

**THE CHALLENGES FACING THE USER-OWNED MICROFINANCE  
INSTITUTIONS: A CASE STUDY OF JIENDELEZE SACCOS IN MBEYA  
RURAL DISTRICT**

**BY**

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**ABSTRACT**

The importance of accessibility of credit to all social classes has necessitated the formation of microfinance policy so as to guide the development of the sector. With the formation of microfinance policy there is a number of public and private MFIs including some banks that provide micro finance services. However, with the current micro finance institution in Tanzania there is no sufficient documentation of the strengths and weaknesses of user owned microfinance institutions. This study thus, aimed at evaluating the challenges faced by user owned MFI's in Mbeya district. Primary data were collected using questionnaires administered to randomly selected samples of 30 members of user owned MFI. MFI management team and staffs were also interviewed as key informants to supplement information of the respondents. Secondary data were collected from various sources including library, IFAD, District council offices, and SACCO's data. Descriptive statistics (percentages and frequencies) were employed using SPSS computer software to describe the challenges faced by MFIs. User owned MFIs found to have both internal and external barriers limiting their performances. Internal barriers were found to be those related to poor education background whereas external barriers involve institutional weaknesses. Many MFI members (73%) reported to lack adequate basic financial skills, whereas 67% are not conversant with business planning and operation. Hence this study recommended that proper measures such as period, provision of entrepreneurship skills and business training for MFI members and changing of laws and regulations which seem to be barriers to the development of user owned microfinance institutions.

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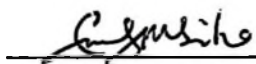
**DECLARATION**

I, **Halima Abubakary** do hereby declare to the Senate of the Sokoine University of Agriculture that this research paper is my original work and that it has never been submitted for a degree in other University.

  
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## **DEDICATION**

This work is dedicated to my parents Abubakary Saleh and Mwanaidi Salum for their sacrifices and efforts which enabled me to reach at this level. And to my beloved husband Mr. Hussein Ngaga who supported me both morally and financially.

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**LIST OF ABBREVIATIONS**

<b>BOT</b>	<b>Bank of Tanzania</b>
<b>CRDB</b>	<b>Cooperative Rural Development Bank</b>
<b>EIU</b>	<b>Economic Independent Unit</b>
<b>FNGO</b>	<b>Financial Non Governmental Organization</b>
<b>GDP</b>	<b>Gross Domestic product</b>
<b>IFAD</b>	<b>International Fund for Agriculture Development</b>
<b>ILO</b>	<b>International Labour Organization</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>MFIs</b>	<b>Micro-Financial Institutions</b>
<b>NGO</b>	<b>Non Governmental Organization</b>
<b>NMB</b>	<b>National Micro finance Bank</b>
<b>PFCMP</b>	<b>Professional Financial Cooperative Management Program</b>
<b>RFSP</b>	<b>Rural Financial Sector Support Program</b>
<b>SACCOS</b>	<b>Saving and Credit Cooperative Society</b>
<b>SAP</b>	<b>Structured Adjustment Program</b>
<b>TPB</b>	<b>Tanzania Postal Bank</b>
<b>URT</b>	<b>United Republic Of Tanzania</b>

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

#### **1.1 Background information**

Tanzania is a predominantly agricultural based economy. Agriculture contributes about 62% percent of the GDP 90% of the total exports value (EIU, 1992; URT, 1999). Tanzanian economy is now growing at an annual rate of approximately 4.5% per annum against a population growth rate of 2.9%. Moreover, agriculture employs 75% of the country workforce. With a population of about 35.5 million people scattered over 930,700km<sup>2</sup> of land, 87% of Tanzanians live in rural areas (Mandara, 1998). People living in rural areas are very poor for a number of reasons including lack of access to financial services to the majority of the poor population. As a part of poverty reduction strategy government of Tanzania is making deliberate efforts for the poor to access credits (Daily News, June 30, 2006 Minister of Planning, Economy and Empowerment).

#### **1.2 Current Situation**

##### **1.2.1 Emergence of Microfinance Services in Tanzania**

The traditional sector is not adequately equipped to provide microfinance services (BOT, 2004). The government of Tanzania is mainstreaming microfinance as one of the tools for poverty reduction. A strong regulatory framework to ensure financial services reach the poor is being developed (Daily News, June 30, 2006 Minister of planning, Economy and empowerment).

Rural savings mobilization and strengthening of micro-finance institutions is among the key components in Tanzania's rural development and agricultural sector development strategies (Matembele et al, 2004).

The study made by BOT, (2004) revealed that, 82% of the rural population saving in their homes whereas 79% of the households are willing and able to save if appropriate products and saving mechanisms are available. Moreover, 94% of the rural households are willing to borrow more if resources and appropriate methodologies are available.

Recognizing the widening institutional gap between the supply of financial service by the formal system and the actual demand, government in collaboration with the donor community, took action to facilitate the development of the microfinance industry. One of the important actions was initiating the microfinance policy formulation process in 1996 with a nationwide demand study on rural microfinance (Matembele et al, 2004).

The Government of Tanzania embarked on financial sector reforms in 1991, in order to create an effective and efficient financial system. The lynchpin of the reforms consisted of the Government's commitment to permit banking institutions to operate on a commercial basis, making their business and management decisions free from outside intervention within the norms of prudential supervision (Chiduwa, 2006).

### **1.2.2 Problem Statement**

Despite the progress being achieved in the mainstream banking system, financial services to the poor and low income households in the rural and urban areas has been slow to develop and the access of these large segments of the population to financial

services is stunted and proved to be unsustainable (Chiduwa, 2006). A survey conducted by BOT (1997) revealed that, rural areas largely lack effective saving facilities.

IMF found that micro credit accounted for less than 5% of all bank credit in Tanzania which is less than 0.4% of GDP. According to PFCMP, 2006 SACCOS in Tanzania suffer from many weaknesses. However not many studies are available to identify them. Therefore this study aims to identify some of the problems encountered by user owned microfinance institution in Tanzania by looking at Mbeya rural district as a case study.

### **1.2.3 Justification of the Study**

This case study aims at identifying some problems faced by user owned microfinance institutions. The role of micro-finance in promoting economic development and social welfare especially among low-income households has long been recognized in Tanzania (Chijoriga 2000). Moreover it can have distributional effects and contribute to poverty alleviation by enhancing access to financial services to the poor (Chiduwa, 2006). People with access to credits under different microfinance programs are in a better position to take advantage of economic opportunities ((Matembele et al, 2004).

Identifying the problems hindering MIFs performance will offer insight into the organizational features conducive to the sustainable supply of financial services. The findings will also be essential first step towards managing MFIs effectively. Moreover, the study will provide recommendation on how to improve MIFs.

### **1.3 Research Objectives**

#### **1.3.1 The Main Objective**

The general objective of the research is to assess the challenges facing the user owned microfinance institutions (Savings and Credit Cooperatives) in Mbeya rural District.

#### **1.3.2 Specific Objectives**

- To assess range of services and products offered by member owned microfinance institutions
- To determine education level of the staffs and management team of user owned microfinance institutions
- To assess entrepreneurship skills of members of microfinance institutions
- To assess external and internal barriers that limits the performance of microfinance institutions.

## CHAPTER TWO

### 2.0 LITERATURE REVIEW

#### 2.1 History of Micro Finance Institution (MFIs) in Tanzania

Micro-finance institutions (MFIs) can be defined as those institutions that offer loans and other financial services to Micro and Small Enterprises (MSEs). Loans are usually small, and the conditions to get access to credit are usually not as strict as those demanded by formal financial institutions (Lusugga, 2003).

In the early 1970s, the Small Industries Development Organisation (SIDO) was set up. One of its major duties was the provision of microfinance to small business undertakings. Also Savings and Credit Cooperative Organizations (SACCOs) were encouraged especially at places of work throughout the 1960s and 1970s.

Following the Structural Adjustment Program (SAP) in 1990s, there has been financial sector restructuring that has encouraged more participation of private and non-government organization (NGO) in credit scheme in the country (Kashuliza 1994). The implementation of SAP in financial sector eventually led into the enactment of the banking and financial Institutions Act. Private banks and financial institutions have been allowed to enter Tanzania financial market and this marked the beginning of a major financial sector reform programme.

In 1990s the government advocated the importance and recognition of Microfinance Institutions in the economy of Tanzania. The need for microfinance arises due to the fact that low income people have few assets or resources to meet the requirement for

traditional, collateral as demanded by formal financial institutions. A number of public and private MFIs including banks that provides micro finance services (URT, 1998). The government also developed National Micro Finance Policy, which aim at addressing the issue of micro finance widely.

## **2.2 National Microfinance policy**

The microfinance industry in Tanzania is still in its nascent stage (Chiduwa, 2006). The National Microfinance Policy articulates a clear vision and strategy for the development of a sustainable microfinance industry, specifying the respective roles of the key stakeholders the Government and its principal agencies in policy formulation and implementation, the different institutional providers of microfinance services, and the donor community.

In its statement of the overall microfinance policy, the Government recognizes the microfinance sector as an integral part of the financial sector, which falls within the general framework of its Financial Sector Reform Policy Statement of 1991(National Microfinance policy, 2000).

## **2.3 Size of Microfinance in Tanzania**

In Tanzania SACCOS constitute the largest single source of credit to small and micro business. This makes SACCOS a major component of small and micro business lending market. The current status of SACCOS in Tanzania which was compiled on May 2005 is illustrated in table 1.

**Table 1: Size of Microfinance in Tanzania**

<b>Total membership:</b>	<b>254,651</b>
Number of registered SACCOS:	1,875
Shares:	Tshs 13,169,502,709/=
Deposits:	Tshs 2,864,360,501/=
Savings:	Tshs 28,529,439,054/=
Loan outstanding:	Tshs 27,231,087,502/=
Other liquid assets:	Tshs 4,728,955,596/=

**Source: PFCMP, 2006**

#### **2.4 Microfinance Service Providers**

The target clients for a given financial service provider is primarily determined by its mission, institutional form and methodology. Banks that scale down to serve the poor tend to reach only the moderate poor. Savings and Cooperative Societies (SACCOS) clients range from the moderate poor to vulnerable non poor (Butamanya, 2006). Institution that supply microfinance services in Tanzania can be categorized as formal, semi formal and informal. The types of financial service providers are illustrated in

Table 2.

**Table 2: Types of Financial Service Providers Worldwide**

<b>Formal Institution</b>	<b>Semi formal Institution</b>	<b>Informal Institution</b>
-Central Bank -Banks <ul style="list-style-type: none"> <li>▪ Commercial banks</li> <li>▪ Merchant banks</li> <li>▪ Rural banks</li> <li>▪ Postal savings banks</li> <li>▪ Cooperative banks</li> </ul> -Development banks <ul style="list-style-type: none"> <li>▪ State-owned</li> <li>▪ Private</li> </ul> -Other nonbank institutions <ul style="list-style-type: none"> <li>▪ Finance companies</li> </ul> -Term-lending institutions -Building societies and credit unions -Contractual savings institutions <ul style="list-style-type: none"> <li>▪ Pension funds</li> </ul> -Insurance companies - Financial Markets <ul style="list-style-type: none"> <li>▪ Stocks</li> <li>▪ Bonds</li> </ul>	-Cooperatives -Savings and credit Societies (SACCOS)- Multipurpose cooperatives -Credit unions -Cooperative quasi-banks -Employee savings funds -Village banks -Development projects registered self-help groups and savings clubs -Non Governmental organizations (NGOs)	-Savings associations -Combined savings and credit associations -Rotating savings and credit associations and variants -Informal financial firms <ul style="list-style-type: none"> <li>▪ Indigenous bankers</li> <li>▪ Finance companies</li> <li>▪ Investment companies</li> </ul> -Non registered self-help groups Individual moneylenders <ul style="list-style-type: none"> <li>▪ Commercial</li> <li>▪ Non commercial (friends, neighbors, relatives)</li> </ul> -Traders and shopkeepers NGOs

**Source: Microfinance Hand book (1999)**

### **2.4.1 Formal and Informal Microfinance Institutions**

#### **i. Formal Institutions**

These institutions both private as well as public are characterized as being regulated by central bank authorities. These authorities decide on what kind of services the institutions are allowed to provide example CRDB, TPB, NMB etc. (Chijoriga, 1999).

#### **ii. Semi – Formal Institutions**

These are registered entities subjected to all relevant laws but not subjected to regulation and supervision as financial intermediaries example SACCOS, FNGOs etc. (Chijoriga, 1999).

#### **iii. Informal Institutions**

Informal financial institutions on the other hand refer to all transaction, loans and deposit occurring outside the regulations of a central monetary and supervisory organ. Examples include Upatu groups (Chijoriga, 1999).

## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 The Study Area**

The study was carried out in Mbeya rural district. It is one of eight districts in Mbeya region. In 1997 population in Mbeya rural district was 422,491 whereby 51% of the population were females. The district covers a total of 19,098 square kilometres which is 30% of the total regional share. Mbeya rural district is the most populated district compared to other districts in Mbeya region. This could be attributed by immigration in search of good soils and reliable rainfall.

The district major economic undertakings include farming and animal husbandry. It is estimated that these two sectors contribute about 65-80% of the district GDP. Other sectors are small scale industries and trading.

#### **3.2 Research design**

Data was collected by using cross-sectional research design in which data were collected at one point at a time. The design has been recommended by Babbie (1990) due to its dual characteristics. Data collected used for purposes of simple statistical description and interpretation and also make it possible to determine relationship between different variables that will be focused at the time of survey.

Percentages and frequencies were used to give descriptions of the findings. The study employed was both qualitative and quantitative procedures so as to capture much data as possible.

### **3.3 Sampling frame**

To obtain the desired sample, purposive sampling technique was used to obtain the SACCOS operating under RFSP in Mbeya rural district. Choice of the SACCOS was made basing on the location and performance. Jitegemeee SACCOS is owned by both farming and non farming community as it's located in semi urban area. Moreover, Jitegemeee SACCOS is among the best key indicator microfinance institutions under RFSP. The performance is based on membership base, report quality and financial stability. Simple random sampling technique was used to obtain required respondents.

### **3.4 The sample size**

The total of 30 members of SACCOS was interviewed by using structured questionnaires. This number of cases is reasonable, since recommended minimum and reasonable sample size is 30 (Babbie, 1990).

### **3.5 Data collection**

Questionnaire which employed closed and open-ended questions was designed for the purpose of capturing data at institutional and beneficiary level. Both primary and secondary data was used during research. Primary data were collected by means of structured and unstructured questionnaires.

Secondary data which could assist in defining relationship that exist between microfinance industry in general and performance of the SACCOS was obtained from various sources including news papers, books, various reports and documents.

### **3.6 Data analysis**

The collected data was summarized, coded and processed by using computer Statistical Package for Social Sciences (SPSS) version 11.5. Descriptive statistics such as percentages and frequencies analysis was used to describe distribution of individuals among respondents.

## **CHAPTER FOUR**

### **4.0 RESEARCH FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

Jiendeze SACCOS started in year 1998 with total members of 40 whereby 29 among them were males and 11 were female. It started following the Structural Adjustment Program (SAP), whereby financial sector restructuring has been taking place. This encouraged more participation of private and non-government organization (NGO) in credit scheme in the country. Jiendeze SACCOS then joined RFSP programme in year 2002 to date. Being under the RFSP the SACCO is registered under the cooperative act of 1991 thus though it has its own constitution it must abide to Cooperative laws and regulations.

#### **4.2 Membership of Jiendeze SACCOS**

Jiendeze SACCOS is a good example of a user owned microfinance institution in Mbeya rural district which is a voluntary and democratically controlled. The members are owners and clients at the same time. To be a member of Jiendeze it is a prerequisite to be residing in Mbeya rural district. It can be noted from table 3 that the number of both male and female members for five years from 2002 – 2006 is increasing. This could probably be due to financial SAP in this period. The financial SAP encouraged local people to join SACCOS. Membership profile for 5 successive years is illustrated in table 3 below.

**Table 3: Membership Profile for Jiendeleze SACCOS**

<b>Membership</b>	<b>Dec-02</b>	<b>Dec-03</b>	<b>Dec-04</b>	<b>Dec-05</b>	<b>Sept-06</b>
No. of male members	33	157	157	188	213
No of female members	13	122	129	141	145
Group	0	2	5	8	13
Institutions	0	0	0	0	1
<b>Total membership</b>	<b>46</b>	<b>279</b>	<b>286</b>	<b>339</b>	<b>372</b>

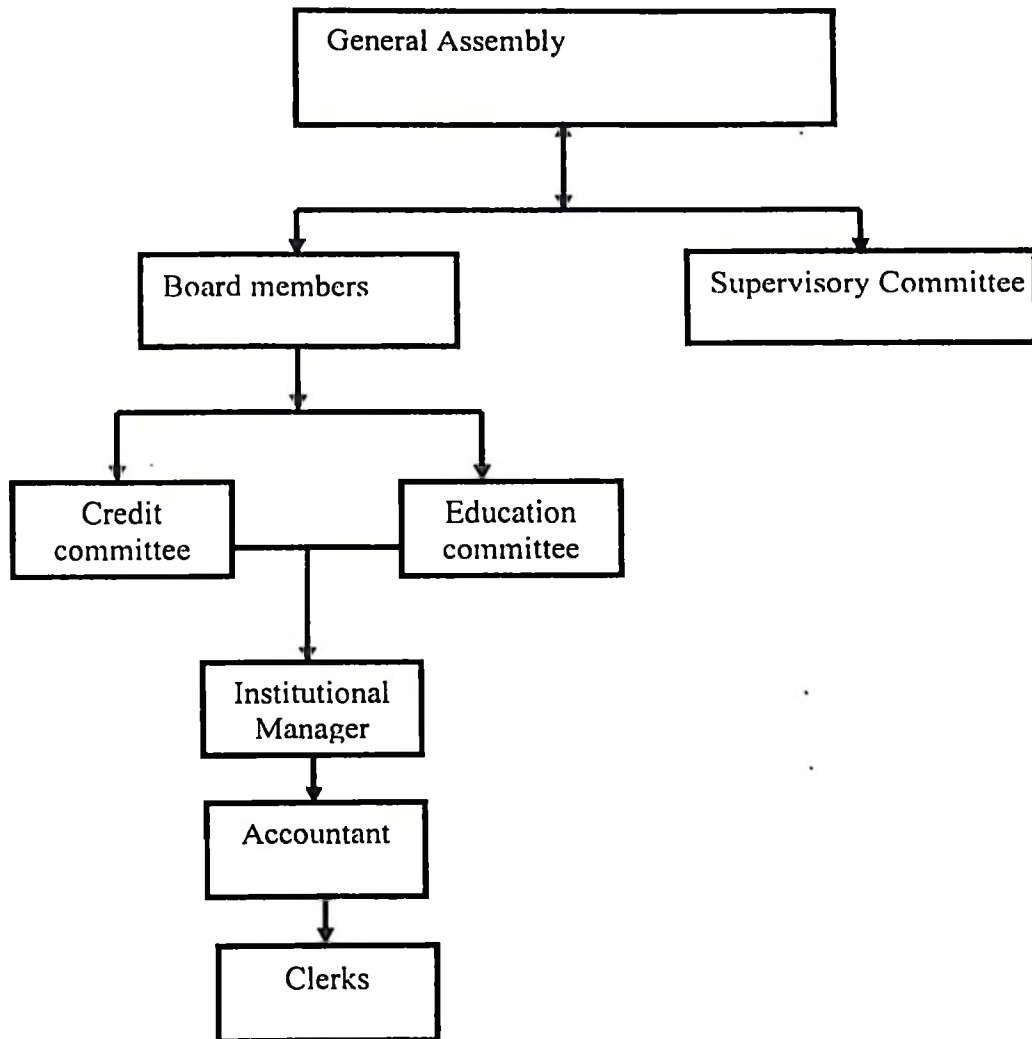
*Source: Jiendeleze Saccos, 2006.*

### 4.3 Management

Decisions concerning different issues are passed through general assembly. Decision is reached through vote from all members. Each member in this SACCOS has one vote irrespective of his/her investment in the SACCOS in terms of share, savings and deposits. The day to day activities are controlled by board of SACCOS under the chairman elected according to the rules and regulations of the SACCOS. Board members are elected after every three years. Selection of board members takes into account gender equality. Out of total of 12 board members there are six males and six females. These include chairman (1), vice chairman (1), secretary (1), monitoring committee (3), credit committee (3) and member's representative (3).

Other important factors which make a member to be elected in a board include possession of five or more shares and ability to read and write. The figure below represents the flow of authority in Jiendeleze SACCOS.

Figure 1: Organization structure of SACCOS



*Source: Jiendeleze SACCOS*

#### 4.4 General performance of Jiendeleze SACCOS

Jiendeleze is the best performing SACCOS supervised by RFSP in Mbeya rural district for the year 2006. There is a total of 16 SACCOS under this program whereby Jiendeleze ranks number 1. The ranking is based on five key performance indicators. Performance is ranked in terms of percentage of members, share capital, savings, deposits, and outstanding loan portfolio out all 16 SACCOS. By September 2005, in all 16 SACCOS total membership was 3328, share capital T.Sh 90 363 765.35, savings T.sh 281 013 349.60, deposits T.sh 40 045 630 and outstanding loan T.sh 308 052 399. Table 4 below illustrates position of Jiendeleze as it was in Sept 2006.

**Table 4:** Performance of Jiendeleze SACCOS

Indicator	Members	Shares	Savings	Deposits	Loan
Description	(No.)	(T.sh.)	(T.sh.)	(T.sh.)	(T.sh.)
	372	20 485 147	66 254 955	13 016 630	64 185 704
Percentage	11	23	24	33	21
Rank	2	1	2	1	2

*Source: RFSP, 2006*

#### 4.5 General information of the respondents

##### 4.5.1 Sex of the members

Table 5 shows that majority (63%) of respondents were males while females were only (37%). The reason behind this observation could be that women have less capital to join the SACCOS. The price per share in Jiendeleze SACCOS is T.Sh. 20,000/=.

**Table 5: Distribution of respondents by gender**

Sex (n=30)	Frequency	Percent
Male	19	63
Female	11	37

Bureau of Statistics (1995) indicated that women's access to wage and salary employment is small, about 20% of total. Employment opportunities are often denied to women because of their family responsibilities, lack of skills, and social and cultural barriers. This situation is further illustrated in table 6 which shows the percentage membership of males and females in Jiendeleze SACCOS.

**Table 6: Percentage of males vs. female members**

Membership	Dec-02	Dec-03	Dec-04	Dec-05	Sept-06
Percentage of male members	71.7	56.2	54.9	57.1	59.5
Percentage of female members	28.2	43.7	45.1	42.9	40.5
<b>Total percentage</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Jiendeleze Saccos, 2006.*

This study indicated that the percentage of women joined SACCOS over five years is relatively lower compared to that of males as shown in the above table. From these

results it can be concluded that the impact of microfinance on both economic and social empowerment to women is marginal.

#### 4.5.2 Education Level

Survey results indicates that 56.6% of the respondents had completed primary school education, 13.3% had completed secondary education and 23.3% had no formal education; whereas only 6.8% had attained college/university education. From these findings it can be concluded that members of Jitegemee SACCOS have relatively low education levels. Table 7 illustrates the education level of members of Jiendeleze SACCOS.

**Table 7: Education level of members**

<b>Education level (n=30)</b>	<b>Frequency</b>	<b>Percent</b>
Non formal education	7	23.3
Primary education	17	56.6
Secondary education	4	13.3
College education	2	6.8

*Source: Survey data Oct, 2006*

Jiendeleze SACCOS have a total of 4 staff. From the survey done it shows that 2 of them had primary education while the other 2 had secondary education. None of the staffs had attended college education related to the specified job. The knowledge concerning their work is attained through short courses related to the job they are performing.

The lack of knowledge and expertise to run money business is a critical weakness which leads to occurrence of unnecessary mistakes in day to day transactions. Example a standard treasurer complained that overpayment he made to certain people unknowingly was due to witchcraft. The mistake however, may be done due to lack of necessary skills to do such a job. Inadequate knowledge for staffs is also reflected in the report writing and documentation whereby some of the important reports are missing.

#### **4.5.3 Management team**

This study indicates that 50% of the board members had completed primary school education, 33.3% had completed secondary education and only 16.7% had attained college/university education. From these findings we can conclude that the society has low level of education. The importance of education is a person's ability to understand and create necessary strategies for avoiding and tracking poverty on a wider dimension (Boi, 2004). The low education levels indicate that the board members may have limited knowledge in areas of leadership and management and financial control skills. These skills are however very important to any decision maker in such a financial institution. Table 8 below illustrates education levels of Jitegemee board members.

**Table 8: Board members education level**

<b>Education level (n=12)</b>	<b>Frequency</b>	<b>Percent</b>
Primary education	6	50
Secondary education	4	33.3
College education	2	16.7

#### **4.6 Occupation**

The results have indicated that farming formed the highest proportion of members (66.6%) followed animal husbandry (20%) and the last is trading (13.4%). The reason for this distribution may be due to the fact that, farming requires low start up capital (especially fixed capital), working capital for their survival and low level of skills to operate. Agriculture and animal husbandry are preferred by the majority of members probably because most of them do not have enough capital and skills to run business. Table 9 below shows the distribution of member's occupation.

**Table 9: Members occupation**

<b>Major occupation (n=30)</b>	<b>Frequency</b>	<b>Percent</b>
Farming	20	66.6
Animal husbandry	6	20
Small scale business	4	13.4

#### **4.7 Type of Products and services**

Type of products and services offered by the Jitegemec SACCOS is guided by its mission. Its mission is to build the spirit of saving and investment. Services offered include savings, and provision of credit among its members.

##### **4.7.1 Deposits**

Deposits provide a mechanism for the members to smooth the effects of income shocks on consumption, find safe and affordable repositories for their savings and insure risk. There are two types of savings in Jiendeze SACCOS which are savings account and fixed deposit account which is open to members only.

##### **4.7.2 Credit**

Jiendeze SACCO designed the credit programme which advocates the provision of informal credit with simple terms. The credit system allows the maximum credit value of a member to be three times of the member's saving values. Interest rate for the loans ranges between 2-3.5% per month.

#### **4.7. Types of loans**

##### **i. Implements loans**

The society saved by this SACCOS being agricultural based, it offers credit for agriculture implements among its members.

##### **ii. Crop receipts**

This system involves provision of loan to the clients just after harvesting the crops. The crops then are kept in SACCO's crop bank waiting for the price to stabilize. This



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system allows the farmers to sell their produce off season thus getting relatively higher price.

### **iii. Business loans**

These are provided to increase capital for the existing investments. This type of loan is usually provided in short term basis i.e. between 3 to 6 months with equal repayment monthly.

### **iv. Social loans**

These loans intend to meet emergency social obligation of members such as funeral costs, medical expenses arising from illness or accidents. Have a ceiling of T.sh. 60 000/= repayable in three months attracting interest rate of 3% per month and they can be issued to a member enjoying other development loans.

Table 10: Loan Portfolio of Jiendeleze SACCOS

<b>Loans Disbursed</b>	<b>Sept '06</b>
Female	39,722,090.00
Male	65,065,960.00
Group	1,267,000.00
<b>Total Loan Disbursed</b>	<b>106,055,050.00</b>
<b>Loan Repayment</b>	
Female	18,316,547.00
Male	22,973,855.00
Group	578,940.00
<b>Total loan Repaid</b>	<b>41,869,342.00</b>
<b>Outstanding Loan Portfolio</b>	
Female	21,405,543.0
Male	42,092,101.0
Group	688,060
<b>Total outstanding loan portfolio</b>	<b>64,185,704.0</b>
<b>Loans in Arrears</b>	
Female	1487000
Male	2,217,000.00
Group	-
<b>Total Value of loans in arrears</b>	<b>3,704,000.00</b>

Source: RFSP Mbeya Rural, 2006

#### 4.7.1 Loan repayment and recovery

Analysis from table 9 above indicates that 3.5% of the total value loans are in arrears. This poor loan repayment may be due to the fact that most of the members of SACCOS depend on agriculture which is highly erratic due unpredictable weather condition. Moreover the loan repayment is supposed to be done monthly while most of the agriculture products grown in this area have a grace period of seven months

i.e. rice. This poses a big problem for SACCOS as loans are not paid on the agreed period which increases the burden of credit to members. The study found that due to this reason a large number of loans disbursed remained outstanding even though the date of repayment had expired.

#### **4.7.2 Increasing in Loan Demand**

One of the important aspects which make members join the SACCOS is to acquire a loan, the objective which is not satisfied in proper time. However during this study it was found that often the number of loan applicants to SACCOS is relatively high in comparison with the fund available to pay the entire approved loans. It was revealed that SACCOS is unable to meet the current growing demand for loans from their members. This may be due to low interest rates charged by SACCOS i.e. 2.5-3% per month. The profit from these interest rates may be adequate only to cover normal transaction costs and provide small profit margins to the SACCOS. On the other hand SACCOS members are reluctant to adopt interest rates which will enable the institution to achieve financial sustainability.

Moreover, this study showed that limited financial capacity of SACCOS may be contributed by their financial dependence particularly on financial institutions such as banks.

#### 4.8 Entrepreneurship Skills

It was noted that all Jiendeleze SACCOS members have attended short courses related to business skills as a prerequisite of attaining loan. The study however revealed that 73% of the members are not satisfied by the duration and the quality of the courses and thus lacks understanding in important areas such as financial skills, while 53% need training in business skills. Moreover, 67% needs training in project planning courses. Lack of understanding of entrepreneurship skills can be reflected by the misuse of loans by borrowers in other activities rather intended business. Table 11 below illustrates the important entrepreneur courses that members lack.

**Table 11: Distribution of respondents by limitation to entrepreneurship skills**

<b>Entrepreneur course (n=30)</b>	<b>Frequency</b>	<b>Percentage</b>
Business skills	16	53
Financial skills	22	73
Project planning and operation	20	67

#### 4.9 Other challenges

##### 4.9.1 Poor working facilities

The SACCOS under study lacks computer. The situation necessitates entering all transactions manually. This creates difficulty in entering and storing of different monetary entries with efficiency.

There is also a problem of transportation facilities. This is particular for loan officer who is responsible for collecting money credits from members. Sometimes loan

officer has to walk by foot for about 7 km away from the SACCOS headquarters. This reduces efficiency of the work.

#### **4.9.2 Weak legal and supervision framework**

The SACCOS surveillance is under the Ministry responsible for cooperative due to the current Cooperative Society act no.2003 and rules 2004. The act however was not made specifically for Micro financial institution as SACCOS but rather for all Cooperatives societies.

Moreover, supervision of SACCOS is under the cooperative officers. However in this stud it was revealed that there are only four cooperative officers for the whole district. This number is not enough to supervise all 26 SACCOS monthly, this lead to limited inspection and supervision.

## **CHAPTER FIVE**

### **5.0 CONCLUSION AND RECOMMENDATION**

The main objective of the study was to assess the challenges facing the user owned microfinance institutions (SACCOS). Specifically, the study examined the microfinance institutions and their performance in terms of its financial status, staffs and management team competence, entrepreneurship skills of members and both the external and internal barriers that hinder the performance of the MFIs.

The survey results provide supplementary information for strengthening the microfinance sector in Jiendeleze SACCOS and other MFIS in Tanzania at large. The study ultimately was aimed at giving recommendations on how to improve MFIs services by giving ideas and suggestions useful in the formulation of the policies and means of solving the problems for the sector.

### **5.1 CONCLUSION**

The performance of MFIs appears to be influenced by education level of the owners and government laws and regulations. This suggests that capacity building among SACCOSS and review of laws, bylaws and regulations that prohibits the development should be taken into consideration. By so doing both the number of customers and profit of SACCOS will increase which will in turn raise individual member's income and the nation as a whole.

## **5.2 RECOMMENDATIONS**

In the light of the above conclusion, the following recommendation may be made to improve the microfinance sector.

### **5.1.1 Provision of Entrepreneurial Skills**

Entrepreneurship skills and training in business can be among of the important human capital. Provision of credit without entrepreneurship skills and business training is not sufficient, because most of credit clients misallocate the extended credit in either unprofitable business or consume it. This is because entrepreneurs have no skills on how to improve products or provision of services and they have low education to understand and anticipate customer's needs to increase market shares.

During this study it has been observed that SACCOS members short course training on business skills. However, the training seems not to be enough as most of members lacks financial skills, and business planning skills. Therefore it is important to provide training to MFIs clients. Training should be extended to cover entrepreneurship skills and credit management skills. MFIs can contract other firms to take such studies at reasonable fees paid by credit clients.

Moreover it has been observed that provision of credit alone without thorough feasibility study on types of business and its sustainability in a given environment is another factor that leads the members to invest in unprofitable business. It is therefore recommended that MFI schemes and appropriate government institutions should make feasibility studies on potential enterprises and premises for entrepreneurs.

### **5.1.2 Review of regulation and supervision framework**

Though supervising authorities under the Ministry of Cooperatives and Marketing are in place, still there is no clear evaluation for rural financial organizations.

This study recommends that the Bank of Tanzania retains authority over the Ministry of Cooperatives but empowers a third party for example independent auditors to inspect and supervise SACCOS. The cost for auditors could be paid by government from the monthly contributions from SACCOS.

### **5.1.3 Society sensitization**

MFIs should develop specific strategies for recruiting women and the surrounding society as a whole. Women form the group of potential clients from within their existing target groups. To expand their target groups to microfinance institutions should take into consideration the sizes and types of enterprise activities in which women engage, and experiment with learning programs that do not require convention forms of collateral.

At policy level, government should initiate surveys to determine the needs, demands, and debt capacity of women; and also initiate legal reforms to abolish gender differences in commercial and civil law.

### **5.1.4 Employment of Professionals**

SACCOS should operate as business entities taking into account their main objectives of saving their members rather than cooperatives which save their

members only. Thus such institutions should recruit professionals who are readily available when there is good personnel and administration policy, job descriptions and specifications together with attractive.

#### **5.1.5 Capacity Building and Knowledge for Management Team**

Elected management board members should be informed and fully understanding their responsibilities in areas such as loan management, planning, marketing issues, technological development changing corporate environment and financial control. In addition, the management team should be educated on emerging issues through training and seminars.

This will help to change of attitude of board members towards the way of delivering the members expectations employing the available resources efficiently for the benefit of their clients is highly needed. It will also enable them to recognize the importance of appropriate technology, skills and systems is among of the important means to survive in competitive business.

Further more updating of SACCOS management knowledge will enable them to be aware with continuous changes taking place in the financial sector.

#### **5.1.6 Financial Sustainability**

MFIs should be self sustainable and profitable. This means SACCOS should be run as a business entity. To achieve this reviewing of the act is necessary so as to expand SACCOS outreach and thus operates as a purely financial institution.

Moreover, there is a need to use interest rates which reflects the real market value for different products provided by SACCOS as well as taking into account the rate of loss through default on the loan portfolio. If possible financial institutions may create development projects such as building premises for renting rather than depending merely in one business.

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**APPENDICES**

**THE CHALLENGES FACING THE USE-OWNED MICROFINANCE INSTITUTIONS: A CASE STUDY OF MBARALI DISTRICT**

**Appendix 1: - QUESTIONNAIRE FOR SACCO/SACA MEMBERS**

**SECTION A: QUESTIONNAIRE IDENTIFICATION**

Date of interview .....

Name of SACCO/SACCA.....

Name of village.....

Name of interviewer .....Questionnaire number .....

**SECTION B: PERSONAL INFORMATION**

1. Gender of member A. Male B. Female

2. Education level

Primary ed.	Secondary ed.	College level	Adult education	Non formal ed.

3. What is your occupation .....

**SECTION C: SERVICE AND PRODUCT**

4. Why did you decide to join the SACCO/SACA?

Reason	Yes	No
To get credit		
Buying shares		
For safety purposes		
Preferred terms of loan		
To earn interest		
For future expenditure		
To do savings		
Others (please specify)		

5. Do you consider your SACCO/SACA to have any difficult terms? A. Yes [If yes go to 6] B. No. [If go to 7].

6. What are those difficult terms?

Term	Yes	No
High interest rates for loans		
Short repayment period		
Collaterals		
Low interest rates for deposit		
Rigid savings and loan policy		
Low chances of getting credit		
High rates of opening deposit		
Others (please specify)		

7. How do you assess the level of services you have received from the SACCO/SACA?

A. Very good B. Good C. Fair D. Poor

8. If fair/poor what contributed to such performance?

Service	Yes	No
Slow credit processing		
Corruption		
Poor customer services		
Favoritism		
Bureaucracy		
Poor access to credit		
Inconvenient opening/closing time		
Others (please specify)		

9. Do you think the types of products/services provided by your SACCO/SACA take into account customer's needs? A. Yes [If yes go to 11] B. No. [If no go to question 10).

10. What other important product that are not provided by your SACCO/SACA?

Product/Services	Yes	No
Deposit		
Savings		
Credits		
Money transfer		
Insurance		
Point of sales (POS)		
Automatic teller machine (ATM)		
Others (please specify)		

**SECTION B: ENTREPRENEURSHIP SKILLS**

11. Do you get any entrepreneurship training from your SACCO/SACA before getting credit? A. Yes [If yes go to 12] B. No. [If no continue to 15]

12. Is it optional to attend the mentioned course? A. Yes B. No.

13. How do you assess the validity of the course in relation to the use of the credit?

A. Very good B. Good C. Fair D. Poor

14. If fair/poor give your suggestions in improving the course

A..... B.

.....

C.....D.....

15. Do you think it is important to attend any entrepreneurship course before getting

Credit? A. Yes [If yes go to 16] B. No.

16. What courses do you consider to be relevant for SACCO/SACA member to attend?

Course	Yes	No
Business skills		
Financial skills		
Project planning and operation		
Market information system		
Management of information system		
Gender issues		
Business plan		
Others (please specify)		

**Appendix 2 - QUESTIONNAIRE FOR SACCO/SACA STAFFS**  
**SECTION A; QUESTIONNAIRE AIRE IDENTIFICATION**

Date of interview .....

Name of SACCO/SACA.....

Name of village .....

Name interviewer .....Questionnaire number .....

**SECTION B: PERSONAL INFORMATION**

1. Gender of member A. Male B. Female

2. Education level

Primary ed.	Secondary ed.	College level	Adult education	Non formal ed.

3. What is your occupation .....

**SECTION B: PERFORMANCE ASSESSMENT**

4. What are your current duties and responsibilities?

A.

.....B.....C.....

5. Doest your SACCO/SACA provides job descriptions and job specifications?

A. Yes B. No.

6. Have you received any training required to perform the job?

A. Yes B. No.

7. How do you rate your knowledge and skills in performing your job?

A. Excellent B. Good C. Fair D. Poor

8. Please outline any problems that you encounter in your work.

**Internal**

**External**

1.....

2.....

2.....

2.....

3.....

3.....

**Appendix 3: - QUESTIONNAIRE FOR BOARDS MEMBERS**  
**SECTION A: QUESTIONNAIRE IDENTIFICATION**

Date of interview .....

Name of village.....

Name of interviewer .....Questionnaire number .....

**SECTION B: PERSONAL INFORMATION**

1. Name of SACCO/SACA.....
2. Gender of the board member, A. Male B. Female
3. Position of the board member .....
4. Education level

Primary ed.	Secondary ed.	College level	Adult , education	Non formal ed.

**SECTION C: MANAGER AND GOVERNANCE**

5. How often are board members elected?  
 A. Once in a year B. Once after 2 years C.
  
6. What criteria does your SACCO/SACA use for a person to be elected as a board member?

Criteria	Yes	No
Gender		
Membership		
Education level		
Number of shares		
Others (please specify)		

7. How do you rate your SACCO/SACA in the following areas?

Area	Yes	No
Leadership and management		
Human resource		
Government		
Financial control		
Marketing		
Management of information System		
Credit management		
Training skills		
Others (Please specify)		

#### SECTION D: REGULATORY FRAMEWORK

8. How is your SACCO/SACA supervised A. Internal B. External
9. Does a SACCO/SACA have organization chart? A. Yes B. No.
10. How many board members does your SACCO/SACA have?  
A. 3-5 B. 6-10 C. 11-15 D. 16 and above
11. How many times does board member meet in one year?  
A. Once B. Twice C. Three times D. Four times E. More than four times

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