the purpose of the loan, the duration for which a loan is going to be paid back, which must be in agreement with that of the lender, previous information about the borrowers' past in terms of his financial background.

Other requirements mostly on micro borrowers (those below 100,000 shillings), provide information about their area of residence, address and in some instances finance institutions are required to present recommendation letters from established members of not less than 2 years and those, are to act as guarantors and also they are advised to help the borrowers they have seconded in using the borrowed funds properly.

The credit period is also put into consideration. This has to be in line with that of the microfinance. Usually borrowers are given an appropriate time to work while financing their loan. The microfinance sees that the period is enough for a borrower to repay back as well realize the benefit of borrowing. The microfinance aims to see that the borrower is not stressed while paying back and also remains with enough funds to run the business he has borrowed. Usually, the borrower's age is put into consideration; this is to help in analysing the borrower's ability to pay back. Usually borrowers above 18 years are considered on the expense of minors. The micro finance favours them because they can have full liability in terms of payment. Besides, some have owned assets which can be presented inform of collateral.

2.14 Effects of collateral on the lending institution

Collateral requirement by the microfinance institution has had varying effects on the microfinance's lending. The loans issuing officer points out that through collateral, loan defaults are reducing. This is due to the fact that borrowers tend to work hard in order to recover their assets which help the microfinance to have funds available to lend other borrowers thus maximizing returns. In some instance, though it is unfortunate to the microfinance. According to the loans issuing officer, assets whose owners have failed to remit the microfinance funds after a given period of time are sold off to realize the microfinance funds. To pay back the funds when they have failed, the microfinance notes that the realized funds from the sale are lent out which further fetches the institution returns.

However, the microfinance is keen to note that the requirement of collateral has some time limited the lending despite reducing on defaults. Many borrowers fear to come for loans due to fear of not being able to pay back their loans and later lose their property pledged as security. This is blamed on the poor information available to the borrowers who are mostly semi-illiterate. Besides, the micro finance is, keen to note that on many occasions would be borrowers have been limited from acquiring certain amounts of loans due to the fact that their collateral does not match with the value of loan required. However, it is keen to note that this happens when several negotiations fail with the borrower in order to make him apply for a sizeable loan

2.15 Theoretical Framework

Two theories were reviewed in the course of this study and they are as follows:

2.15.1 Micro-Credit Delivery Model

The induced poverty reduction and economic development theory lend itself to the micro-credit delivery model. According to this theory every country that embarks on the course of economic development necessarily encounters a set of constraints imposed by inelasticity on the supply of strategy inputs (Umoh and Ibang, 1997). Unless efforts are directed towards the loose reduction of these constraints by producing substitutes for these factors with inelastic supply, the whole process of economic development is bound to be greatly depressed (Hayami and Ruttam, 1971). Promoting access to finance to rural poor has been identified as an indispensable tool in development. A poorly developed financial system is an obstacle to the wealth creation, enhancement of socioeconomic welfare and promotion of human dignity (Iniodu, and Upak, 1996). The provision of financial support through credit and savings for acquisition of capital goods is crucial for effective economic management, the aims of which are to increase prosperity, equity and sustainability. Economic management goals like provision of full employment, eradicating poverty, enhancing economic growth and alike are consistent with the primary objectives of the provision of rural finance. All these are based on the

assumptions that additional money, either in form of loan or savings will result in an increase in overall liquidity available to the households. This additional liquidity can be used to expand any of the households' production, consumption and investment activities as enunciated in savings-investment gap model which is used to justify borrowing for economic development.

2.15.2 Theoretical Model of Matching

Theory of matching presumes that a match occur when the endowment of certain characteristics allow a borrower to engage in the transaction at a low cost on the one hand and at the same time, certain characteristics of the lending technology allow the lender to screen this borrower at low cost on the other hand (Milde and Riley, 1988).

Small scale farmers do not have securitized collateral needed for a match with an institutional lender. Similarly, it is very expensive for formal lender to absorb all the cost of evaluating such potential borrowers (Sanchez-Schwarz, 1996). The underlying assumption is that formal sources of credit can offer more attractive contract terms and conditions, such as lower interest rates, larger loans sizes and longer term maturity. However, the transaction costs involved may make these contracts unattractive for the rural poor that attempt to borrow from formal lenders (Joshi, 2005). The model predicts a positive matching between borrowers and lenders, given borrowers possession of traditional collateral, low transaction cost and affordable interest rate.

Arising from the above discussions, it could therefore be deduced that the micro-credit delivery model pinpointed the link between access to finance and poverty reduction vis-à-vis the extent to which financial deepening promote economic development by reducing the obstacles of inadequate capital accumulation which arises due to the financial exclusion among the majority of the inhabitants dwelling in a particular country. Whereas the theory of matching enunciate certain prerequisite which must be satisfied to warrant a match between borrowers and lenders that in turn will make finance (credit) available to the populace dwelling in rural areas. Such factors include

availability of collateral, low transaction cost, affordable interest rate among others. Thus, theory of matching was adopted as a basis for analysis in this study.

2.15.3 Empirical Evidence of the Study

The related studies have been done by different individuals within the country and outside the country. The literature on enterprises identifies a lack of capital as a primary constraint to enterprise development. The small businesses are complaining about death of funding. The financing said to have been earmarked for business and entrepreneurial is never received (Mambula, 2002). Also Rondelli and Karsada (1991) argued that “small scale enterprises have been the primary source of labor absorption in cities in development countries and will continue to play a crucial role in the future.” In addition to that they continued; The challenge facing governments and the private sector in the future includes:(a) creating an economic environment conducive to small enterprises development;(b)removing regulatory and administrative obstacles to small enterprises expansion;(c) tailoring small enterprises promotion programs to local conditions and needs;(d)providing capital and credit for small business owners;(e)involving the private sector in small enterprises development programs and (f) providing technical assistance, training and educational programs through public-private partnerships.(<http://www.springerlink.com/content/r77621r3p42uj613/>).

There is a need for institutional changes i.e MFIs which channel loan to funds to SMEs in a manner that addresses their respective capital constraints and encourages the SMEs owners to become responsible savers and borrowers.

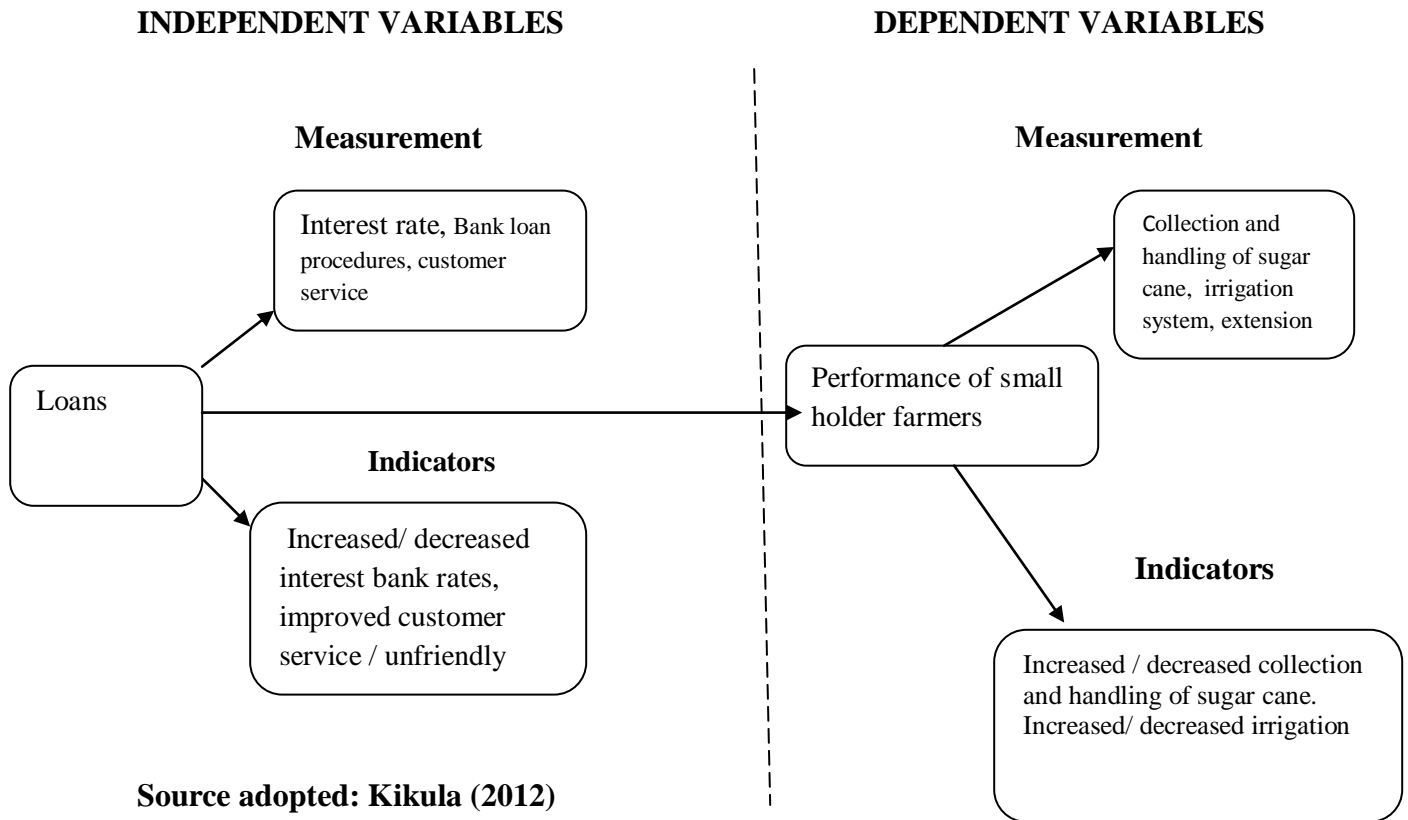
The shortcoming in these studies is that most of them are not suggesting the ways which are real suitable for solving problems which existing between the MFIs and SMEs. They are not showing what the MFIs have to do and the SMEs have to do in a real sense to get loans easily and which ways they can accommodate so that they can be benefited from these loans and return them in appropriate time. Some have failed to bring these three

players i.e Government, MFIs and SMEs in one table for the mutual and effective agreement.

2.16. Conceptual Framework

This study will be guided by the conceptual framework developed by researcher after reviewing a number of related literatures. The assumption of the framework is positive impact of agricultural credit to small scale sugar cane growers is a function of the six interrelated factors shown in Figure 1. At the right side of the diagram there is dependent variable (impact of agricultural credit or loans) which is preceded by independent variables (Farmer improvement with loans, Service delivery & increased supplier of implement).

Conceptual Framework



2.16.1 Operationalization of the Variables

The assumption is that a loan is independent variable measured through bank interest rates, bank loans procedures and customer service delivery. The indicators are increased or decreased bank interest rates, improved or cumbersome bank procedures.

While performance of sugarcane growers is dependent variables measured through irrigation systems and availability of extension services, indicators are addressed through increased or decreased collection and handling of sugarcane and decreased or increased irrigation systems and extension services.

Access to Market

It is anticipated that if all factors are operating equally, influence of the loans received by small scale sugar cane growers would be seen if they have access to market of their produce. Access to market would help them to repay back the loans they have received and hence be able to produce more.

Application of Appropriate Technology

Application of appropriate technology in farming has resulted in improved agricultural production. The technology referred here includes the use of tractors, oxen driven plough, irrigation technology etc. If small scale sugar cane growers would make the use of appropriate technology they would be in a position to take loans and repay back the loan/credit and hence their production would increase and impact would also be seen in the improvement of the welfare of farmers.

Optimal Rainfall/Water for Irrigation

Crop cultivation and almost all forms of agricultural production depend on water for irrigation or optimal rainfall. The conceptual framework above anticipate that if small scale sugar cane producers have assurance of this variable the impact of the agricultural loans advanced to them would be realized.

Proper Agricultural Inputs

These are resources that are used in farm production, such as chemicals, equipment, feed, seed, and energy. The conceptual framework above predicts if these resources are available and used by small scale sugar cane growers their production will increase and hence the uses of agricultural credits in buying such inputs will be seen.

Improved Infrastructure

Additionally, improved infrastructure includes transport and communication and good legal framework. Agriculture Infrastructure is the most essential input regarding the

development of Tanzania, agriculture as one of the third world country depends on agriculture sector directly or indirectly. Where agricultural infrastructures are improved production is similarly improved.

In short summary, Dependent variables is the positive impacts of agricultural credit to small scale sugar cane growers. The dependent variables goes with the measurement which are, performance, improved agricultural methods, technology and quality of production where by the indicators are decreased or increased quality of production.

For the case of independent variables these are strong Infrastructure such as Transport, use of proper agricultural inputs such as better seeds, fertilizers, pesticides, optimal rainfall/water for irrigation, application of appropriate technology and lastly are access to market. These independent variables are normally followed by measurement such as productivity and production which its indicators are increase or decrease production or productivity.

2.17 Chapter Summary

The chapter reviewed relevant literature on the influence of Microfinance loans to the Small Scale Sugarcane Growers worldwide, and reviewed other literature written in Tanzania, using a case study of Kilombero District in Morogoro Region

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter explains how the study was conducted, research design adopted and areas of study clearly specified. Methods of data collection used were questionnaires, interviews, observations, data processing and analysis, focus group discussions and documentary review.

2 Area of Study

The study was carried out in three purposively selected villages in Kilombero District Morogoro Region because most small-scale sugar cane farms are located in this District. Kilombero District is one of five Districts of Morogoro Region; other districts are Morogoro Rural, Morogoro Urban, Ulanga, and Kilosa. The Kilombero District has 400,000 hectares of a plain land suitable for agriculture activities such as farming, fishing, and animal husbandry. The three villages are selected because they are heavily involved in small scale sugar cane growing; sugar cane is a major cash crop in this area. The area is also surrounded by number of Microfinance institutions which provides loans to the small scale sugar cane growers these are SACCOS, CRDB, NMB and FINCA.

3.1 Research Design

A Cross-sectional study design was used. Data was collected at a single point in time. This design is useful for descriptive purpose and determination of relationship between variable (Babbie, 1990). This design is also important to utilize economic resources in terms of time and financial constraints. Also it has greater accuracy and it provides quick results.

3.3 Study Population and sample size

A Population is a group of individuals, objects or items from which samples are taken for measurement (for example a population of students).population also refers to the larger group from which the sample is taken and lastly Population is any precisely defined set of people or collection of items which is under consideration (Hussey and Hussey, 1997)

3.4. Study population.

For this study, the population consists of the active and potential Small Scale Sugar Cane Growers, males and females, Officials from Kilombero Cane Growers Association (KCGA, MUCGA and RCGA) Farmers' Associations, Officials from Kilombero Sugar Company who are dealing with out growers and Officials from Financial Institutions such as National Microfinance Bank, (NMB) CRDB bank, SACCOS and FINCA.

3.4.1 Sample size

This refers to the number of items selected from the universe to constitute a sample. The sample size was 78 respondents selected through random sampling drawn from population of 398 small scale sugar growers at Kilombero District. The table below shows the analysis.

Table 1: Sample size

Village	Population	Sample Size	Percentage of population
Kidatu	133	25	32.05
Mkamba	126	26	33.33
Msolwa	139	27	34.6
Total	398	78	100

Source: KSGA 2012

Table 1 above shows sample obtained randomly from the three villages. This make up a total of 78 respondents. Five respondents will be obtained purposively from the following areas: One (1) office dealing with loans from the following financial institutions: NMB, CRDB and SACCOS and one from KSC and the other from KCGA. The total sample therefore will be 83 respondents.

This study use both probability and non-probability sampling techniques with a sample size of 78 respondents, comprising of male and female small scale sugar cane growers. With 78 respondents as the sample size the researcher was able to draw the meaningful theoretical or applied conclusions. In addition, with this sample size comparisons and powerful statistical data analysis will be undertaken /obtained.

3.5. Sampling procedure

Random sampling can be defined as a sampling method that ensures that every possible element in the population has an equal chance of being selected (Kothari, 2004; Babbie 2007). Respondents were selected randomly in order to increase validity, reliability and to reduce bias. This sampling technique was used to select respondents from the group of small scale sugar cane growers. Therefore each respondent had equal chance of being selected. This technique was therefore be used to select 78 small scale sugar cane growers from three villages. The respondents were obtained from the list of all small scale sugar cane growers that were obtained from Kilombero Sugar Cane Growers Association (KCGA), Msolwa Ujamaa Cane Growers Association (MUCGA) and Ruhembe cane growers Associations (RCGA)

3.6 Units of enquiry

The units of the inquiry of the study were:-

Office dealing with loans from the following financial institutions: NMB, SACCOS office, Kilombero sugar company ltd office, CRDB office, FCGA(This is to say KCGA,RCGA,MUSCGA)

3.7. Method of data collection

Data are of two types: primary and secondary data. Primary data are those data obtain through field observation, interviews, and questionnaire among others. On the other hand, secondary data consists of company record, government publication, journals and so on.

Based on the nature of this study, it appears that primary data is more suitable because the issue of financial access is limited within the purview of demand for finance and so first hand data would be more reliable in explaining the real scenario.

The primary data was obtained through the administration of questionnaire and an interview schedule. Secondary data will be collected from documentary review which includes published and unpublished reports.

3.7.1 Data Collection tools/techniques

In this study, the data collection methods were employed namely, interviews, observation and documentary analysis.

3.7.2 Questionnaire

The use of questionnaire to collect data is very popular in a lot of survey. A questionnaire can either be used alone or in conjunction with other methods of data collection. The written questionnaire, whether administered through the mail or as part of a personal interview process, can be a highly effective means of obtaining data (Loose and Worley, 1994:144). The questionnaire's ability to elicit both qualitative and quantitative data on unobservable behaviour, such as feelings, attitudes, ideas, opinions, and viewpoints, made it the instrument of choice. Furthermore, questionnaires give respondents time and the freedom to independently respond to questions, therefore leading to well thought out responses. Because the researcher has less influence on the responses, the respondents' enjoy greater anonymity, resulting in less bias. According to

Cockburn and Mackenzie (2000), “The main attraction of questionnaires is the relative ease of gathering a large set of responses. Their primary limitations, however, are their narrow scope and their separation from the user's task: they report on the user's perceived, rather than actual, interaction.” Often, questionnaires also have a low response rate, some questions are left unanswered, and their inflexible nature leaves no room to follow up or probe reactions and seek clarification on ambiguous or unclear areas. Due to the inherent lack of quality control, questionnaires require very careful question design and are more prone to error than other methods, such as telephone or in-person interviews.

Official leaders from KSC, KCGA, CRDB, NMB, SACCOS and FINCA will be involved in the interview.

3.7.3 Interviews

A limited number of survey respondents were invited to participate in semi-structured interviews during the surveys. This mixed approach is expected to balance the broader, more prescriptive survey questions, providing participants with an opportunity to give more spontaneous, in-depth accounts of their feelings on the impact of loans provided to them. In a big way, the interviews is sought to reduce the shortcomings of the questionnaire noted above. Official leaders from KSC, KCGA, CRDB, NMB, SACCOS and FINCA were involved in the interview.

3.7.4 Observations

The researcher is going to participate directly in the field to obtain primary data by observing the farmers in their plantation to verify the number of acres owned by small cane growers and tonnage produced.

3.7.5 Documentary source

This type/tool was used for secondary data collection .Information like working capital for small scale sugar cane growers, the growth that is the number of years since it has been in operation can be obtained in documentary source.

3.7.6 Data Processing and Analysis

Simple statistical techniques such as descriptive statistics including tables were used in analysing and summarizing the data. The raw data obtained from the field was prepared for analysis by coding all the data and enter them into computer to be analysed using SPSS software package and Microsoft programme used to derive descriptive statistics such as percentages.

3.8 Ethics Review

A researcher who is conducting human subject research should be aware of the ethical issues. A researcher needs to submit research ethics application for approval before the research. The researcher was ethically bound to respect the participant's human dignity, free and informed consent, privacy and confidentiality, and justice and inclusiveness. Before the study, the participants were informed of the nature, purpose and procedures of the study. If the interview process was taped, participants were made aware of these tapings. Participants were free to answer specific questions, and withdraw from this study at any time, for any reason. In all cases the researcher did not press for answers to questions that may embarrass the participants or make them feel uncomfortable.

3.8.1 Data Quality Control

The questionnaire was developed by an extensive literature review and by preliminary interviewing ten small scale Sugar Cane Growers who are the beneficiaries of Microfinance loans at Kilombero, to identify the study variables of the impacts of agricultural credits to small scale growers. Feedback requested from the pilot study

respondents and suggestions was considered and added accordingly. This helped to maintain the reliability and validity of the data that was collected.

3.8.2 Expected results of the study.

The researcher expects to come out with findings and conclusions which may reveal if macro finance institutions/SACCOS as the financing entities has the great contributions/roles on the sustainability and growth of Kilombero small scale sugar cane out growers, (in this case Farmers growers association as the funding recipient entities). Also the findings may reveal what challenges are experienced by both macro finance institutions/ SACCOS and Farmers Associations growers in reaching the expected goals. The researcher also is expecting to find out the reasons to why Bankers (CRDB and NMB) finds it difficult to finance small scale sugar cane out growers rather they use SACCOS in delivering this service.

3.8.3 Chapter Summary

In this chapter the methodology used in the research of examining the influence of Microfinance loans to the Small Scale Sugarcane Growers in Tanzania, using a case study of Kilombero District in Morogoro Region has been discussed. A combination of qualitative and quantitative methods was used in gathering data from the field. Questionnaires were administered to 78 from the three purposively selected villages in Kilombero district. In depth interviews were undertaken for the 6 villagers two from each of the three village to gather their information and views on the influence of the loans to the agricultural development, levels of awareness concerning credit availability , reasons for borrowing, problems encountered in obtaining loans, and their suggestions to improve access to loan. In addition to the semi-structured interviews and questionnaires administered to small scale farmers, the researcher also conducted key informant interviews with bank loans officer, SACCOS officers and chairman of small scale farmers' association in the research area. The results of the research are presented in the next chapter.

CHAPTER FOUR

RESEARCH RESULTS AND DISCUSSION

4.0 Introduction

This chapter includes both the findings and interpretation of data collected. Quantitative and qualitative data were analysed using SPSS and Microsoft Excel Spread sheet. In most cases descriptive statistics were derived shown in frequencies and percentages.

Since numbers from quantitative information by themselves do not give adequate meaning, qualitative information which is relevant to the issue being studied was used to supplement them. There are different ways of analysing qualitative data as argued by different authors such as Gill and Johnson, (2002). In this research content analysis was used for the qualitative data, where theory was compared to practice. Direct quotations were used to show what respondents said about the issue being analysed, thereby supporting the statistical information.

The chapter presents an analysis of the biographic information and a discussion of the findings of the study from the respondents as distributed.

Basically, the presentation of analysis and discussion of field data is based on the research questions presented in the form of tables, pie charts and bar charts. It comprises an explanation on the assessment of the influence of Micro-finance loans received by small scale sugar cane growers on the practical means to improve the access of loan to the small scale sugar cane growers.

4.1 Socio-Demographic Profile of the Respondents

This section discusses the distinctiveness of respondents in terms of their sex, age, village of origin and level of education. The said variables were included in the analysis

on the assumption that access to loan from micro finance institutions was closely associated with sex, age and level of education. The percentages of distinctiveness of each group of respondents were based on the total number of respondents.

The researcher felt that it was necessary to get the background information of respondents because such information can provide varied responses on access to loan and its influence on production of sugar cane. The background information included age, sex and educational levels

4.2 Results and discussion by objectives

Table 1: Village of Origin and Sex of the Respondents (N= 78)

Village of Respondents	Sex of the Respondents		Total
	Male	Female	
Mkamba	9	16	25
Msolwa Ujamaa	13	13	26
Kidatu	10	17	27
Total	32	46	78

Source: Field Survey 2013

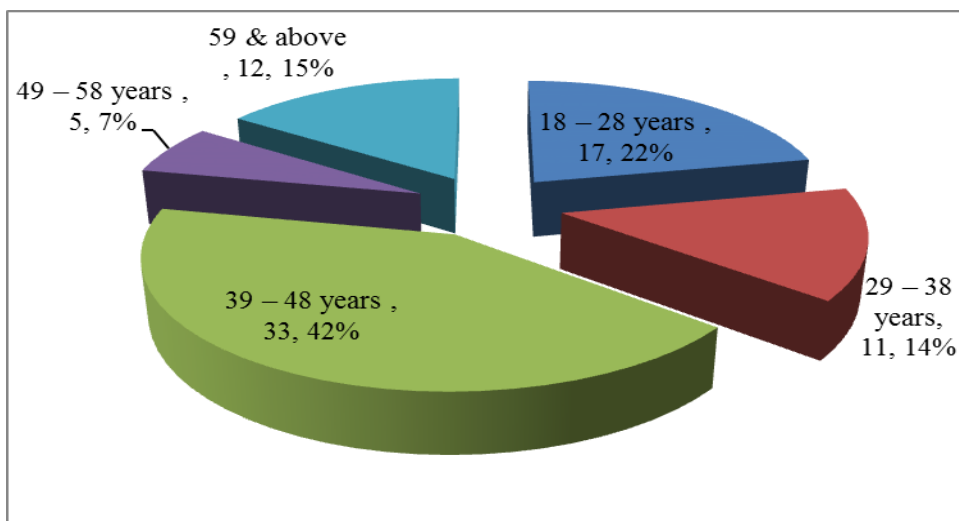
The above findings concur with Stevenson (1986) who noted that theoretical and empirical studies show that one of the disadvantaged groups from the economic point of view is women. Though microfinance institutions work to reach women, because of the existing gender differences women are still less accessed to use formal credit.

The total number of all respondents was 78 who were purposively selected from three villages in Kilombero District. Findings on Table 1 below shows that 25 respondents that is 9 male and 16 females were from Mkamba village, 26 were from Msolwa Ujamaa (13 were male and 13 female) Kidatu village had 27 respondents where 10 were male and 17 female. This information was very useful in this study since some of the interviewed respondent indicated that male had more access to loan than their counterpart female and therefore this affected their agricultural production. One of the interviewed female respondents had the following to say;

“...we normally face a lot of problem in accessing loan since most of the family properties used as collateral or security is owned by men. This makes women receiving very small loan or not to be trusted by the microfinance institutions”.

4.3 Distribution of Respondents by Age

Figure 1: Age of the Respondents (N =78)

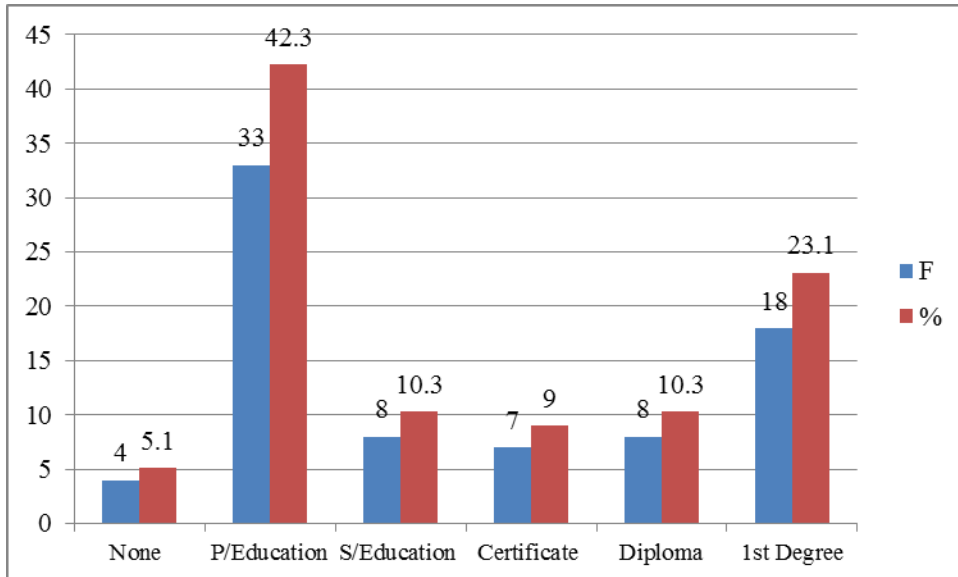


Source: Field Survey 2013

Age of the respondents was very important in this study as people of different ages may differ in terms of their ability to access loan and utilisation of the same in agricultural product. Every age group has its own information needs that differ from another age group (Siyao, 2010). The findings in Figure 1 above shows that 33 (42%) of the respondents were of the age ranging from 38-48 years, 17 (22%) were 18- 28 years, 12 (15%) had a range of 59 years and above, 11 (14%) were 29 to 38 years whereas 5 (7%) were of age ranging 49 to 58 years. These findings shows that majority of the respondents belongs to the economically active age (18 to 48 years) . These are people/farmers who can engage fully in sugar cane production and therefore they can be able to reap the benefits of the loans acquired from microfinance institutions.

4.4 Distribution of Respondents by Level of Education

Figure 2: Level of Education of the Respondents



Source: Field Data 2013

The findings in figure 2 above shows that educational levels attained by respondents vary considerably as follows: 33 (42.3%) had primary education followed by 18 (23.1%) with first degree while 8 (10.3%) of those had diploma education, secondary school leavers 8 (10.3%), 7(9%) were certificate holders and 4(5.1 %) had no formal education respectively. The results could be judged that people engaged in small scale sugar cane growing have an average level of primary school education. This could be partially explained by lack of employment in formal sector due to their level of education.

4.5 To examine the uses of the agricultural credits received by small scale sugar cane growers at Kilombero.

(What is the extent of uses of the agricultural credits received by small scale sugar cane growers at Kilombero District?)

The first objective of the study was to examine the extent of agricultural credit received by small scale sugar cane growers at Kilombero District Morogoro Region. Respondents were asked to give information on the following:

4.5.1 Agricultural Credit Program Operating at Kilombero Area

Table 2: Agricultural Credit Programme Operating at Kilombero Area (N=78)

Category of Responses	Frequency	Percentages
Yes	63	80.8
No	15	19.2
Total	78	100

Source: Field Survey 2013

The study intended to find out whether small scale sugar cane growers are aware of presence of microfinance institutions at Kilombero District. The findings in table 2 respondents were asked on the availability of agricultural credit programme operating at Kilombero area by indicating yes or no. The responses are as indicated above: A majority of the respondent 63 (80.8%) agreed that there are financial institutions at Kilombero which provide credit facilities. Out of the 78 respondents 15(19.2%) said/indicated that there are no such financial institutions at Kilombero. The researcher's observation during the data collection at Kilombero indicated that there are number of both formal and informal financial institutions in the area. These include: CRDB, N M B, FINCA, SACCOS (these are almost everywhere) and Pride Africa.

4.5.2 Main Sources of Credit to the Kilombero Small Scale Farmers

Table 3: Main Sources of Credit at Kilombero District (N=78)

Category of Responses	Frequency	Percentages
Bank/formal lenders	37	47.4
SACCOS & Other informal lenders	37	47.4
No Response	4	5.1
Total	78	100

Source: Field Survey 2013

Findings on Table 3 above contain information on the sources of credit accessed by small scale sugar cane producers at Kilombero District. The findings indicates that 37(47.4%) obtain their agricultural credits from Banks which are available at Kilombero. About half of the respondents that are 37(47.4%) secure their agricultural credits from SACCOS and other informal lenders. These findings concur to the findings in Table 2 above where a majority of the farmers 63(80.8%) agreed that there a good number of credit facilities in the area.

The finding from an in depth interview revealed that some small scale farmers who opted to borrow from informal sources are afraid to borrow from formal sources because of many requirements with which they must comply, so that find the procedures of borrowing difficult to understand because they are less educated. As reflected in the characteristics of the small scale farmer –respondents in the research area regarding education attainment, about 33 (42.3%) of the small scale farmer-respondents attained only primary education level and 4(5.1%) had no any formal education (see figure 2 above) which showed that most small scale sugar cane growers at Kilombero are less educated.

4.5.3 Uses of Credit

Table 4: Main uses of the credit received from microfinance institutions

Category of response	Frequency	Percentages
For Supporting Agriculture	47	60.3
For Supporting Small Scale Industries	24	30.8
For Family Use	7	9
Total	78	100

The findings on table 4 shows the responses of the farmer-respondents to the question on the reasons for their borrowing that include: for supporting agriculture, support small scale industries and for family use. Most of the farmer-respondents borrow for farm production activities, usually during planting period these are 47 (60.3%) of all respondents. 24 (30.8%) borrow for supporting small scale industries where as 7(9%) borrow for personal uses like medical care during illness, and school enrolment.

4.6 Accessibility of Credit by SSSCG at Kilombero District

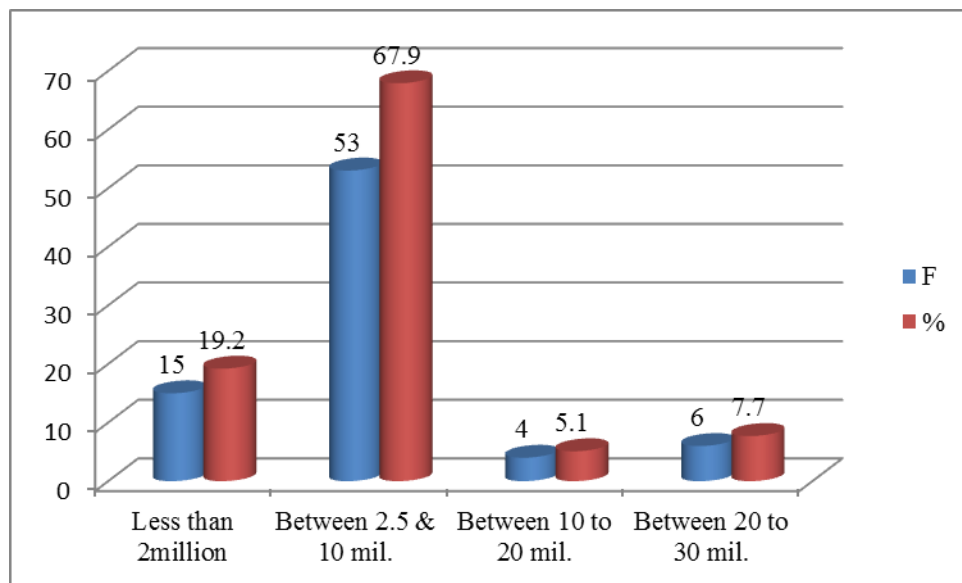
(What are the procedures/qualifications of accessing credits at kilombero District?)

The second objective of the study was to examine the accessibility of agricultural credit received by small scale sugar cane growers at Kilombero District Morogoro Region.

Through interview carried out by the researcher to the respondents information obtained were following:

4.6.1 Extent of Loan by SSSCG

Figure 3: Extent of Loans by SSSCG

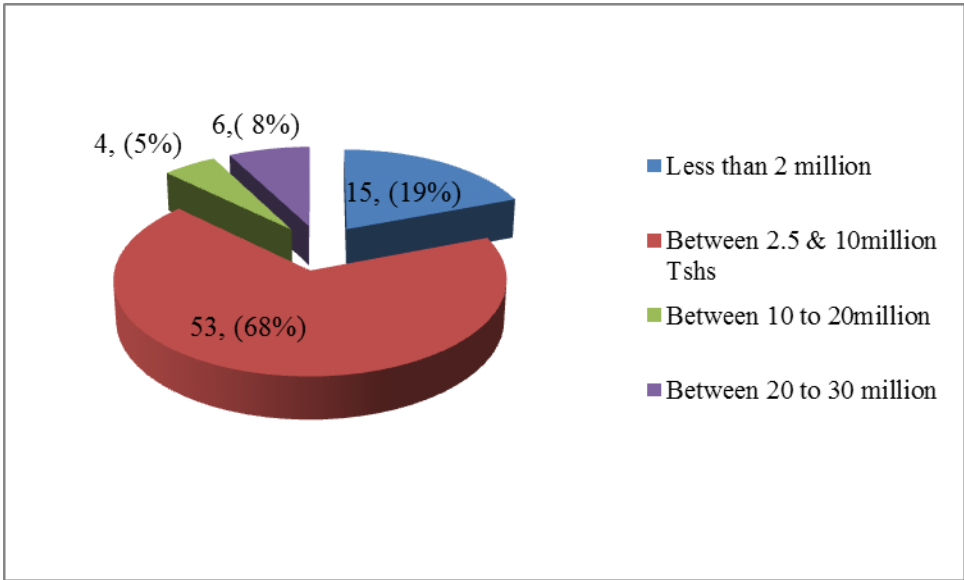


Source: Field Survey 2013

In order to extract information on extent of accessibility of credit to Small Scale Sugar Cane Growers at Kilombero, respondents were required to indicate the probable amount of borrowing they were able to secure from the existing micro financial institutions. The findings are as summarised on Figure 3 above; where 53 (67.9%) of the respondents indicated that they secure loan of between 2.5 to 10 million. Fifteen, 15 (19.2%) secured loan of less than two (2) million Tanzanian shillings, 6 (7.7%) indicated to have secured

a loan of between 20 to 30 million Tanzanian shillings, whereas 4(5.1%) of the respondent were able to secure loan of between 10 to 20 million shillings. In general therefore, a majority of the respondents 53 (67.9%) are able to secure funds for running their farms.

Figure 4 Maximum Single Amount which can be borrowed



Source: Field Survey 2013

The finding in figure four above also summarizes the maximum single amount which could be borrowed by SSSCG as follows: 53(68%) of the respondents indicated that they secure loans of between 2.5 to 10 million, 15(19.2%) secured loan of less than two million Tanzania shillings, 6(8%) indicated to have secured loan of between 20 to 30 million Tanzania shillings where by 4(5%) of respondents were able to secure loan of between 10 to 20 million. Therefore, the majority of the respondents 53(67.9%) are able to secure funds for running their farm activities.

4.6.2 Micro Finance and Collateral /Security

Table 5 Requirement of micro finance collateral/Security

Category of responses	F	%
Yes	65	83.3
No	13	16.7
Total	78	100

Source: Field Survey 2013

Findings on Table 5 above summarises information on the respondents awareness of existence of collateral or security requirement by micro-financial institutions at Kilombero District. Out of the 78 respondents 65 (83.3%) indicated that microfinance institutions requires a borrower to have security or collateral before securing a loan. 13 (16.7%) showed that they were not aware that collateral is prerequisite for securing a loan. Observation from the researcher indicated that these are those small scale sugar cane growers who obtained their loan from informal sources such as from relatives where collateral or security is not necessarily needed.

Lastly, through open ended interview carried out by the researcher to the accountant from Uduzungwa SACCOS was noted that, the qualification for the client (in this case KCGA- MEMBERS) to get financial support should possess the following qualities:

- i. Must be the member of the society (Uduzungwa SACCOS) not less than three months before he/she made an application for a loan.
- ii. He / She must have a saving at least one third (1/3) of her/his requesting loan.
- iii. Must possess two (2) Guarantors.
- iv. Must have collaterals
- v. Application form for a loan must be paid which is Tshs: 5000.00

Therefore, from the above mentioned qualifications to the client like KCGA- members at the beginning or start –up of his activities, it is very difficult to get support from Uduzungwa SACCOS. It is only possible after and when possessing the above mentioned qualities.

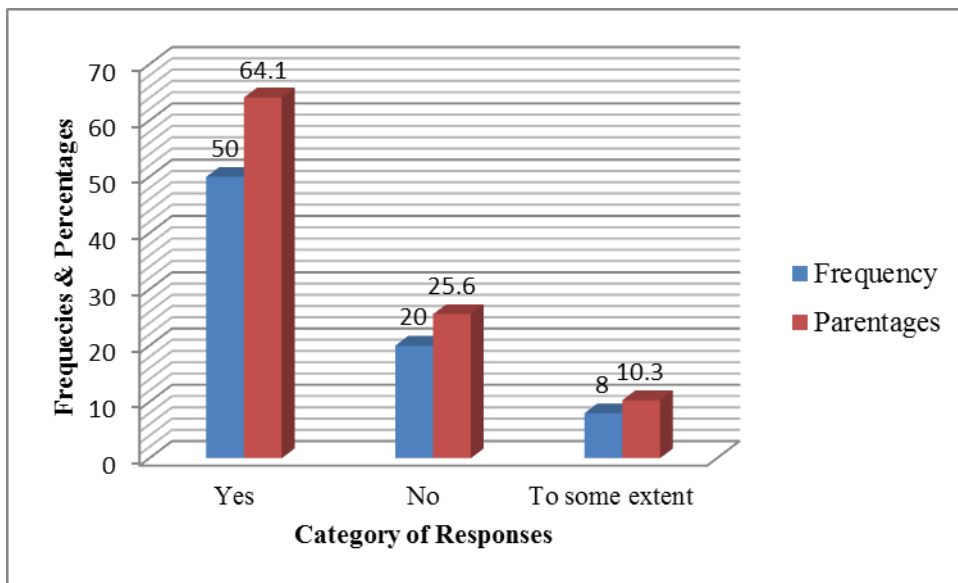
For the time being Udzungwa Saccos have two thousands one hundred forty seven members from KCGA and have provided financial support to its members about more than Tzshs: 5,600,000,000.00 since its existence of 15 years in operation see Appendix V.

4.7 Relationship between Loan Acquisition and Improvement in Production

(What is the influence of loans on the growth of small scale sugar cane out growers at kilombero?)

The third objective of the study was to see if the loans received by small scale sugar cane out growers have improvement in production.

Figure 4: Has agricultural output level increased after acquiring loans?



Source: Field Survey 2013

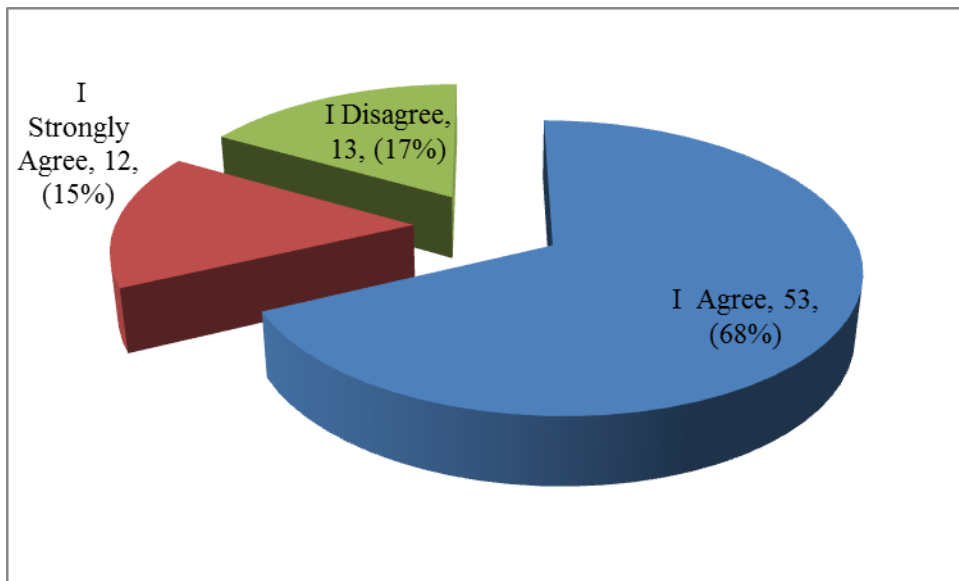
A larger percentage of the beneficiaries of the loan provided by micro-finance institution at Kilombero said that the use of microfinance loan had a positive effect on aquaculture development. The findings are as shown on Figure 4 above where 50 (64.1%) of the

respondents positively agreed that loan acquired assisted them to improve sugar cane production. Surprisingly enough 20 (25.6%) said that there variables are not related at all, whereas 8 (10.3%) indicated that to some extent loan acquired helped them to improve production. The researcher interviewed one of the farmer-respondent who strongly indicated that there is no relationship between loan and increased production had the following remarks:

“... A loan received will have a positive impact on production if it is well planned. If it is used for purchasing farming implements such as fertilizers, better seedlings etc. On the other hand, loan will have impact if there is adequate rain or water for irrigation. For example last year 2012 I secured a loan of about 3million Tshs from SACCOS and expanded my farm size and increased farming implements but unfortunately the climate was not in my favor and I had to repay a loan which was not productive to me”.

4.7.1 Agricultural credit play role in improvement of sugar cane production

Figure 5: Agricultural credit play role in improvement of sugar cane production



Source: Field Survey 2013

To extract information on the same farmer-respondents were required state by picking the following likert scales: I strongly agree, I agree and I disagree. The findings are as summarised in Figure 5 above where 53(68%) of the respondents agreed, 12(15%) of the respondents strongly agreed and only 13(17%) of the respondent disagreed. In general majority of the farmer-respondents agreed that agricultural credit can boost agricultural production. However, one on the SACCOS officer -interviewee hand the following observations: "...farm credits played vital roles in the socio-economic transformation of the small scale farmers' economies. However, their acquisition and repayment are characterized by numerous challenges including high levels of default among beneficiaries".

In an in depth interview with one of the CRDB loan officers on role and influence of agricultural credit to the increased production he had the following to comment:

"...Agricultural production generally is capital intensive and in developing countries like Tanzania, small scale farmers need to inject capital into agriculture to increase production. The critical role of credit in economic development has never been in doubt either directly or indirectly in building the capacity of the small-holder farmers in increased agricultural mechanization for household food security and poverty alleviation. With adequate supply of credit to farmers, the retarded agricultural sector will make progress because agricultural credit can stimulate the growth of agriculture, enhanced productivity and promotes standard of living by breaking vicious cycle of poverty of small scale farmers. It also enables farmers to meet their" needs, expand their farms increase output, and aids small scale farmers to engage in commercial agriculture".

4.8 To examine the challenges faced by Micro finance institutions/SACCOS as the financing entities

(What are the challenges experienced by micro finance institutions/SACCOS as the financing entities?)

The Fourth research objective was to examine the challenges faced by micro finance institutions/SACCOS as the financing entities.

The Open ended questionnaire and interviews distributed were administered on the challenges faced by micro finance institutions and the responses were as follows:-

4.8.1 Lack of tangible collaterals

According to the open ended interview carried out between the researcher and the Accountant of Udzungwa SACCOS was noted that most of KCGA members lack of tangible collaterals to make them eligible to obtain loans from the financing entity. The study revealed that 84% of the respondents started cane sugar production business by using their own savings. While others were able to access funds from financial institutions as noted on table 6.

4.8.2 Lack of competitive market

Lack of competitive market is another challenge to both macro financing institutions/SACCOS and Farmers Associations, that the only buyer (Kilombero Sugar company Limited) tends to dictate the prices of cane produced by the out growers being sold to the factory, the company does not have another competitors in the business where they could compete in determining what prices could be used in a particular season. Therefore due to monopoly, it has been offering low prices to the cane produced by out growers. This resulted into failure to the cane out growers to meet their obligations to the loans they got from SACCOS and the financial institution itself fails to achieve goals in their financing activities.

4.8.3 Frequent breakdown of the factory

Frequent breakdown of the factory leads to late harvest of out growers cane farms such that it causes the quality of cane to deteriorate, at the end they get little money from their sales due to poor quality of cane sugar which should have a standard of 9% to 12% of endearment; this is the **sucrose** content in the cane. The result of receiving little money, again the farmers/small scale sugar cane growers cannot manage to repay back the loans they secured and this situation is a challenge to Uduzungwa SACCOS as there is a possibility of losing customers, which could hinder the development of Uduzungwa SACCOS.

4.8.4 Cheating is another challenge experienced by CRDB,NMB and SACCOS.

The tendency habit of cheating by the borrowers some used to change their names during the harvesting exercise and they use different names in securing loans. They use different names in order to default their payment.

4.8.5 Un fair competition are challenges experienced by Uduzungwa SACCOS

Unfair competition is challenges which have been caused by other micro financial institutions in the country, although the government uses SACCOS in dealing with poverty reduction exercises. In addition to that the interview done by the researcher to the Accountant of Uduzungwa SACCOS, he responded that, there is a little education on the importance of the activities done by SACCOS in favors of stakeholders farmers. This comment related to the issues raised by the secretary General of SCULT in the country, Mr. Mhezi in their general meeting held this year, 2011. He commented that .there a little knowledge to some members about the importance of SACCOS and their activities in the development of individuals compared to Kenya and Uganda, where Tanzania is rated least (by Exuper, 2011).

4.9 Challenges faced by Small Scale Sugar Cane Growers

Through open ended questionnaire distributed to respondents the responses were concerned about the following issues:

4.9.1 Laid down regulations for accessing credit

The regulations laid down by financial institutions are not favourable to most of SMEs whereby Farmers Association is inclusive. As noted in the case of Udzungwa SACCOS as a financial entity being a victim of its own regulation, also the SMEs (in this case KCGA, MUSCGA and RCGA)) became victims of these regulations. It is reported that only 44% of the population engaged in the SMEs in the Country, are able to access to credit facilities while the rest of 56% are not able to access to financial institutions.

From the questionnaires distributed, the study revealed that most of KCGA members started their farms at the beginning by using their own savings which is an indicator that they were not qualifying for a credit, which caused by the regulations which are laid down. The above statement is supported by the findings on table 6 which shows how or where KCGA, MUSCGA, RUCGA members managed to get finance for their activities during their start up of cane production business complained on the difficulty procedure, high interest rates and lack of collateral.

Table 5: Constraints to sourcing Agricultural credits

Category of Responses	Frequency	Parentages
High Interest Rates	25	36.2
Collateral/Security	42	53.8
Difficult procedure	11	10
Total	78	100

Source: Field Survey 2013

4.9.2 The price provided by the buyer for cane sold to the Factory.

Through open ended questionnaire shows that (95%) of the response of the respondents claimed that the price provided by the buyer to cane sold to the factory by the out growers is very low.eg the price per ton for the season of 2012/2013 were Tzshs:65,000.00 which is very low compared to the operational cost within the period. Another issue related to low prices provided by the buyer, is the relationship between sugarcane out growers association and the sugar miller (Factory), and has been characterized with mistrust. The out growers feel that their canes are not graded honestly, that the weighbridge is tampered with the millers in favour of the buyer.

4.9.3 Late payment to small scale sugar cane growers

The study showed that, the respondents complained about the late payment to the cane delivered at the factory. Out growers indicated that the late payments limiting their opportunities to repay back the loans obtained from financial institutions. Therefore this habit of the buyer, sometimes resulting into reduced investments in agriculture to the Farmers Growers Association members. Again regarding to delaying of the payments for the cane sold to the factory, it leads to failure in their farms preparation activities i.e ploughing and weeding. For example, from 2011 onwards the millers frequently delayed payments in violation of their contracts made with the association. The farmers have to wait six months or longer before they were paid.

4.9.4 Availability of Capital and Operation finance

Through interviews carried out to the individuals was noted that the financial institution were not willing to lend money to out growers for cane development. The reason given behind included lack of tangible collateral, agriculture depends on the rain hence risking money when there is draught. A good example when was experienced a severe draught is 2004/ 05 and 2005/06 seasons

The banks, including Bank of Tanzania (B O T) who was the guarantor of the scheme, has to eliminate the small holder farmers in the Country to avoid risks.

4.9.5 High Costs of Production

The other area related to finance which the respondents mentioned is the high costs of production incurred by them. The respondents claimed that it is expensive to engage in cane sugar production. Records showed that, the Farmers Cane Growers Associations are high cost producers, one (1) ton of sugar cane costs Tsh. 17,887.69 for the 2004/05 season without including land value and extension services costs, taxes or levies. The rates for year 2012/2013 is Tsh65,000.00 per ton this is due to escalating fuel prices and spares. Being a high cost producer in one side; the other side the respondents complained about the capital to invest in various operations in order to get the high products is very difficult to get. Out growers over the world especially poor small holders are categorized as ‘risk borrows’ by banks and other finance institutions. The investment capital operation finance given the out growers is by necessity very expensive because of the repayment risk involved. The production costs for one tone of cane sugar for the last year season 2010/011 was Tsh 31,280 per ton.

Also there were issues raised on the loan provided, Out growers are given short term loans with high interest rate between 18% and 30% compared to normal 13% - 16% (National average) usually charged a month after the loan approval. Repayment periods range between six (6) month to sixteen (16) months.

The gestation period for plant cane (1st plantation) takes between twelve (12) and twenty four (24) months. A farmer who solely depends a defaulter and face penalties.

4.9.6 Environmental and Infrastructure Challenges

Other challenges which were mentioned during the interviews are the environment and infrastructure.

Most of the production area is prone to natural disasters (such as drought, floods, and accidental fire burning). Families that grow sugar cane on marginal lands have time to time experienced crop losses due to these problems.

Also, some small scale farmers who are in most cases having resources, have experienced special problem such as loss of quality products as they were denied harvesting due to bad plot conditions e.g when flooded, long distances, small farm size, and poor crops. This is a significant source of risk to poor farmers.

Again the farm sizes and availability of credit are important factors that determine the profitability. The respondent said lack of easier availability of credit, made the small-scale law resource farmers have continued to be living under understanding conditions. Some they have worsened due to their inability to reinvest in their in their sugar cane plots.

Regarding environmental status, respondents picked out drought as the most important factor affecting their crops, they requested the government to assist them by providing irrigation infrastructure.

4.9.7 Taxation

The study showed that, taxation is a burden to the sugar industry. While government has given some tax incentives to investors such as no tax on 100% of injected capital except after recoveries, 30% corporation tax can be paid. There is still payment of management fees 15% employment taxes, skills and development levy of 5% in the rural areas while the same tax in urban areas called industrial levy which is 0.3% of turnover. VAT on goods and services hit hard the out growers who are not VAT registered and cannot clam back.

4.9.8 Transport costs Against Poor Infrastructure

Form the responses to the individuals who were interviewed, they raised about high costs incurred on transporting their harvested cane sugar form their fields to the factory for processing.

In the 2012/2013 season it cost between Tsh 6,380.00 and Tsh 15,230.00 per ton at about Kilombero sugar East depending on the distance to the factory. Transporters complained about bad roads and the damage to their trucks hence need higher transport rates to compensate for the losses and fuel increase in price as if the farmer is not affected by the fuel increases in price. It is unbelievable that when out growers cane prices are far below production costs. When it rains heavily some bridges are washed away or roads are imposable coursing losses to untransported heaps of cane in the fields. It is absurd to about poor cane farmers to reach global markets under the prevailing infrastructure.

Table 7: Sugar transport Costs – (KCGA) for 2012/2013 season

Distance from Mill (km)	Cost per Tsh	Price per ton (Tsh)
From 0-10	6,380.00	65,000
10-20	8,250.00	65,000
20-30	11,900.00	65,000
30-40	15,230.00	65,000

Source: Farm transport expenditure files 2013

4.9.9 Access Services Delivery

Another challenge which was revealed during the study is that Farmers Growers Associations face the possibility of not being able to access necessary inputs. The respondents posed that although in some years inputs were available, but there was a delay to reach the farmers in time, and not even affordable, they were too expensive. They argued that, in most cases inputs are not available in the country, and those available are controlled by tradesmen who take advantage to maximize profit by inflating the prices .The delivering system to the point of destination is also costly such

that the poor farmers having small plots and incomes decide to exclude use of inputs to reduced costs.

4.9.10 Health services Delivery

Through the study was revealed that, to the individuals who were interviewed they were concerned about the health delivery system which was established as a social service before privatization started to shrink and limited to company staff only. HIV/AIDS has within the past 10 years increased tremendously especially women rates was found to be much higher. Malaria is found to be a big killer in the area. Health delivery system has suffered when the Miller withdraw from servicing the general public with the population of more of than 90,000 people to be serviced with three government dispensaries, that is 30,000 people per dispensary. The raised issue with this hospital is the cost which are considered to be high not affordable to cane poor famers considering that sickness is all around year even when the cane money is not available in the months of non cane harvesting

4.10 .1 Mechanisms to ensure that Agricultural Credit has impacts to the growth of SSSCG

In finding out what mechanisms to insure that agricultural credits has impacts to the growth of small scale sugar cane growers the Farmers through open ended interviews had the following comments:

4.10.2 Addressing on the source of funds and financing

Banks in the country have clearly stated that the prevailing laws governing loans disbursement and the instructions from BOT give no room to provide loans without adequate collaterals. Therefore the small holder farmers groups or individuals like(KCGA,MUSCGA,RCGA) will never qualify for direct Bank loans or any other financial institutions unless the current laws are changed or new laws and regulations enacted,

bringing this group legally or create completely new finance institutions with new protective laws to cater this discriminated group of society.

The government should design a risk – based provisioning regime that takes into account the different risk characteristics of Bank loans the SMEs sector (KCGA, MUSCGA, RCGA inclusively). It was suggested that the SMEs sector especially those which residing in the rural area dealing with agriculture activities, the government should design a policy to the Banks in the country to provide loans with reasonable interest rate which could be affordable by the poor farmers who depend on natural rainfall also the repaying back of the loan should consider about the production season i.e. the drought season.

4.10.3 Low Price provided by the buyer (Kilombero factory).

Regarding to the low prices provided by the buyer to Farmers cane growers production, the government should create an environment which will increase more competitors, by facilitating to open more markets outside the country, like other East Africa Community countries.

Also the government should create negotiation machinery on prices between the Out growers and the buyers. Another thing is to empower the farmer association to champion sugar sector issues through advocacy and should be in place a fair technical formula for pricing of cane.

4.10.4 High Production Costs.

The government should make sure that Farmers Growers Associations are exposed to more efficient technology and be in place in cane sugar production.

The various taxes on the sugar industry should be reviewed among the farers and the millers. Example of these taxes are: The tax on 100% of injected capital is paid before recoveries by indigenous investor while the foreigner investor has to pay after recoveries

and it is only 30% of the corporation tax can be paid, the skill and development levy is high 6%.

Also the Sugar Board of Tanzania should implement the requirement of the Sugar Act of 2001 to put in place prescriptions, standards inspections and monitoring to bring about fair play in the sugar industry.

4.10.5 Environmental issues regarding to Increased Production.

In order to be proactive to environmental fluctuations the following were advised to Farmers Growers Associations members:-

- i. Irrigation and Improved farm management (block farming) practices should be encouraged.
- ii. The area has a significant potential in terms of control of moisture content given by Kilombero River, there is the possibilities of constructing drainage system, and the irrigation farming is possible.
- iii. Irrigation could help in increasing tonnage, instead of relying on natural rainfall agriculture system.

Again, regarding land preparation by small holders needs to be improved as well such as the use of appropriate inputs like fertilizers and quality seeds. It is suggested that, there is a need of research on the right planting materials to increase yields and income. But this needs a huge investment. Therefore the government has to play the role in helping Farmers Growers Associations members KCGA, MUCGA and RCGA in employing research and irrigation scheme initiatives.

4.10.6 High Taxes and other Deductions

The different high rate taxes charged to Out-growers should be reviewed, and the unnecessary deduction should be critically analyzed to identify those that become a burden to cane Out growers should be scrapped off. The study findings showed that farmers have been subjected to many deductions and higher costs to their general

involvement in cane production compared to other crops grown with less response from the association management. Examples of these crops are: Maize, Paddy and Coffee. (See Appendix III and IV).

4.11 Constraints to sourcing Agricultural credits

Table 6: Constraints to sourcing Agricultural credits

Category of Responses	Frequency	Parentages
High Interest Rates	36	46.2
Collateral/Security	42	53.8
Total	78	100

Source: Field Survey 2013

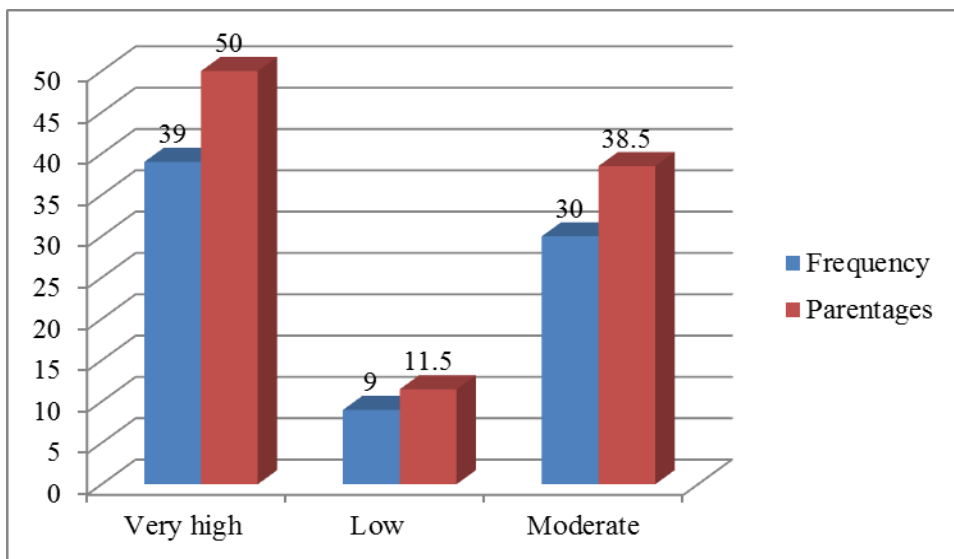
Findings on table 6 Farmers indicates that 36(46.2%) respondents were complaining on the high interest rates from the micro financial institutions, while 42(53.8%) farmers respondents complained on the collateral/Security requirement that were the main problems in acquisition of agricultural credit.

The researcher also held interviews with some of the respondents to supplement information provided by the questionnaire distributed to the farmer-respondents. The following are the responses: a farmer from Mkamba village was of the view that that the loaning procedure which the banks are following must be simple, easy and time saving. A farmer from Kidatu suggested that the interest rate should be decreased and possibly the Islamic mode of financing / loaning must be observed by the banks around Kilombero; farmers that the loan must be provided in sufficient amount when it is needed; Another farmer from Msolwa Ujamaa farmers said that the banks' staff should be polite and cooperative to the loanees, and that collateral should be waived off or it should be reduced to its minimal level. Lastly a majority of farmers were in favor of easy repayment methods like increased number of installments, in case of natural calamities the installments may be delayed without extra interest. Some demanded that

technical assistance must be provided by the bank and trained and qualified bank staff must guide them not only technically but also in making the economic feasibilities.

An in depth interview with a bank loan officer indicated the loan taken for the sugar cane production purposes was misused by a number of small scale farmers either for the sake of consumption, marriages or repayment of the loan taken from the informal sources or even to cover up the legal costs of family or other disputes. He called upon Farmers Associations to liaise CRDB so that seminar can be provide to small scale farmers on the best way in which they can make their loans productive.

Figure 4: Views on the interest rate charged by Banks/SACCOS



Source: Field Survey 2013

In one of the in depth interview with farmers from Kidatu and Mkamba villages noted that “access to credit by farmers is limited to the available credit services in the research area, thus our choices and preferences are not well served. This has forced some of us to borrow from informal lenders.”

Another respondent commented that the available microfinance institutions had a lot of credit restrictions such as credits that requires collateral, high interest rates and length and complicated procedures that which restrict small scale farmers from accessing loans.

4.12 Interest rates are favorable to borrowers

Table 6: Interest rates are favourable to borrowers

Category of Responses	Frequency	Parentages
Yes	15	19.2
No	57	73.1
No Response	6	7.7
Total	78	100

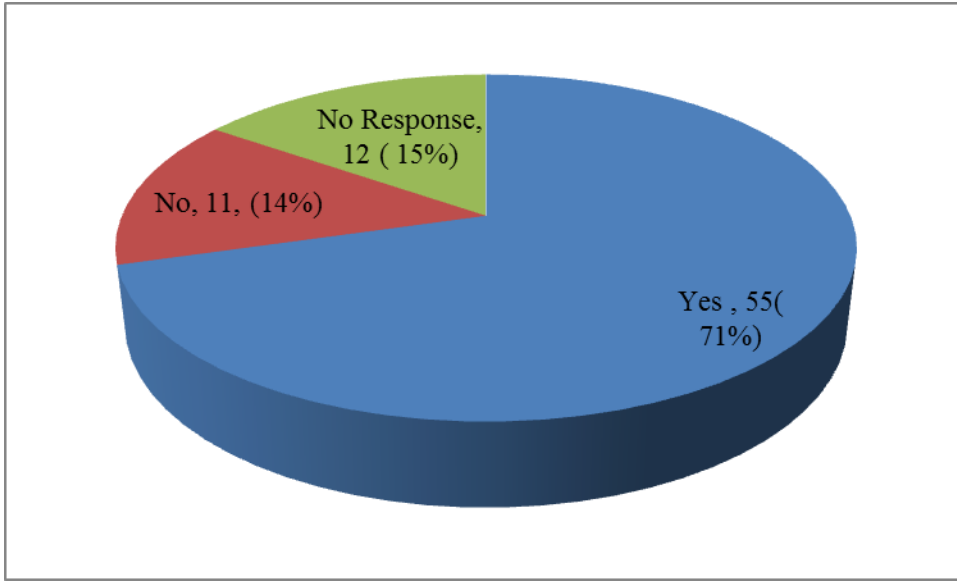
Source: Field Survey 2013

Findings on table 8 above Respondents were required to indicate whether the interest rates were favorable to the small scale sugar cane growers. The findings indicated that the majority of the farmer-respondents that is 57 (73.1%) indicated that the interest rates charged were not favorable to them, 15 (19.2%) indicated that it was favorable to them whereas 6 (7.7%) did not respond to the question see Table 6 below.

Observation made by the research in all microfinance institutions in Kilombero District indicated that the interest rates ranged from 17 to 19 % of the borrowed amount. Most of the SACCOS obtained their money for lending. Since both bank and SACCOS expect to gain profit in this business they had to increase the interest rates. One of the respondent in the interview suggested that the government via Bank of Tanzania should intervene to make sure that interest rates are favourable to the small scale sugar cane growers. Otherwise if it remains business as usual no way the small scale farmers can be able to improve production.

4.13 Small Scale Sugar Cane Growers Association

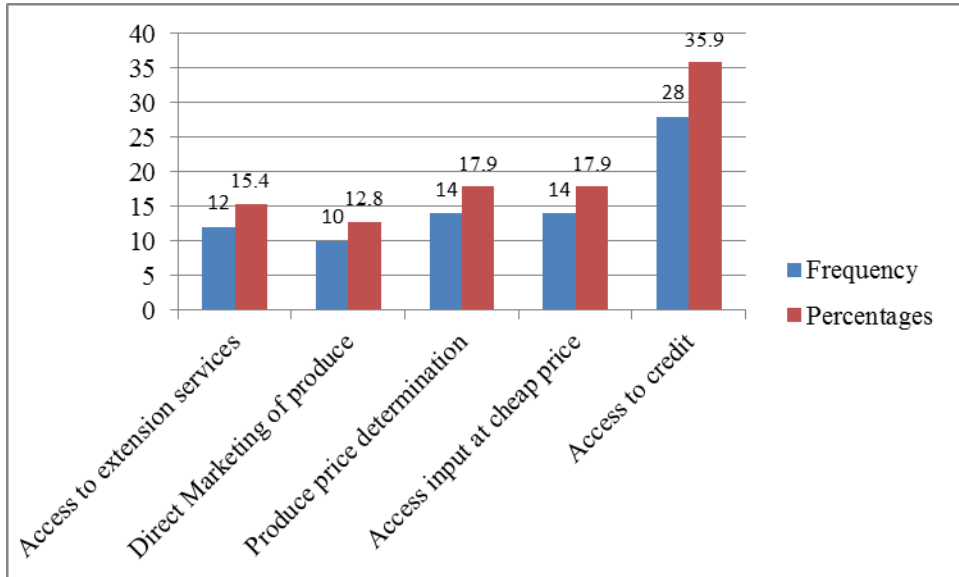
Figure 5: Are you a member of sugar cane growers Association



Source: Field Survey 2013

Strong farmers' cooperatives organization should be seen as the only measure to boost agricultural mechanization. Findings summarised on Figure 6 above indicates that 55 (71%) of all small scale farmer-respondents were members of Small Scale Farmers Association. 11(14%) were not members whereas 12 (15%) did not respond to this questionnaire item.

Figure 6: Reasons for Joining Farmers Association



Source: Field Survey 2013

The researcher further requested the farmer-respondents to indicate the reasons for joining farmers association the findings on table number seven revealed that 28 (35.9%) said that they are members so that they can access credit, 14(17.9%) they are members so that they can participate in price determination and accessing cheap agricultural inputs, 10(12.8%) marketing their produce while 12(15.4%) access to extension services.

An in depth interview with the chairman of small scale farmers association showed that farmers association are supposed to provide more than what is shown in Figure 7, he said:

“Farmers’ Association are essential institutions for the empowerment, poverty alleviation and advancement of farmers and the rural poor. Politically, Farmers’ Association strengthen the political power of farmers, by increasing the likelihood that their needs and opinions are heard by policy makers and the public. Economically, Farmers’ Association should help farmers gain skills, access inputs, form enterprises, process and market their products more effectively to generate higher incomes. By organizing, farmers can access information needed to produce, add value, market their commodities and develop effective linkages with input agencies such as financial service providers, as well as output markets. Farmers’ Association can achieve economies of scale, thereby lowering costs and facilitating the processing and marketing of agricultural commodities for individual farmers. Marketing-oriented Farmers’ Association can also assist their members purchase inputs, equipment, meet quality standards and manage the drying, storage, grading, cleaning, processing, packing, branding, collection and transportation of produce. In this way Farmers’ Association provide a more reliable supply to buyers and sell larger quantities at higher prices. Organized farmers have greater bargaining power than individuals and are better able to negotiate with other more powerful market players to ultimately increase the profits that accrue to farmers rather than intermediaries and buyers.”

This shows that farmers association in Kilombero is not taking measure to educate its members on what it is supposed to deliver to them

4.14 Suggestions by Farmers to Improve their Credit Accessibility

Various responses were gathered from the in depth interview with six small scale Sugarcane Growers at Kilombero. The respondents were asked what they could suggest to improve their credit accessibility. One of them suggested that the government should provide more credit programmes in Kilombero District. This will make farmers to have wider choice of areas to take loans.

A respondent from Msolwa Ujamaa said that provision of training for the small scale farmers on how to obtain loan is required. The farmer noted that most of them are less educated (class seven failures). The tendency for less educated small scale farmers is to

shy away from applying for loan since it is difficult for them to understand the procedures

4.15 Chapter Summary.

In summary, the chapter comprised data interpretation and the findings, whereby SPSS and Excel Spread sheets were used in analysing data. Demographic information was obtained for the purpose of helping the researcher to identify its effects agricultural credit acquisition. The biographic information and findings discussed were based on the research questions and directly linked to the conceptual framework's variables that guided the influence of microfinance institution loan provided to the small scale sugar cane growers. Different data collection methods were used to gather the findings like questionnaire interview and observation. Different questions had different reactions from the respondents. In general farmers and micro-financial institutions suggested that there is a need of re-organising farmers associations so that information about credit programmes can easily be passed through the associations and generate easy access for the members.

In the next chapter the research is summarised, conclusions are drawn and recommendations for further research are presented

CHARTER FIVE

CONCLUSION AND RECOMENDATIONS

5.0 Introduction

This chapter consists of five sections including this introduction; section two presents the summary of the major findings. Section three draws conclusion on the basis of the findings, section four contains recommendations and the last section identifies areas for further research.

5.1 Summary

The main objective of this study was to empirically analyze, Assess the influence of Micro-Finance Loans received by Small scale Sugar Cane Growers in Kilombero District Morogoro Region. To achieve the objective, a cross-sectional data was generated yielding a sample of 78 respondents sourced via questionnaire and interview guide. The data was analyzed using SPSS and Microsoft Excel Spread Sheet. Below are the summary of the major findings: This study found that age has an insignificant positive influence on access to agricultural credit. Meaning that respondents' access to finance increases with age but the rate of increase is not statistically significant.

The study also revealed that 33(42.3%) had primary level education this was a problem especially on the processing of agricultural credits from financial institutions. Majority obtained loan from SACCOS and other informal sources. The study also revealed that loan acquired had positive influence in the growth of agriculture. Requirement of collateral was a major problem in accessing of loan by small scale sugar cane growers it was supported by 65(83.3%) of all small scale farmer-respondents.

5.2 Conclusion

From the study, it is concluded that there is significant impact of microfinance loan scheme on small scale sugar cane production since farmers' access to microcredit also means access to better financial products and services. Thus, despite problems encountered by small scale sugar cane farmers in accessing loans from banks, loans from microfinance banks and SACCOS has to some extent helped farmers to reduce poverty and boost production through financial system that meets their needs.

5.3 Policy Implication of the study

Through the study findings; SMEs' contribution to the economy is crucial and important. Therefore, they need help to modernize and increase their production and employment generation. Currently, SMEs, contribute about 75% of the total industrial production in the country. Ready and affordable access to financial services is one of the major setbacks to development efforts by the poor, especially those living in rural areas. Therefore the Tanzania government has the responsibilities of putting in place necessary legal protection, affordable infrastructure geared to speed up the development of the rural poor majority.

The government should open up opportunities to agriculture partnership processing projects, where foreign investors can join together with small holder farmers in order to increase productivity in their agricultural activities.

5.4 Recommendations

On corporative societies

The researcher recommendation is that Small Scale Sugar Cane Growers and other small scale farmers all over the country should be assisted in improving cooperative societies. The cooperative approach is one of the best means of self-protection for small farmers mainly due to its self-help concept and member's participation. It is therefore vital for

government to strengthen cooperative credit and improves the efficiency of agricultural credit supply. To further exploit the benefit of credit facilities through cooperatives organization to boost agricultural mechanization in the country the Small Scale Sugar Cane Growers Association officer at Kilombero following suggestions: small scale farmers in the country should be advised and encouraged to join cooperative; credit facilities through agricultural cooperative should attract lower interest rate of at least 4-5% and that financial institutions should endeavour to provide friendly customer service such as reducing bureaucratic bottlenecks and transaction costs.

On accessibility to credit

It is recommended that accessibility to credit by small scale sugarcane growers could be improved by providing innovative financing schemes that address problems of the small scale sugar cane growers who lack collateral, high interest rates and minimizes long processing of documents and other requirements. In this way, government is responsible to make sure that agricultural credit are available to SSSCG and be encouraged to better utilize of formal credits and decrease their reliance on informal lenders, thus avoiding higher interest rates and thereby increasing farm productivity as well as household incomes.

On the policy measures

Policy measures for improving access to credit should be developed based on small scale farmers' preferences and needs. Institution capacity building for lenders and borrowers should be an integral part of every credit programmed that will be provided in order to increase agricultural productivity and income for the farmers. Ministry of Agriculture in collaboration with Ministry of Finance may need to consider conducting an information drive aimed at promoting credit awareness and establishment of strong viable small scale farmers' organizations which can play a major role in increasing small scale farmers' access to credit. In line with this, savings mobilization programmes should be

developed and promoted in the area, which will encourage participation and provide incentives for small scale farmers to save and recycle their funds.

On the Financial institutions

The researcher recommend that financial institutions such as an agricultural and community banks should be established in the rural/ areas occupied by small scale farmers. The procedures for securing loans should be reviewed in order to make it simple for the farmers. The relevant government agencies should mobilize the rural farmers to form themselves into formidable groups so that they can derive maximum benefit of collective investment of group savings. In case of any natural calamity, microfinance institutions should consider revising the repayment schedule at the convenience of the borrowers. Government should also ensure the steady release of loan facilities to the microfinance banks to enable farmer's access the loans when needed.

On the provision of loans

Banks in the country have clearly stated that the prevailing laws governing loans disbursement and the instructions from BOT give no room to provide loans without adequate collaterals. Therefore the small holder farmers groups or individuals like KCGA will never qualify for direct Bank loans or any other financial institutions unless the current laws are changed or new laws and regulations enacted, bringing this group legally or create completely new finance institutions with new protective laws to cater this discriminated group of society. The researcher recommend that government should design a risk – based provisioning regime that takes into account the different risk characteristics of Bank loans the SMEs sector (KCGA,MUSCGA,RCGA inclusively). It was suggested that the SMEs sector especially those which residing in the rural area dealing with agriculture activities, the government should design a policy to the Banks in the country to provide loans with reasonable interest rate which could be affordable by the poor farmers who depend on natural rainfall also the repaying back of the loan should consider about the production season i.e. the drought season.

On the aspect of prices

The researcher recommend that, regarding to the low prices provided by the buyer to Farmers cane growers production, the government should create an environment which will increase more competitors, by facilitating to open more markets outside the country, like other East Africa Community countries. Also the government should create negotiation machinery on prices between the Out growers and the buyers. Another thing is to empower the farmer association to champion sugar sector issues through advocacy and should be in place a fair technical formula for pricing of cane.

On the aspect of technology

The researcher recommends that government should make sure that Farmers Growers Associations are exposed to more efficient technology and be in place in cane sugar production. The various taxes on the sugar industry should be reviewed among the farers and the millers. Example of these taxes are: The tax on 100% of injected capital is paid before recoveries by indigenou investor while the foreigner investor has to pay after recoveries and it is only 30% of the corporation tax can be paid, the skill and development levy is high 6%. Also the Sugar Board of Tanzania should implement the requirement of the Sugar Act of 2001 to put in place prescriptions, standards inspections and monitoring to bring about fair play in the sugar industry.

1. The researcher recommend that, in order to be proactive to environmental fluctuations the following were advised to Farmers Growers Associations members:-
 - i. Irrigation and Improved farm management (block farming) practices should be encouraged.
 - ii. The area has a significant potential in terms of control of moisture content given by Kilombero River, there is the possibilities of constructing drainage system, and the irrigation farming is possible.

- iii. Irrigation could help in increasing tonnage, instead of relying on natural rainfall agriculture system.

Again, regarding land preparation by small holders needs to be improved as well such as the use of appropriate inputs like fertilizers and quality seeds. It is recommended that, there is a need of research on the right planting materials to increase yields and income. But this needs a huge investment. Therefore the government has to play the role in helping Farmers Growers Associations members KCGA, MUCGA and RCGA in employing research and irrigation scheme initiatives.

On taxes charged

The researcher recommended that different high rate taxes charged to Out-growers should be reviewed, and the unnecessary deduction should be critically analyzed to identify those that become a burden to cane Out growers should be scrapped off. The study findings showed that farmers have been subjected to many deductions and higher costs to their general involvement in cane production compared to other crops grown with less response from the association management. Examples of these crops are: Maize, Paddy and Coffee. (See attachment).

5.5 Suggestions for Further Research

The study of the influence of Microfinance loans to the Small Scale Sugarcane Growers in Tanzania, using a case study of Kilombero District in Morogoro Region will assist policy makers to make better decisions on appropriate credit system for them. In order to have an effective policy, broader research, understanding of- and action to support small scale farmers' development through more effective and affordable financial flows are needed.

The presence of appropriate credit programmes in areas designed based on the farmers' preferences is important since credit/loan is an essential element in increasing their agricultural production and incomes, lively hood diversification, and increasing business

skills. Also access to appropriate loan/credit programmes that are responsive to small scale farmers' preferences will discourage farmers from continuously borrowing through informal credit sources.

The research was limited by time and resources constraints and the researcher would like to suggest that a further detailed study on the exploration of the small scale farmers' credit/loan perceptions and preferences at the regional or possibly national level would be undertaken. This research covered only one district (Kilombero) which may differ from other districts/regions in Tanzania.

There is a need for further research into the determinants of access to or exclusion from financial services in Tanzania, as well as the efficiency of policy instruments in improving small scale farmers' access to credit.

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APPENDICES

Appendix I

MZUMBE UNIVERSITY

P.O.BOX 1

MZUMBE MOROGORO.

QUESTIONNAIRE FOR SMALL SCALE SUGAR CANE GROWERS

I am John, Ngano Nhyamah a student at Mzumbe University studying for the degree of Master of business administration- corporate management in 2011/2013 academic year. The purpose of this questionnaire is to get a better understanding of the impact of the agricultural credit/loans received by small scale sugar cane growers at Kilombero District Morogoro Region. The results of this questionnaire **will help to suggest ways to improve agricultural credit influence to the small scale sugar cane growers 'at Kilombero and in Tanzania in general.** Your own experience with the agricultural credits is an important input to identify such improvements. Therefore your **frank answers** to the questions are needed. To secure frank answers **the completed questionnaires are treated as confidential** and will only be used by the researcher for academic purposes.

I appreciate the time spent to fill in this questionnaire.

Survey Questionnaire

Background Information

1. Name of your village. Put a tick in the name of your village
 - i. Mkamba []
 - ii. Msolwa Ujamaa []
 - iii. Kidatu []
2. What is your sex
 - i. Male []
 - ii. Female []
3. Age Range Please tick the appropriate range
 - i. Below 18 years []
 - ii. 18- 28 years []
 - iii. 29-38 years []
 - iv. 39- 48 years []
 - v. 49-58 years []
 - vi. 59 and above []
4. Educational level of the respondents
 - i. None []
 - ii. Primary Education []
 - iii. Secondary Education []
 - iv. Certificate level []
 - v. Diploma level []
 - vi. University level []
 - vii. Others(specify) []

Section 1 Accessibility of agricultural credit by credit small scale sugar cane growers .

5. Do you know about the agricultural credit programme operating in your area?

i. YES []

ii. NO []

6. What is your main source of credit?

i. Formal lender []

ii. Informal Lender []

7. What is the maximum single amount you can borrow from SACCOS, CRDB & NMB?

i. Less than 2 million tshs []

ii. Between 2.5 and 10, million tshs []

iii. Between 10, 1 and 20, million tshs []

iv. Between 20 and 30, million tshs []

8. Did your micro loan require collateral or security?

i. YES []

ii. NO []

9. What are the main uses of the credit you receive from microfinance institutions?

i. For supporting agriculture []

ii. Support small scale industries []

iii. For family use(paying school fees) []

iv. For social festivals []

Impacts of Agricultural credit to the small scale sugar cane producers

10. Has the output level increased after acquiring the loans?

i. Yes []

ii. No []

iii. To some extent []

11. Are the agricultural credit facilities available in your village?

- i. Yes []
- ii. No []

12. Are the interest rates favourable to the borrowers?

- i. Yes []
- ii. No []
- iii. Somehow []

13 .Do interest rates scare you from borrowing from the SACCOS or bank?'

- i. Yes []
- ii. No []
- iii. Somehow []

14 What are your views on interest rates being charge by banks/SACOSS

- i. Very high []
- ii. Low []
- iii. Moderate []

15 Agricultural credits pay major role in the improvement of sugar cane production

- i. I agree []
- ii. I strongly agree []
- iii. I disagree []
- iv. I strongly disagree []
- v. I am indifferent []

16 Are you are member of sugar cane growers association?

- i. Yes []
- ii. No []

17. Please indicate the reasons for joining growers association

- i. Access to extension service []
- ii. Direct marketing of produce []
- iii. Produce price determination []
- iv. Access input at cheap price []

v. Access to credit []

vi. Exchange of experience/ideas []

18. Which of the following are the Constraints to Sourcing agricultural credits in your area?

i. High interest rate []

ii. Collateral security []

iii. Mode of repayment []

iv. Others (please specify).....

19. Can you please suggest the best way in which agricultural credits can benefit your farming activities.....

20. Do you think agricultural credit/loans from financial institutions have an impact in the growth of small scale sugar cane growers?

i. Yes []

ii. No []

If “ Yes” please explain

21. What are the challenges faced by Micro finance institutions/SACCOS as the financing entities?-----

22. What are the challenges faced by Farmers cane growers Associations as the recipient entities?

23. Any other suggestions which can benefit this study.....

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

Thanks for your cooperation and understanding

Appendix II

Interview Guide

1. Do you think agricultural credit is available and accessible to the SSSCG?
2. What do you think are the uses of credits which you provide to the SSSCG?
3. Do you think agricultural loan has an impact to the SSSCG? How?
4. Do you have any mechanisms to ensure that the agricultural credit have an impacts to the growth of SSSCG?
5. What are the challenges faced by MFIs as the financing entities?
6. What are the challenges faced by SSSCG as the recipient entities?
7. Any other suggestions which can benefit this study?

Appendix III



Appendix IV

NAMBA YA KUUZIA MIWA
 NAMBA YA MUUZAJI
 LYAHILIA CANE GROWERS

63119
 53140

KILOMBERO SUGAR COMPANY LIMITED
 P. O. BOX 50
 KIDATU
 TANZANIA

HATI YA MALIPO

53140 63119
 JOHN MASANJA
 P. O. BOX 50
 KIDATU

NAMBA YA KODI YA MSAGAJI
 NAMBA YA TIN YA MUUZAJI

100-161-745

MIWA IMEPOKEWA KWA TARE : 31/10/2008

TAREHE YA MALIPO YA ANK : 14/11/2008

NAMBA YA VAT YA MSAGAJI
 NAMBA YA VAT YA MUUZAJI

20-004604-R
 ISIYOSAJILIMA

TANI ZA MIWA ZILIZOINGIZWA
 TANI ZA KULIPIA

HADI SASA : 207.600
 HADI SASA : 22.173

(10.68%

AINA MSINGI KIWANGO THAWANI HADI YA NYUMA THAWANI VAT YA ISIYOLIPWA IKO TAYARI
 SASA BILA VAT SASA MWEZI HUU KIASI KULIPWA

63281 CB GLAB CLEMENCE B LYAMBA
 63647 JCGLAB JIJIHADA CHELENZO

25900.00-
 146550.00-

TT 7 MFUKO WA KUENDELEZA MIUNDOMBINU
 59501 ROAZ RCGA INFRASTRUCTURE

103800.00-

TT 9 GHARAMA ZA KUKATIWA MIWA NA WAKANDARASI
 50074 TR503 BULIMA INVESTMENT
 63607 MGSC MIASS GENERAL SUPPLY CO

49470.00-
 957390.00-

TT 15 MCHANGO WA SHULE YA SEKONDARI
 53624 AS388 RUEMBE CANE GROWERS ASSOCIATIO MCAN

20760.00-

TT 16 MAKATO YA HUDUMA YA UTENDAJI
 63401 RCGA RUEMBE CANE GROWERS ASSOCIATIO MCAN

129542.40-

IMELIPWA KWA MUUZAJI 54801 - ROA-SACCOS

MAELEZO YA VAT - (MSAGAJI KWA MUUZAJI - 0.00) (MUUZAJI KWA MSAGAJI - 0.00)

20760.00-
 129542.40-
 3653817.18

(b) Mkopo wa Kilimo cha Miwa.

- Mkopo utatolewa kwa wanachama tu.
- Mwombaji anatakiwa kujaza fomu ya maombi ya mkopo.
- Mkopaji ni lazima awe ni mkulima wa miwa aliyesajiliwa na mwenye namba ya kuvunia (OG No).
- Kiwango cha kukopa kitatokana na mahitaji halisi ya shamba, uwezo wa kurejesha na historia ya mkopaji ya kurejesha mkopo kwa wakati.
- Riba itatozwa kulingana na hali halisi ya soko la fedha.
- Mteja akichelewesha marejesho zaidi ya muda wa makubaliano atalazimika kulipa riba ya mwaka mzima kwa kiasi kitakachotajwa katika mkataba wa mkopo.
- Fomu ya maombi ya mkopo ni Tsh.5,000/=.
- Muda wa kukaa na mkopo ni kuanzia mwaka mmoja hadi miaka mitatu kutegemea na aina ya mkopo (mkopo wa pembejeo au kuchimubua mashamba yaliyochoka)
- Marejesho yatafanyika kutokana na fedha za mauzo ya miwa pamoja na vyanzo vingine vya mapato.
- Mkopaji anatakiwa adhaminiwe na kikundi cha wakulima wa miwa au awe na mdhamini pamoja na dhamana za mali zisizohamishika.
- Mkopaji atakayebainika kuuza miwa, kukodisha shamba lenye mkopo kabla ya kumaliza mkopo atahesabiwa kuwa ni mkopaji mbaya. Dhamana zake zitawajibika katika kurejesha mkopo wake.