MICROENTERPRISE FINANCE IN TANZANIA:

CASE STUDY AND POLICY DESIGN ANALYSES

BY

CRANMER MALANDA PHINEHAS CHIDUO

A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE IN AGRICULTURAL ECONOMICS OF SOKOINE UNIVERSITY OF AGRICULTURE, MOROGORO.

2001

ABSTRACT

The purpose of this study was to assess the status and provision of micro-finance services in Tanzania and suggest necessary improvements in national micro-finance policies and design of micro-finance programmes. Specific objectives of the study were to (1) assess the status and provision of micro-finance services in Tanzania basing on secondary information and analyses of selected case studies, (2) evaluate the status of accessibility to micro-finance (credit) of selected MEs in Dar es Salaam region, (3) determine the role of credit in micro-enterprises performance in terms of changes in employment creation and income generation, (4) analyse factors which determine performance of micro-enterprises, and (5) following achievement of the above objectives, recommend necessary improvements in the design of national micro-finance policies and individual programmes. Data for the study were collected from various primary and secondary sources including, The Planning Commission, Vice President's Office, Bank of Tanzania (BOT), and National Micro-finance Bank (NMB). More data were collected through MFI and ME level surveys from PRIDE Tanzania, Presidential Trust Fund for Self Reliance (PTF), Huduma Ya Maendeleo Ltd (HYM) and their clients in Dar-es-Salaam region. Major tools of analyses for the study were descriptive statistics and multiple linear regressions. Results of the study confirmed that micro-finance programmes operated by the MFIs in the study areas have been designed basing on policies enshrined in the New Micro-finance Approach such policies have contributed significantly to financial successes in many parts of the World. They include: emphasis on group liability in lieu of formal collateral; charging of commercial interest rates instead of subsidized rates, effecting intensive loan collection, and demanding contributions towards insurance funds. Micro-enterprises studied have contributed substantially to livelihood of families of the micro-enterprise owners. Access of MEs to capital improves income generation and labour employment capacity of ME although only to a small degree. Capital has also enabled MEs to operate more smoothly and more efficiently. Recommendations of the study for policy relate to improvements in performance of the micro-enterprise sector through provision of reasonable amounts of start-up capital, and, provision of business management and marketing training, for the purpose of assisting ME's growth and development into the formal sector. It is also recommended that, activities of MFI should be regulated through a micro-finance board that shall develop and promote rules and regulations for self-guarding interest of the various stakeholders in the micro-finance sub-sector.

DECLARATION

I, Cranmer Malanda Phinehas Chiduo, do hereby declare to the Senate of the Sokoine University of Agriculture that this is my own original work, except where otherwise acknowledged and that it has not been submitted for a degree award at any other University.

Signature: ....

Date: 05 November 2001

COPYRIGHT

ACKNOWLEDGEMENTS

I wish to express my profound gratitude and sincere appreciation to my supervisor, Dr. A. K. Kashuliza for his suggestions, advice, encouragement, and guidance, which complimented and directed my effort towards completion of this study.

Particular thanks are also due to the SUA-VLIR programme for providing financial support for my studies, and Dr. E. R. Mbiha and Prof. N.Y.S. Mdoe for their role in facilitating the scholarship. I am also grateful to all Staff of the Department of Agricultural Economics and Agribusiness (DAEA), Sokoine University of Agriculture (SUA), for their help, love and patience. Thanks are also due to my fellow graduate students, namely Mr. Vincon Nyimbo, Dennis Rweyemamu, Abeid Msangi and Ms. Ellen Nyagori for being nice colleagues in class and beyond.

My thanks are also directed to leaders and staff of Poverty Eradication Division-VPO, BOT, Planning Commission, DSM City Commission, NMB Head office, for providing secondary information; managers and credit officers of HYM, PTF and PRIDE Tanzania -Kariakoo Branch for their cooperation and support during data collection within their organisations.

I also wish to thank my sister Mrs. Penina Mkuchu, who laid the foundation of my education for her un-wavered support during my stay at Morogoro. I am especially grateful to my wife Lillian for appreciating my endeavour. Lastly but not least, to Jehovah the almighty God, who blesses me abundantly.

DEDICATION

This work is dedicated to Pastor Peter Denis for his unabated love and concern, which he gave abundantly. May God lift him much higher! To my wife Lillian and our children for their patience and perseverance. To my mother Ruth and sister Penina for jointly laying the foundation of my life.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF APPENDICES

ABBREVIATIONS

BOT	Bank of Tanzania
BRI	Bank Rakyat Indonesia
CRDB	Cooperative and Rural Development Bank
CMSA	Capital Markets and Securities Authority
DAEA	Department of Agricultural Economics and Agribusiness
DANIDA	Danish International Development Agency
DJIT	Diamond Jubilee Investment Trust
DSE	Dar es Salaam Stock Exchange
EACB	East African Currency Board
EG	Enterprise Group
GDP	Gross Domestic Product
HYM	Huduma ya Maendeleo Limited
ILO	International Labour Organisation
K-REP	Kenya Rural Enterprise Programme
LDC	Less Developed Countries
LIF	Loan Insurance Fund
ME	Micro-Enterprise
MEC	Market Enterprise Committee
MEDA	Mennonite Economic Development Agency
MFI	Micro Finance Institution
NBC	National Bank of Commerce
NGO	Non Governmental Organisation
NIC	National Insurance Company
NMB	National Micro-finance Bank

NPF	National Provident Fund
NSSF	National Social Security Fund
PBZ	Peoples' Bank of Zanzibar
POSB	Post Office Savings Bank
PPF	Parastatal Provident Fund
PRIDE	Promotion of Rural Initiatives Development of Enterprises
PTF	Presidential Trust Fund For Self Reliance
ROSCAs	Rotating Savings and Credit Associations
SNAL	Sokoine National Agriculture Library
SUA	Sokoine University of Agriculture
TDFL	Tanganyika Development Fund Limited
THB	Tanzania Housing Bank
TIB	Tanzania Investment Bank
TPB	Tanzania Postal Bank
TRDB	Tanzania Rural Development Bank
UNDP	United Nations Development Programme
VLIR	Flemish University Council
VPO	Vice Presidents Office
WB	World Bank
ZIC	Zanzibar Insurance Company

CHAPTER ONE

INTRODUCTION

1.1 Background to the Financial Sector in Tanzania.

Since 1991 Tanzania has undertaken restructuring of its financial sector, now geared towards both the formal and the informal sector. The financial sector is headed by a central bank called Bank of Tanzania (BOT). BOT was established in January 1966 after dissolution of the East African Currency Board (EACB), to undertake the traditional functions of a central bank. Under BOT there were several financial institutions, which took an active part in the financial operations of the nation.

The National Bank of Commerce (NBC) had a monopoly for commercial banking in Tanzania mainland up to 1984, when the then Tanzania Rural Development Bank (TRDB) was reconstituted into a commercial bank and renamed the Co-operative and Rural Development Bank (CRDB). Until 1991, CRDB had already a collection of 10-16% of total deposit base of the country's financial system. On long term-finance, there were 3 development banks; Tanganyika Investment Bank (TIB), Tanganyika Development Finance Company Limited (TDFL) and Tanzania Housing Bank (THB); two savings institutions, Post Office Savings Bank (POSB) and Diamond Jubilee Investment Trust (DJIT); and one insurance company, the National Insurance Company (NIC). Furthermore there were two statutory contractual savings institutions, National Provident Fund (NPF) and the Parastatal Pension Fund (PPF) operating under trusteeship of the NIC. Moreover there was one hire purchase institution, the Karadha Company- a subsidiary of NBC. In

Zanzibar there were the People's Bank of Zanzibar (PBZ) for commercial banking and the Zanzibar Insurance Company (ZIC) as the two formal financial institutions (FI) in the isles. Except for TDFL and DJIT all these institutions were owned and controlled by the Government directly or indirectly.

The financial sector reform of 1990s resulted into the split of the National Bank of Commerce into two institutions namely the NBC (1997) Ltd. and the National Micro-finance Bank (NMB). This was for the purpose of increasing efficiency, and for encouraging a smooth ground for fair competition with other small (or new) private banks. Accordingly, several private-banks, foreign or locally owned, have emerged and joined the provision of financial services to the public. These include Standard Chartered Bank, First Adili Bankcorp, Greenland Bank, Meridian Biao Bank, Stanbic Bank, Kenya Commercial Bank, and Malaysia Bank. BoT as the governing body has already closed some banks for failing to meet prudent financial regulations as stipulated. These include First Adili Bankcorp, Greenland Bank, and Meridian Biao. A significant development in the financial sector reform however, is the formation of a body called Capital Markets and Securities Authority (CMSA) in 1994; and the subsequent opening of the first stock exchange market in the country, the Dar es Salaam Stock Exchange (DSE) in April 1998.

Restructuring of some financial institutions was meant to enhance improvements in management of their operations. In early 1990s, the Co-operative and Rural Development Bank, under management and financial support of DANIDA, sold some shares to its customers and concentrated more on provision of commercial banking services. Its name was ultimately changed into "CRDB BANK". In 1995, the Tanzania Housing Bank (THB) was liquidated following its failure to enhance repayment and recollection of their loans.

In the late 1990s, NPF was restructured to provide more social security services, and hence became the National Social Security Fund (NSSF). The Tanzania Postal Office Bank (TPB) was established as an autonomous institution and aims at provision of more banking services. NIC lost its monopoly in the insurance sector upon the enactment of a law permitting the establishment of privately owned insurance companies to render services similar to the NIC. The competing insurance companies among others, include Reliance Insurance Company (T) Ltd, Tajack and Phoenix.

1.2 Micro-finance

Micro-finance is a term used to designate financial intermediation at the local level. Micro-finance institutions are involved in provision of financial services to very small entities such as households, smallholder farmers, and small and micro-enterprises in rural areas, as well as in urban centres. The amount of money involved in each micro-financial transaction is relatively very small. Micro-finance has a purpose of supporting livelihood of low-income families and their enterprises, which have lacked access to financial services from mainstream financial institutions. Micro-finance covers a wide range of financial services, including savings, credit and payments. Clients use these services to support household investment and consumption needs.

For a long time, provision of micro-finance services to low income people has been hindered by lack of sustenance due to, among other reasons, issuing of 'cheap' credits and poor loan recovery. Credits were collateral based and issued at a low interest rate that didn't cover the loan transaction costs of the lending organization. Many organizations were affected by the default problem (Sharma and Zeller, 1997). High default rates ranging from 50% to as high as 80% were reported in small credit programs in Africa, Asia and Middle East (Sanderatne, 1978; Kashuliza, 1986). There was a common belief that poor clients are risky clients, because they operate in environments with high general business risk; they lack practice in rules of formal finance or even because they have low moral standards. Consequently many credit organizations in Tanzania as in most other Less Developed Countries (LDCs) withered and collapsed or existed by mere re-capitalization (Adams and Pischke, 1992).

Implementation of the Structural Adjustment and Liberalization Policies demanded public banks and other financial Institutions to operate on commercial basis. Banks withdrew from provision of development finance, and concentrate their effort on commercial lending which has more prospects for higher profits. In late 1990s, important development to micro-finance in Tanzania was in two tiers. One, when the government was required by donors to split the giant NBC, it demonstrated its concern to micro-finance by forming NMB. Two, it initiated development of National Micro-finance Policy which aims at addressing the issue of micro-finance to a larger dimension. These developments in micro finance indicate a bright future for micro-finance in Tanzania.

1.3 New Micro-finance Approach

Modern micro-finance programs have demonstrated that loan repayment depends fundamentally on factors within the control of credit institutions. Hulme and Mosley

(1996) noted that any credit organization seeking to provide micro-finance services to a significant number of poor people is compelled to address three major problems:

i. How to ensure that a large number of poor borrowers who have no valuable assets can access loans.

ii. How to provide a mechanism for screening-out bad borrowers (or screening-in good borrowers) in terms of character and/or project performance in the absence of written records and business plans.

iii. How to give borrowers who cannot offer collateral incentive to repay or failing this, compel them to repay on time.

In the early 1980s, new micro-credit policies and designs pioneered by Grameen Bank of Bangladesh and ACCION International of Latin America contributed to better loan repayment performance. In 1990s, several micro-finance organizations and institutions in Tanzania began to design their credit programs in line with the philosophies of the new micro-finance approach which includes provision of informal credit guarantees, commercialisation of interest rates, minimizing transaction costs, and creating a cost effective delivery system (Kuzilwa *et al.*, 1997).

The collateral constraint faced by individual small borrowers is overcome through the use of joint group liability towards loan repayment. The group exerts pressure on members to repay and sometimes provide assistance in case of genuine failures (Sharma and Zeller, 1997). Establishment of guarantee funds, by the borrowers' organizations, government departments or other NGOs, could also help people without collateral to access loans from micro-financiers.

The interest rate charged reflects the costs incurred by the lender; return the real value of money and yet provide a margin for the shareholders. Low interest rates are considered synonymous to income transfers to borrowers. Transaction costs are lowered by letting some functions to be performed by member's organizations themselves. These include screening of loan applicants, monitoring of individual borrowers' efforts, endowments, and shocks; and enforcing repayment of peer loans (Zeller, 1998).

Effective credit delivery and collection system can be accomplished through planning and execution of loan procedures objectively. For example, procedures for loan application are made simple (Rhyne and Otero 1997; Dondo, 1997) and credit delivery centres are established close to clients. Other measures include providing graduated loan sizes, short-term loans, and demanding intensive loan repayment (weekly or monthly). Equally important is the reduction of the functions to the bare minimum, i.e. minimalist-lending approach. With this, functions such as training for entrepreneurial or technical skills to clients are not performed by credit organizations.

The above-mentioned measures have resulted into credit schemes in Tanzania to record very high repayment rates sometimes as high as 100% (Malima, 1997), reach many clients within a short time, and make steady progress towards self-sufficiency.

1.4 Problem Statement

Micro-enterprises form an important sub-sector in economies of many developing countries, because it is one of the means for reducing unemployment and poverty, which are major problems of modern times. The problem of unemployment is growing as a result of population growth that surpasses by far the new openings in large public and private enterprises sector (Mead, 1994). In Tanzania, implementation of structural adjustment programs involved retrenchments that have led to a smaller public sector with fewer new employment opportunities. This exacerbated the problem of unemployment further.

Statistical evidence available from the Tanzania Statistical Bureau indicate that, out of the Tanzanian population of 30 million, over 51% or some 15.5 million are of working age. Of these, 12 million are employed in all sectors; 9 million of them, in the agricultural sector while 3 million are in the non-farm employment sector. Total non-farm informal sector employs 2.4 million of all non-farm employment. Micro-enterprises being a major part of the non-farm informal sector employs about 2 million people (Malima, 1997), which is a substantial proportion.

Apart from micro-enterprises being a source of employment, profits from micro-enterprises are a source of income to owners. Micro-enterprises also contribute to the provision of goods and services to the local communities (Mead, 1998). However constrained capital access has suppressed the performance of micro-enterprises. Financial institutions and organizations have tried various ways in ensuring that MEs get easy access to capital, with an objective of improving performance of micro-enterprises. Despite all efforts, on one-hand micro-finance institutions (MFIs) have been haunted by the problem of low loan recovery rates and on the other hand micro-enterprises improved only a little in spite of credit use. Evolution of the New Micro-finance Approach has brought about some hope on micro-enterprise finance due to seemingly improving loan repayment rates as a result of group members' collective responsibility towards loan repayment.

The aim of this study is to assess the extent of the problem of micro-enterprise access to credit/capital in Tanzania and evaluate the role and impact of micro-finance for selected micro-enterprises, which have had access to such credit/ capital. For the credit user category, analysis will put emphasis on ways by which micro-enterprises have accessed loans and achievements they have attained in terms of employment and income generation. Results of this study have potential of contributing to formulation of better micro-finance policies. Such policies could enable provision of better micro-finance services for development of the micro-enterprise sector in Tanzania.

1.5 Objectives of the Study

1.5.1 General objective

The general objective of this study is to assess the status and provision of micro-finance services in Tanzania and suggest necessary improvements in the national micro-finance policies and design of micro-finance programmes.

1.5.2 Specific objectives

1. Basing on secondary information and selected case study analyses, to assess the status of micro-enterprise finance in Tanzania.

2. To evaluate accessibility to micro finance (credit) of selected MEs in Dar es Salaam region.

3. To determine the effect of credit on micro-enterprise performance in terms of changes in employment creation and income generation.

4. To analyse factors which determine performance of micro-enterprises.

5. Following achievement of the above objectives to recommend necessary improvements in the design of national micro-finance policies and individual programmes.

1.6 Hypotheses

In order to attain the main objective mentioned above, this study shall be guided by hypotheses corresponding to some of the specific objectives.

1.6.1 Hypothesis 1

Hypothesis 1 guides specific objective no.1 and no.2 hypothesizing that there is appreciable improvement in the status of accessibility of MEs to micro-finance as a result of the new approach to micro-finance.

1.6.2 Hypothesis 2

Hypothesis 2 guides specific objective no.4 such that, it is hypothesized that performance of a micro-enterprise is determined by education level of the ME owner; Age of the ME; Amount of start up capital; Amount of loan invested into the ME and; the number of people depending on the ME owner.

i. Education level: A positive relationship exists between education level of micro-enterprise owner and the level of micro-enterprise performance. Micro-enterprise (ME) owners with some formal education are expected to be capable of making better business decisions with an effect into minimization of losses and increase in performance; ii. Age of micro-enterprise is hypothesized to have a positive relationship to the value of the ME, because age is associated with experience in business, accumulation of savings and growth of ME; iii. Amount of start up capital: A positive relationship between initial capital and value of ME is expected. Micro-enterprises, which started with substantial amount of capital, are expected to achieve higher levels of performance; iv. Loan amount: The amount of loan accessed by a ME is expected to have a positive relationship to the value of the micro-enterprise. It is hypothesized that micro-enterprise owners make proper use of credits to improve performance of their MEs and; v. Number of dependants: The number of people whose life depends on the ME owner, is hypothesized to have a negative effect to the value of the ME. It is expected that the higher the number of dependants the more will be the amount of money removed from ME and put into family use and hence lower ME net value.

1.6.3 Hypothesis 3

Hypothesis 3 guides specific objective no.3, it hypothesizes that credit has a positive effect on the performance of micro-enterprise in terms of employment creation and income generation. That is, credit results into an increase in income generating capability of a micro-enterprise and an increase into its capability of employing more people.

1.7 Study Methodology

A purposeful selection of three Micro-Finance Institutions (MFIs) was performed. The MFIs selected are PRIDE Tanzania, Presidential Trust Fund for Self Reliance (PTF), and Huduma Ya Maendeleo Limited (HYM). These organisations are located in Kinondoni and Ilala districts in Dar as Salaam region, but their operations are extensively spread to other parts of Tanzania. For example, PRIDE has branches in 22 regional centres in the country, whereas PTF has operations in Dar es Salaam, Coast and Morogoro regions and HYM has operations in Mbeya and Dar es Salaam. A purposeful selection of these MFIs was done in order to include organisations that have recorded substantial successes in their micro-finance operations. Selection of respondents in PRIDE and PTF was done at weekly group meetings whereby two clients were selected randomly out of a group of 30 to 50 members. Some selected clients from HYM were contacted for interviewing when they came to a bank for loan repayment, while others were visited at their business premises.

Both primary and secondary data were used in the study. Primary data were collected from credit clients using a structured questionnaire. Primary data were also collected from MFIs using a questionnaire. Additional information was obtained through personal discussion with credit clients, credit officers, and managers of micro-credit organizations. Secondary data were obtained from published documents from different institutions and offices. Descriptive and quantitative assessments were used in this study.

1.8 Organization of the Study

This study is organized in six chapters. Whereas chapter one presents the introduction, chapter two presents literature reviews on important issues pertinent to this study. These include access of micro-enterprises to finance, meaning and importance of micro-enterprise, need of micro-finance, importance of domestic saving and issues on rates of interest, credit defaults and group liability. Chapter three discusses the study methodology. It gives a brief description about data requirements, and sources, manner of identifying respondents, location of the study, and the tools of analysis. Chapter four presents a discussion on the credit design features of some MFIs in Tanzania. Chapter five presents a discussion on the results and findings emanating from primary data as collected from credit clients.

Conclusions and recommendations drawn from the study are presented in chapter six. A list of references cited in the text is given at the end of this work.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

This chapter reviews the important variables associated with the study. A review has been made of the effort on definition and identification of the micro-enterprise category, the need for micro-finance and the issue of subsidizing or not subsidizing interest rates charged on micro-credits. Other issues reviewed include the problem of credit defaults and views on measures to contend with it. Lastly, various contributions by researchers on the importance of emphasising domestic saving are reviewed.

2.2 Micro-enterprises

Micro enterprises are very small production or service units, involving relatively little amount of investment and operational capital, often utilizing family labour and operate using low levels of technology (Yankson, 1983 and Bagachwa, 1995). In the national micro-finance policy paper for Tanzania (BOT, 2000) MEs were defined as those enterprises that have lacked access to financial services from mainstream financial institutions.

Micro-enterprises are often described within a broader category of micro and small-scale enterprises (MSE). In terms of employment, micro-enterprises are those small enterprises, employing less than 10 workers. The rest, which have up to 30 workers (Yankson, 1983) or 50 workers (Mead, 1994) are termed small enterprises. Micro-enterprises may be considered synonymous to informal enterprises (Planning Commission, 1991). These are alternative ways of dividing the large group of small enterprises. Micro-enterprises, basing on the small number of employed labour, and informal enterprises, basing on whether the enterprise is registered or pay taxes. A Tanzanian National Informal Sector Survey (1991) described the informal sector as being "constituted of rural and urban, non-farm small scale, self employed activities, with or without hired labour. Typically, they operate with low level of organization, low capital, and low technology and often on temporary premises. They are usually not supported by formal financial institutions and are not usually measured in official government statistics". Many informal sector or small enterprises survey reports have revealed that the sector is dominated by micro-enterprises because majority of MSE consists of only one person working alone. Those with 10 to 50 workers constitute less than 2% of the businesses, virtually in all the surveyed countries in Africa (Mead and Lieldholm, 1998).

Micro-enterprises are limited to the private sector and excludes all government or parastatal establishments, registered co-operatives, enterprises which, demand continuous use of high technology. The Tanzanian National Informal Sector survey also excluded professional type of activities, which usually have 'formal' characteristics, large or wholesale shops, and specialty shops, e.g. electrical or pharmacy. It also excludes larger restaurants with modern premises, furniture and cooking arrangements.

The definition of micro-enterprises also include activities such as agriculture, fishing, mining and quarrying, community and personal services provided they employ a few workers and is mostly done for commercial purposes (Planning Commission, 1991).

2.2.1 Importance of micro-enterprises

Micro-enterprises have been recognized as a major source of employment and income in many countries of the Third World. Detailed surveys in a number of countries suggest that as many as a quarter of all people of working age are engaged in micro-enterprise activities (Mead and Liedholm, 1998).

Micro-enterprise is believed to be a fast expanding sector and the total population engaged in such activities is growing over time. Mead (1994), Daniels and Mead (1999) have urged that even in the United States-a developed country, eight out of 10 new jobs in recent years have come from small businesses. Employment in MSEs expands as a result of new enterprises starting up and through expansion of existing enterprises.

Contribution of the informal sector to employment is important, as unemployment has been one of social disasters of modern times worldwide. The growth of the labour force primarily as a result of population growth far surpasses the number of new openings in large enterprises. In many countries the growth in employment in the public sector has been sharply restricted, partly as an effect of structural adjustment programs. As the absorptive capacity of the agricultural sector is limited, a substantial number of new jobseekers have turned to micro-enterprises as a source of livelihood (Mead 1994). A study by Daniels and Mead (1999) in five countries of Sub-Saharan Africa estimated that MSEs provided employment to over 40% of the total increase in labour force in these countries. The contribution of the informal sector to national output GDP is important in both qualitative and quantitative terms. It is qualitative in the sense that the sector provides basic goods and services which are cheap and therefore appropriate and easily accessible to the majority of the low-income earners (Bagachwa, 1991). According to ILO estimates in 1985, the average share of informal sector output in total GDP for sub-Saharan Africa was 20% while for Tanzania the estimate was 10.3% (Aboagye, 1989). Informal sector has increased to 32% of GDP, and the total sector output is higher than the parastatal sector (Planning Commission, 1991). Table 2.1 shows this trend.

However, Mead (1994), Daniels and Mead (1999) pointed out that expansion of the micro-enterprise sector may be a sign of economic failure because the mainstream economy has failed to provide employment and hence people undertake these as survival activities only because no better alternatives exists. But micro-enterprise sector has contributed to the income and welfare of societies even in richer countries such as Italy, Germany (Pyke and Sengenberger 1992).

2.3 The Need for Micro-finance.

The need for micro-finance arises due to the fact that low-income people have a few assets or resources to meet the requirement for traditional collateral as demanded by formal financial institutions. Micro-finance is the provision of financial services in consideration of the economic and environmental characteristics of the low-income clients.

Geographically, low-income earners are detached from urban centres where formal financial services are found; most often the areas lack communication services like roads, telephones and newspapers. Poor people have low education and hence little exposure to the 'outside modern world' and hence lack of confidence on use of modern facilities.

Table 2.1 Tanzania's informal sector total gross output and value added (rural and urban) by industry group

INDUSTRY GROUP	No. of Enterprises	Annual Gross Output	Annual Value Added	Average Gross Output	Average Value Added	Formal Economy's Value Added	Informal sector as % of GDP
		T.Shs.	T.Shs.	T.Shs.	T.Shs.	T.Shs.	%
Agric.&Fish	142, 109	35, 036	20. 447	246, 542	143, 879	358, 693	5.7
Mining&Quarry	17, 139	1, 665	1, 159	97, 151	67, 634	6, 975	16.6
Manufacturing	439, 540	59, 396	29, 800	135, 132	67, 798	20, 680	144.1
Construction	116, 496	14, 577	10, 864	125, 128	93, 256	14, 416	74.4
Trade/Hotels	933, 915	344, 234	104, 727	368, 592	112, 137	83, 325	125.7
Transport	49, 379	13, 796	6, 114	279, 399	123, 814	47, 017	13.0
C&P Service	102, 965	18, 165	10, 307	176, 420	100, 100	3, 619	284.8
Others	0	0	0	0	0	38, 811	0
Total	1,801,543	486, 869	183, 417	270, 251	101, 811	573, 536	32.0

Sources: Planning Commission, 1991

Although poor people may lack collateral security in form of valuable assets, they have friends, neighbours, and relatives who are sure of their will and ability to repay loans. They are also able and willing to save part of their income, provided micro-finance services are rendered on consideration of low-income earners' situation. This includes safety of deposits, liquidity, convenience and fairness (Rhyne and Otero, 1997). On the credit side, promptness in obtaining loan is the most important criteria (Temu, 1988; Kuzilwa, 1997). Many providers of micro-finance services are motivated by the need to reach people who otherwise could not be reached by formal financial institutions and reduce the social injustice arising as poor people are exploited by unscrupulous money lenders who charge exorbitant rates of interest. Some public programmes offer micro-finance as a means of developing the informal sector, which has a significant contribution to the overall national economy (Daniel and Mead, 1998).

For the majority of Tanzanians, whose incomes are very low, access to financial services offers the possibility of managing scarce household and enterprise resources more efficiently, protecting households against risks, provision for the future, and taking advantage of investment opportunities for economic returns. For households, financial services allow higher standards of living to be achieved with the same resource base, while for enterprises and farmer's financial services can facilitate the pursuit of income generation growth (BOT, 2000).

2.4 Access of Micro-enterprises to Finance

Lack of capital is mentioned by many scholars as being the most limiting factor in development of micro-enterprises. Lack of capital has been ranked high in Tanzania, and in other developing countries by Bagachwa (1993) and Kuzilwa *et. al*

(1997). Steel and Webster (1991) ranked capital as a major constraint in Ghana. Sowa *et. al.*, (1992) and Buckley (1997) have shown that lack of credit has constrained micro-enterprise development in Kenya.

Access to formal finance by micro enterprises is constrained by many factors including the fact that: Most formal financial institutions still insists on traditional characteristics of borrowers some of which being capital, collateral, capacity and character (the 4 Cs) which excludes most of the would-be borrowers. Most micro enterprise owners are poor and so have few valuable assets they can offer as collateral security against loans. The spread of formal micro-financial institutions is limited to urban centres. Rural areas where majority of poor live, are left without such services (BoT, 2000).

Many studies have shown that the majority of micro-enterprise owners depend on informal sources of finance in order to start up or improve their micro enterprises; these include own savings out of paid employment or sale of assets, loans from relatives, friends, neighbours, traders or employers. Unlike in Asia, in Africa the informal loans are often given interest free or with very low interest rates (Kuzilwa and Mushi, 1997). It is so because loans are given with a primary purpose of meeting social obligations rather than for earning interest. Because most people are poor this source of finance is limited, although may remain the most convenient source of start -up capital.

However, it is argued that, an individual who cannot start up an enterprise for lack of capital demonstrates that he either has no deferred gratification to effect savings.

So has no ability to restrain against diversion of funds towards immediate uses, or has no enough entrepreneurial capacity, for he/she could mobilise funds from friends or relatives, or has a financial character, which is questionable amongst friends and relatives. It follows therefore that starting a micro-enterprise with own saving or good informal financial sources is a demonstration of good character towards money (Buckley, 1997).

The above discussion, which, seemingly dismisses the importance of improving access to formal micro-finance services, aim at showing that, attention is also needed on other factors. These include mobilisation of domestic savings, improvement of informal financial sources, and training on entrepreneurial skills in order to develop micro-finance services that have impact to the poor people.

Lack of access to capital by poor people has motivated NGOs, donor agencies, and the government to undertake special credit programmes for low-income people. Most often the good intentions of these organizations were betrayed by lack of sustenance due to, among other things, issuing of "cheap" credit, poor loan recovery, operational losses and high inflation rates (Adam and Vogel, 1986).

Micro-finance advocates contends that the new micro-finance approach has the potential of doing to finance what the green revolution has done to agriculture, that's provide access on a massive scale to the poor (Rhyne and Otero, 1994).

2.5 Savings and Development

This section attempts to set a basis for analysing the status of micro-finance by exploring general theoretical and empirical literature on the role of savings in development. Most development programmes targeting poverty alleviation through finance have in the past focused more on the side of credit and much less in the area of savings. Presently, there is a substantial degree of knowledge on effective methodologies for accessing the poor with credit and the institutional framework under which such methodologies work best. However, much less is known with regard to the use of saving mobilization among the poor in poverty alleviation. It's out of this skewed nature of the knowledge of the two that much emphasis is made to focus on the literature on savings.

2.5.1 Place of savings in economic development

Development theorists and practitioners have for a long time perceived the amount of savings as a critical factor in determining the pace at which economies can grow. The argument normally posed is that domestic savings provide the assets for investment in future production without which the economy cannot grow unless alternative external sources are sought. Its on the basis of the a foregone that many developing countries have since the 1960s earnestly attempted to design strategies aimed at raising the level of domestic savings (K-rep, 1997).

2.5.2 Theory of savings behaviour

The savings behaviour of individuals (households, individuals of firms) can generally be looked at from two theoretical perspectives: The theory of savings/ consumption and the theory of demand for money.

i. Theory of savings:

The theory of savings identifies savings as part of an individual's disposable income that is not spent immediately but is put aside for future consumption. It primarily regards supply factors as being more important in determining the level and propensity of savings. There are four prominent savings theories: The Keynesian absolute income hypothesis; the Ando-Modigliani-brumbery life cycle hypothesis; Friedman's permanent income hypothesis; and Duesenberrys relative income hypothesis. These theories identifies 3 main factors that influence savings as follows:

- The level of income: The theories seem to be in agreement that an individual's level of income is important in determining the ability to save. The general hypothesis is that the higher an individual income the higher is the ability of that individual to save.
- The amount of wealth: This is a proxy in Friedman's permanent income hypothesis that decisions to save are based on their permanent (expected) income. This hypothesis argues that savings is positively associated to wealth.

- The age of the saver: This is also termed as the Life Cycle Hypothesis (LCH). It hypothesises that people are likely to save more at middle age, than when they are young (with low income) or when they are old (less productive).

ii. Theory of demand

The theory of demand for money identifies factors that entice individuals into converting part of their money balances into interest earning asserts (savings). They regard demand side factors as being more crucial in influencing the savings behaviour of individuals. Among the prominent theories on the demand for money, Keynes liquidity preference theory seems simple and most relevant in understanding the savings behaviour of individuals. Keynes identifies three motives why people demand (keep) money: the transaction motive, the precautionary motive and speculative motive.

- Transaction demand:

This is the demand for money to meet routine day-to-day transactions (purchase of commodities) while extra money is left in interest earning accounts. The balancing arises from the need to smoothen differences between income and expenditure streams. As such individuals seek to find an optimal combination of number of transactions that will minimise costs and yet maximize the interest earned on the bonds/savings. As such the theory identifies the demand for money for transaction motive as determined by:

$$S= f (Y, i, N, Pr, E, C)$$

Where:

Y= level of income

i= rate of return on deposits

N= number of times transactions are made

Pr= proximity of bank to customers

E= efficiency of bank in cutting down waiting time

C= bank charges related to making transactions

It can be noted that individual's level of income does not determine the inclination (propensity) to save but the amount to be saved. As such it points out that, individuals regardless of their level of income have a need to save and if provided with requisite conditions their rational decisions will dictate them to save.

- The precautionary demand:

This is the demand for money to finance unforeseen contingencies and arises from uncertainties regarding income receipt and expenditures. As such the precautionary need for keeping money balances identifies three factors that will determine savings (including demand deposits). These are the cost of being caught illiquid; the probability of unforeseen contingencies occurring and; the rate of return on deposit accounts.

- The speculative demand:

This is the demand for money because money is a better asset, can be changed to any other asset with substantial gains from the transaction. Factors associated with this theory are:

- The rate of return on savings (bonds): when the interest rate is high the demand for money will be low.

- Liquidity: the ease with which people can withdraw money from bank and take advantage of deals.

- Probability of such deals arising.

- Availability of other services at the bank that are effectively demanded by customers (e.g. credits and overdrafts).

2.5.3 Mobilization of domestic savings

There are three broad reasons why it is important for strategies to be adopted to mobilize savings among poor households:

- Savings as a resource base for rural development.

The poor have a large poll of un-mobilized resources, which are saved in non-financial forms and hence never enters the formal financial sector. The formal financial institutions are ill equipped to stimulate savings among the poor partly because of the structural shortcomings and bottlenecks, and partly because of national policies that discouraged savings. But the propensity to save of poor people can be increased substantially by group based micro-finance programmes, and the poor improves resource allocation by diverting funds from consumption and channelling it into productive activities.

- Savings as a sustainable source of capital to MFI:

The major goal of micro-finance development programmes of self-sufficiently reaching large numbers of the poor with financial services is many times thwarted by weaknesses in the financial base of such institutions. Mobilization of savings enables institutions to increase their liquidity, develop a sense of trust and ownership among clients, and creditworthiness among the commercial community. These will in turn raise the repayment rate of loans, attract more loan clients and access more loan capital/ investment funds from commercial sources.

- Saving as important factor for MEs development:

Some studies have shown that savings are equally important as credit for enterprise development. Savings programmes enable poor clients to establish a capital base for business start up or expansion capital. Interaction of the poor with a bank is a capacity building process as the poor develop the discipline of saving and the decision making process on how to use or invest the savings.

2.5.4 Empirical studies on Domestic Saving

The importance of mobilizing domestic savings to finance the development of micro-enterprises and the economy as a whole cannot be overemphasized.

Domestic savings are a primary determinant of capital formation (Temu, 1988). It has been common notion that poor people are unable or unwilling to save and hence the unavoidable need for external financing. But several studies have shown that in-spite of their poverty, majority of households in rural communities (96%)

always save a portion of their income (Planning Commission, 1991). Poor people have a higher propensity to save (Rahman, 1991) than people at higher income levels. To them accumulation of savings may make major differences at times between survival and otherwise; socially or physically, because the threat of frequent droughts or ill health to most poor communities is severe. People also save for other purposes and reasons including: Meeting plans for future investment requirements, purchase of enterprise inputs, foreseen consumption needs such as school fees and in some instances for the direct need to earn extra income through interest (Bhalla, 1978; Biseth, 1987; Temu, 1988).

A study of rural households by Amani *et al.* (1987) in three regions in Tanzania showed only less than 10% of respondents had no savings at all, although majority kept their savings in non-cash forms. The study further indicated that 59% of respondents had no cash savings, 76% did not keep a bank account and 78% owned livestock. It was obvious that livestock and crops is the most popular way of saving amongst poor rural people.

However most households are dissatisfied with modes of savings, which fall outside financial systems, and would wish to save more through financial institutions if available and easily accessible. So the characteristics of saving services being sought ought to include a good combination of easy accessibility, liquidity, safety, convenience and fair returns (Rhyne and Otero, 1997). These conditions together with some promotion can induce people to save an increasing proportion of their income, and save more in financial forms (Kuzilwa and Mushi, 1997; Temu, 1988).

The importance of encouraging savings in micro-finance is four fold: First, financial intermediaries need to mobilize substantial savings (deposits) in order to gain sustenance in delivering of financial services in form of loans (Rahman, 1997). This will reduce dependence on donor funds or other external funding agencies. Secondly, savings are by far the major source of capital for starting up micro enterprises (Mead and Liedholm, 1998). And thirdly, growth of micro-enterprises towards graduating into recognition by formal financial institutions requires repeated cycles of savings and reinvestment. Ability to save even small amounts of income is evidence of a responsible attitude towards money and credit institutions, such people are likely to treat credit responsibly (Boonma, 1988). And fourthly, savings with credit schemes provides a convenient alternative method of securing loans against defaults or an easy way of providing security (collateral) for obtaining a loan. Slangen *et al.*, (1989) points out that savings provide the lending organization with better information on the financial position of borrowers and this can improve loan appraisal and supervision.

The importance of savings mobilization cannot be overemphasized because people are able and, are willing to save and hence develop locally funded, sustainable financial institutions (Rahman, 1997). Such institutions are of paramount importance if a country aims at providing widespread financial services, a task which is too enormous and complicated to urban based, formal or informal financial institutions (Ramli, 1988; Slangen, 1989; Biseth, 1987 and Kashuliza, 1998). Nevertheless, in order to accumulate enough savings to meet loan amount needed, savings should not be limited to compulsory periodical members contributions only, but rather the savings service provided ought to incorporate ample incentives for both members and non members to make substantial amount of voluntary savings (Hulme and Mosley, 1996). This is possible if the service is easily accessible; enables prompt withdrawal of some cash in case of emergence and then it offers competitive rates of returns.

A successful example is given by a state owned commercial bank in Indonesia – the Bank Rakyat Indonesia (BRI). The Bank has designed a voluntary saving scheme which mobilizes considerable amounts of savings and loans are fully financed by these deposits (Rahman, 1997).

2.6 Considerations on Interest Rate

Interest is the proportion of money paid on top of the amount of money saved/borrowed as the price for not using the saved or lent money. Usually interest on borrowed or saved money is paid annually or semi-annually. On real terms, interest rates can be categorized as high, or low but positive, or negative. High interest rate may be able to cover for all costs and provide some margin. Low, positive interest rates, occurs when the interest charged is able to return the value of the money and maintain the lending ability of an institution. Low nominal interest rates may become negative in real terms when they are adjusted for some expected price index change in the economy (Kashuliza, 1986; Temu, 1989).

Before the 1980s, many rural finance institutions provided credit at concessionary interest rates. The rates charged remained low in nominal terms and became negative in real terms (Kashuliza, 1986). Arguments that supported the use of concessionary rates includes that, because of their low economic status poor people could not afford credit unless it was subsidized. Also, there was a need to release poor borrowers from exploitation and domination by the informal moneylenders who charge exorbitant prices. Thirdly, subsidizes rates were viewed as a convenient instrument of transferring income to the low-income categories of people. Kashuliza (1986) when discussing positive effects of subsidizing rates on small-scale farmers argued that they enable adoption of new production techniques and can make farmers live better life through retaining more income. Low interest rates have negative effects on savings because depositors receive lower interest; hence a few people are encouraged to save.

For Tanzania the major issues that need to be addressed are still the conditions for self-sustenance of the financial system and increased domestic resource mobilization. To this end, the relevance of positive interest rates is irreproachable. Some crucial points to consider when formulating an interest rate policy include the fact that:

I. High interest rates (on deposits) encourage saving in financial forms rather than in non-financial forms. II. Low and negative interest rates on loans are synonymous to net wealth transfers to loan receivers at an expense of shareholders of the financial institutions. Perhaps, when public institutions performed much of the financial intermediation it was plausible to use low interest rates as a way of transferring wealth from the richer population to the poor. III. Low interest rates fails to reflect the opportunity cost of capital, creating excess loan demand necessitating credit rationing instead of allocation of resources by market forces (Boonma, 1988). IV. Low interest rates result into resources being channelled to less efficient producers and bring about unfair competition in the economy (Hulme and Mosley 1996).

V. Allocation of cheap credits has always benefited the high-income groups (World Bank, 1989; Basu, 1997).

Hence, low interest rates have resulted into underdevelopment of rural financial markets and contributed to the collapse of many financial intermediaries in developing countries (Adams, 1984). New principles of micro-finance require market-based approach to interest rates determination while maintaining quality service in credit delivery. The underlying assumption is that for small borrowers convenience and access to credit is more important than the level of interest rate charged (Sugiano, 1997).

2.7 The Problem of Credit Defaults

The majority of small credit programs have been affected by serious defaults. High default rates ranging from 50% to as high as 80% have been reported in small credit programs in Africa, Asia and Middle East (Sanderatne, 1978; Kashuliza, 1986).

Literature is rich in explaining the extent of the default problem. Some of the reasons put forward cites the point that poor clients operate in environments with high general business risk and they lack practice in the rules of formal finance or even because their moral character is dubious. Thus, high delinquency rates in credit programs for the poor were often blamed on weather, poor market structure, economic recession, deficient business practices or clients misallocation of loan funds into consumption activities (Zeller, 1998). Some clients consider credit as government grants due to widespread excessive generous debt forgiveness (Sanderatne 1983; Tinnermeier 1981; and Donald 1976). It is important to note that, the above-mentioned factors are interrelated and as such, a farmer may fail to repay the loan for more than one reason (Kashuliza, 1986). Defects in organization of credit schemes have also been blamed for poor loan repayment. For instance, high rates of defaults have been linked to an "overly ambitious expansion of credit facilities with inadequate follow up by the authority responsible for collection (Lele, 1975 and Bottomley, 1975). Biseth (1987), is of the opinion that credit programs supported by funds from external aid agencies often encountered loan repayment problems simply because both the borrower and the lending institution take loan recovery rather lightly. She observed that inappropriate lending terms which lead to the fixing of repayment schedules that do not synchronize with generation of income flow from the investment are prone to repayment problems. She further observed that unwillingness to impose sanctions by the lending organization allows wilful defaulters to go free, as the respective organization cannot pressure the borrower to meet their loan repayment obligation.

Stover et al. (1985), report that one of the essential elements in any lending decision is the character and ability of the borrower. Furthermore the authors indicate that irrespective of financial strength no rational lender is eager to lend to a dishonest person. Estimates of delinquency rates for credit institutions in many parts of the world conducted by the World Bank (1975) and Donald (1976) showed that many rates were greater than 50% while only a few registered less than 10% delinquency on loan values. In a study of differences between defaulters and non-defaulters in El Salvador, Tinnermeier (1981), reported that the type of the program (credit in kind or cash) and the degree of loan supervision were identified as important factors for prediction of prepayment performance.

Apart from the negative impact of delinquency on financial viability of lending institutions, Tinnermeir (1981) concluded that delinquency might also lead to further income inequalities in rural areas if those getting access to credit are already relatively well off economically. Further, high rates of default reduce both the number of credit-worthy borrowers and the ability of the credit program to continue as an aid to rural development (Sanderatne 1983). Ramli (1988) is of the view that a high loan repayment rate is not necessarily a good thing. He argues that a 100% repayment rate may mean that the lending organization is playing it safe and not giving out loans to risky clients, or plays it too tough. Modern micro-enterprises credit programs have demonstrated that loan repayment depends fundamentally on factors within the control of the credit institutions. These factors include the following: Reliability and quality of service e.g. early disbursement, relatively larger loans, and prospects for future loans; convenient setting and clear communication of the repayment obligations; administrative efficiency in terms of progress in loan repayment; consideration of the nature of clients, enterprise and household needs, strengths and weaknesses (Christen, 1997). Thus instead of emphasizing the traditional collateral security, character based policies are proving to be more effective in enhancing high repayment rates. These may include compulsory savings, progressive loan sizes, more frequent repayment circles and group liability.

2.8 Group-lending Methodology

Group lending began in 1970s, mainly for the purpose of reaching more poor people with multiple small loans without which, it could be unprofitable to deal with, because of the excessive individual loan transaction costs. Also after many financial institutions realized that individual loans are associated with high default rates (Zeller, 1998). Between the two, probably the most important rationale for group lending is the collective responsibility towards loan repayment (World Bank, 1975). In "group lending" one large loan could be issued to a group for a common project, or redistributed to members for individual projects. Zeller (1998) continued to argue that the joint liability incites members to perform various functions, including screening of loan applicants; monitoring the individual borrower's efforts, fortunes; and shocks; and enforcing repayment through peer pressure.

Traditionally, banks and financial institutions have worked with conditions, which include among others, capital, capacity, collateral, and character (the 4 Cs). These conditions deprived majority of micro-enterprises access to bank loans because, micro-enterprises are owned and operated by poor people who, cannot fulfil these conditions (Malima, 1997). This is accomplished through effective screening, by (of) fellow loan applicants regarding reputation, indebtedness, and wealth. They also monitor repayment efforts and institute social sanctions on wilful defaulters or shoulder the social obligation of assisting defaulters on idiosyncratic reasons (Zeller, 1998).

Another rationale for group lending is the information and monitoring advantages that member-based financial institutions at the community level have compared to individual contracts between bank and borrower. Stiglitz (1990) discussed these perceived advantages of collective action. He argued that, compared to socially and physically distant bank agents, group members obtain information regarding the reputation, indebtedness and wealth of the loan applicant and about his or her effort to ensure the repayment of the loan at a lower cost. They can also employ social sanctions to compel repayment. Zeller (1998) shows that members of formal groups similar to informal lenders consider the peers' indebtedness in the informal market as a major determinant of credit rationing. Thus group members are able to obtain sensitive information to the same extent as informal lenders. He continued to argue that the efficiency of group lending approach depends on the formation, structure, and conduct of the group, which in turn can be determined by the underlying credit policies. During repayments, group members are asked to collect repayments from all members before handling a full amount to the credit officer representing the credit organization in a public place. Fellow members are supposed to contribute for other members who have failed to remit repayments. If a member fails to accumulate enough income to meet the repayment amount needed, he could obtain an advance of money from a local insurance fund. If a group member defaults on the loan the group members have many options to compel repayment from delinquent borrowers, can potentially employ social sanctions or seize physical collateral of defaulter (Besley and Coate, 1995). Whereas in many rural societies non-resident bank agents have little leverage in actually going to a household and seize collateral (Sharma and Zeller, 1997).

Weaknesses of group lending approach are said to include albeit occasionally collusion of all members to default hence detracting even the would be good payers. Zeller (1998) argues that repayment incentives of a good borrower will vanish under joint group liability when the expectation is that a significant number of peers will default. Bratton (1986) in his analysis of credit groups in Zimbabwe showed that group loans performed better than individual loans did in years of good harvest but worse in drought years. He further urged that, borrowers tend to exploit economies of risks by borrowing for riskier projects under group liability than in individual contracts. The formation of groups is influenced by regulations externally stipulated by the credit organization. These include regulations that govern the formation and composition, of the groups, such as those for size and member eligibility and regulations that influence the conduct of the group such as attendance to group meetings, loan sizing, and enforcement of payment.

The issue of homogeneity of group members has received a great attention from scholars (Bratton 1986; Besley and Coate, 1995). Some scholars argues that groups should have homogeneity in capital and economic activities among group members so that the costs of monitoring members decrease if they undertake the same trade as their peers (Stiglitz, 1990). This argument is countered by Zeller, (1998) who emphasizes social cohesion as the most determinant factor in obtaining information than similarity in profession. Social cohesion is manifested by social class, ethnic group, neighbourhood, friendship, or kinship. Social cohesion is positively correlated to group performance, and the reciprocal or unconditional help among socially cohesive individuals supports this. Among people who care for each other, an individual gains utility by helping somebody else, even if no claim to future assistance is created. Conversely, defaulters in socially cohesive groups may incur substantive utility losses because of social sanctions by group members and loss of reputation. Social empathy or what is also described as "the ability to imagine oneself in the shoes of others" may explain the unconditional help for other group members (Bardhan, 1980).

2.9 Relevance of Literature Review

The above review of literature has contributed to this study's agenda on the following main areas:

It has managed to describe the micro-enterprise sub-section in this country, traced the effort towards its support and its contribution to the overall national economy. It has presented an insight into micro-finance development in Tanzania up to its present status. It has documented the problem of access of micro-enterprise to micro-finance; assessed prominent problems hindering access and discussed ways used in comprehending the problems. It has also discussed why the mobilization of domestic saving and the use of commercial interest rates are of primary importance to both development of MEs and sustenance of MFIs.

Most important however, the arguments presented above and the emerging financial policy reforms and their implications will guide the design of study, analysis of data collected, discussions and the recommendations for improvement and self-sustenance of the Tanzania micro-finance sub-sector.

CHAPTER THREE

METHODOLOGY OF THE STUDY

3.1 Overview

This chapter describes the methodology used in the study. It covers the study location, sampling techniques, data sources, data collection methods and data analysis techniques used in the study. The limitations encountered during the survey are also discussed.

3.2 Study Location

This study was conducted in Dar es Salaam region. The region is made up of three municipals/districts namely Kinondoni, Ilala and Temeke. Dar es Salaam region was selected due to: 1. The fact that it has a large number of micro-finance schemes undertaken by government departments, public financial institutions or non-governmental organizations; 2. The number of micro-enterprises reached by micro-finance in the region is higher than in other regions; 3. The Planning Commission (1991), estimates Dar es Salaam region alone to have 13% of the Tanzanians employed in the informal sector.

This study was conducted on three micro-finance organizations located in the Dar es Salaam region; these are PRIDE Tanzania (PRIDE), Presidential Trust Fund For Self-Reliance (PTF), and Huduma Ya Maendeleo (HYM). These organizations were selected, basing on their performance in terms of size of outreach, loan repayment, and effort towards commercialisation.

3.3 Sample Selection

Credit models used by PRIDE and PTF apply the group solidarity technique. Members form small groups of 5 to 8 members; 6 to 10 small groups form a larger group comprised of 30 to 50 members. Members are required to attend weekly meetings at a common centre for a one-hour (PRIDE) or a two-hour (PTF) session. Respondents were selected from a list of clients supplied by the credit officer in charge of the group. The list showed names of credit clients and amount of loans taken. From the list of names the enumerator picks two clients for interviewing. The majority of selected clients considered as credit beneficiaries were in their fourth or higher loans. Clients who were at the first loan stage were considered as non-credit beneficiaries.

HYM applies the group solidarity technique only to a limited extent. Most loans are given to individual micro-enterprise owners against a reputable guarantor. Loan repayments are done once a month, through a selected bank - for Dar es Salaam the bank used is CRDB Bank – Lumumba branch. Clients are supposed to deposit payments on a specific date. Respondents were selected from a list of names at HYM offices, and were contacted at the bank. Actual interviewing was done within vicinity of the bank. Samples selected for interviewing differed across the programmes depending on the total number of clients per programme and easiness of access to client's business sites. In total 145 responds were interviewed as follows: PRIDE (70), PTF (60), and HYM (15).

3.4 Data Collection and Sources

3.4.1 Primary data

The primary data from the selected respondents was obtained by means of a structured questionnaire (appendix II). Information was collected on household characteristics, micro-enterprise characteristics and credit characteristics. Data collected provide information on daily family expenses, sources of family income, age of enterprise and micro-enterprise income; other information includes loan conditions (considered too difficult or unpleasant to clients), and knowledge of loan terms. Before the actual survey, pre-testing of the questionnaires was done to check the quality of questions in terms of relevance and comprehensiveness. Appropriate modifications were made accordingly. Whereas this exercise was done in January 2000, the main survey was undertaken in April up to June 2000.

3.4.2 Secondary data

Secondary data were collected in order to complement primary data. They were collected from the following sources: Bank of Tanzania (BOT), Planning Commission, ILO offices in Dar-es-Salaam, CRDB Bank, NMB, and the three MFIs in the case study (i.e. PRIDE, PTF, and HYM).

Other information was obtained from Sokoine National Agriculture Library (SNAL) and several web sites on the Internet, which include *www.undp.com* and *www.worldbank.com.* Information from the Planning Commission and ILO offices had a lot of data on the contribution of the micro-enterprise sector to the national economy, whereas a review of reports from BOT and other banks showed the effort done by formal financial institutions towards provision of financial services to the micro-enterprise sector. Information sought from PRIDE, PTF and HYM was to document goals and objectives, organizational structures, loan policies and procedures, loan repayment, achievements and future plans of the micro-finance organizations.

3.5 Data analysis

3.5.1 Descriptive analysis

Statistics such as means, t-test, frequencies and percentages were used to analyse household characteristics, micro-enterprise performance and credit conditions based on objectives and hypotheses of the study.

3.5.2 Regression analysis

Regression analysis was used to test the hypothesis that "micro-enterprise finance has an effect of improving performance of micro-enterprises in terms of present value of micro-enterprises.

A linear regression equation of the following form was estimated:

$$PRESVAL_i = a + b_1\,LNAMT_i + b_2\,CAPSTAT_i + b_3\,EDULEV_i + b_4\,AGENTER_i - b_5\,NODEPN_i + e_i$$

Where:

Dependent variable:

$PRESVAL_i$ = Present value of micro-enterprise.

Independent/ explanatory variables:

$LNAMT_i$ = Amount of loan received by MEs.

CAPSTAT = Amount of initial (start-up) capital.

$EDULEV_i$ = Level of education attained by ME owners.

$AGENTER_i$ = Age of ME since establishment.

$NODEPN_i$ = Number of dependants.

e_i = Random error term; assumed distributed as $N(0, N^2)$ and i is 1,

2..n = Number of MEs.

a = Regression constant.

b_i = Regression coefficients.

Dealing with multi-colinearity problem:

In order to address the issue of multi-colinearity, a stepwise regression was conducted. This method involves gradual addition of variables to the initial regression and its effect being observed on the overall R^2. In this study the dependent variable (PRESVAL) was regressed on the explanatory variables. The result of each regression was then examined in the overall R^2.

Eqn. 1: $PRESVAL_i = LNAMT_i + e_i$

Eqn. 2: $PRESVAL_i = LNAMT_i + CAPSTAT_i + e_i$

Eqn. 3: $PRESVAL_i = LNAMT_i + CAPSTAT_i + EDULEV_i + e_i$

Eqn. 4: $PRESVAL_i = LNAMT_i + CAPSTAT_i + EDULEV_i + AGENTER_i + e_i$

Eqn. 5: $PRESVAL_i = LNAMT_i + CAPSTAT_i + EDULEV_i + AGENTER_i + NODEPN_i + e_i$

It is argued that when the added variables improve R^2 neither without causing an effect on the signs nor on the values of the individual coefficients in the equation, there is absence of serious multi-collinearity problem (Koutsoyiannis, 1977).

3.6 Problems Encountered during the Survey

The majority of respondents in the study do not keep records of the transactions of their micro-enterprises. Answers given by respondents therefore depended heavily on memory recall. Many respondents needed to think for a longer time before they could understand the questions asked and provide a proper answer. Much computational tasks had to be undertaken in order to convert answers into proper units of measure. For example; monthly income and expenditures could only be obtained from daily or weekly averages.

Another problem encountered was the difficulties experienced in reaching respondents especially with PTF and HYM. It was common for enumerators to complete only two interviews per day.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Overview

This chapter presents a brief review of philosophies, policies, and procedures guiding the status and provision of micro-finance services in Tanzania and how they facilitate accessibility of poor borrowers to micro-finance. It also presents survey results of the credit beneficiaries and non-beneficiaries who are clients of the three MFIs in the study. Issues dealt with include characteristics of households of the ME owners, characteristics of the micro-enterprises in the study, and loan conditions and characteristics.

4.2 Policies and Procedures for the New Micro-finance Approach

Hulme and Mosley (1991) in their study of successful MFIs in the world, found out that many micro-finance institutions that recorded better performance in their credit programmes, designed and operated their credit programmes with a view of addressing three chronic problems: The access problem, the screening problem and the loan repayment problem; these are discussed briefly below.

4.2.1 Access problem

One of the major issues in micro-finance is how to ensure that poor borrowers gain access to financial services (especially credit) and reduce competition from well off borrowers. To address the issue of access of poor borrowers to credit, two types of methods are applied. These are direct methods and indirect methods.

Direct methods aim at targeting poor borrowers and prohibiting richer ones. The methods include the following:

i. Prohibiting lending to people with stable employment. Such people are considered to have a stable source of income through which they can lead decent life (PTF, 1997 and PRIDE Tanzania, 1999).

ii. The kind of house a borrower lives in. People targeted are those living in poor houses the kind of "grass and earth" or "full-suit" houses as commonly termed in Tanzania, or houses without electricity and water (Zeller, 1994).

iii. Households with only a few assets; say without a television set, refrigerator or sofa set (Zeller, 1998).

Indirect methods of access aim at discouraging "too rich" borrowers because they will consider the loans to be too small, or too disturbing or less beneficial. These methods include: Provision of small loans such that only the poor will want them; and application of other loan conditions that will eliminate the problem of adverse selection, in which some people have more advantages in "capturing" the loan than not as a result of lenient loan condition (Begg *et al.*, 1991). Such conditions include compulsory attendance at weekly meetings, contribution of physical labour and charging market-related interest rates (Hulme and Mosley, 1996).

4.2.2 Screening problem

The problem of screening good (from bad) borrowers or projects in absence of proper records and business plans is usually encountered through the following means:

a: Abandoning of direct subsidies on interest rate, so that, borrowers take loans on basis of prospective returns and not simply to capture subsidies.

b: Providing loans for "fail-safe" technical packages, i.e. projects that cannot go "too-wrong" (Hulme and Mosley, 1996).

c: Use of borrowers to screen fellow borrowers for both character and proposed loan uses (PTF, 1997, K-REP, 1997 and PRIDE, 1999).

d: Use of local power structures such that loans are provided upon approval by senior local officials (Hulme and Mosley, 1996; K-rep, 1997 and PTF 1998).

4.2.3 Repayment problem

The task of providing incentives to borrowers to repay can be undertaken by both "carrot and stick" methodologies and eliminate the problem of moral hazard in which some people may feel more advantaged in defaulting than in repaying the loan (Begg *et al.* 1991). 'Stick' methods include close loan monitoring and supervision, either directly by lender or indirectly through joint liability groups, and penalties for borrowers who delay repayments. Carrot methodologies include compulsory savings to ensure against default to some extend, offering progressively larger loans for good borrowers, and reward or bonus to good borrowers or/and credit officials for achieving repayment targets (Hulme and Mosley, 1996).

Micro-finance institutions in this study are described in line with the above-mentioned aspects.

4.3 PRIDE Tanzania

4.3.1 Background

Promotion of Rural Initiatives and Development Enterprises (PRIDE) Tanzania Limited was formed in 1994 as an offspring of another organisation PRIDE Africa. PRIDE Africa was formed in 1989 with its headquarters in Kenya, before it spread its initiatives to Tanzania, Uganda, Malawi and Zambia. PRIDE Africa was founded on the premise that access to credit and other financial services is a vital prerequisite for job creation and poverty alleviation in Africa. PRIDE Africa also realised that for over 30 years, conventional government and donor funded lending programs targeting urban and rural poor had achieved limited success, hence a new approach was needed. The mission of PRIDE Africa therefore has been to create a commercially sustainable, financial and information services network for small-scale entrepreneurs, to increase income and employment and stimulate business growth across Africa. This vision seeks to contribute to the development of extensive financial services that are attractive to local and international investors, and that will provide productive linkages between micro, small and large-scale business sector. PRIDE believes that these goals can be achieved through the development and adaptation of technologies and methodologies suited to conditions in Africa and propelled by Africans themselves (PRIDE, 1999).

4.3.2 Lending model

PRIDE's lending model is mainly based on solidarity group-lending principles of the Grameen Bank. In addition, the model has also drawn from elements of traditional indigenous financial intermediation practices such as merry-go-rounds and ROSCAs and modern franchising methodologies adapted to address poverty conditions in Africa. The current PRIDE Standard Model provides loans to individual borrowers based on a group solidarity co-guarantor method by which a core group of five members, (Enterprise group or EG), provide the primary security. Ten EGs are combined to form a Market Enterprise Committee (MEC) that provides the secondary level security for loan repayment.

4.3.3 Access of loan to poor borrowers

PRIDE Tanzania offers loans starting with a small loan size (50,000/=). The loan size increase progressively to reach, presently, a maximum of 3,000,000/= upon demonstration of a good repayment record.

All PRIDE Tanzania clients are supposed to attend weekly compulsory meetings. Clients can enjoy a maximum of one absence in four weeks; beyond which the ompulsory meetings, repayments are remitted. Other activities that are done include contributing for other members who have failed to repay their dues and appraisal of other members' loans.

4.3.4 Screening process

PRIDE Tanzania applies some principles in screening out loan applications; these include use of market-based interest rate. The lowest rate charged is 15% in 25 weeks i.e.31% per annum (Table 4.1), which is higher than the commercial lending rate of 30% per annum (BoT, 2000).

PRIDE utilizes borrower groups for the purpose of screening character of loan applicants and usage of loan applied. For new applicants, before being formally accepted as group members, a committee of members from the larger group visits the applicant at his or her home and his or her micro-enterprise to verify information given in the application form. The committee reports back their assessment to MEC, which accepts or rejects the application for membership. Each time an additional loan is applied for, the group is asked to sanction the loan in accordance to performance of the client in terms of repayment.

Table 4.1 PRIDE loan conditions for various loan sizes

No.	Loan size (TShs.	Interest rate (%)	Loan duration (weeks)	Principle /week (TShs.)	Interest /week (TShs.)
1	50,000	15	25	2000	300
2	100,000	24	40	2500	600
3	200,000	30	50	4000	1200
4	300,000	30	50	6000	1800
5	500,000	30	50	10,000	3,000
6	1,000,000	30	50	20,000	6,000
7	2,000,000	25	50	40,000	10,000
8	3,000,000	25	50	60,000	15,000

Source: PRIDE Tanzania (1999).

4.3.5 Incentive to repay

PRIDE Tanzania uses many various ways for ensuring high/loan repayment rates. These include the following:

Close loan monitoring and supervision. Credit officers ensure that no group is allowed to leave the meeting centre if one of its members has failed to repay the required instalment. Default is declared after two delinquency instalments. Then, processes for loan collection begins by deducting the remaining loan amount from the defaulters savings, and from EG or MEC savings subsequently until the outstanding amount is fully covered.

Peer pressure is also applied to enhance better repayments. Group members are obliged to repay for the defaulter either through on-the-spot contributions or through group savings. These inconveniences invite group members to execute immediate remedial measures against the defaulting member. The effect of all this, amounts to a negligible amount of defaults.

PRIDE offers progressively larger loans upon good repayment behaviour. Less than best repayment is 'rewarded' by missing a larger loan or results in total expulsion from the group. Clients are required to deposit a minimum of 1,000/= every week as compulsory saving, which cannot be accessed until end of membership. These savings are used to cover for defaulting members. The methodology of rewarding borrowers and/or credit officers upon reaching repayment targets, as a repayment incentive is not applied frequently in PRIDE Tanzania. The result of all this is a good record of performance as shown in Table 4.2.

Table 4.2: Key performance indicators in PRIDE Tanzania

Indicator	1998	1999
No. of active clients	25,583	38,716
Annual growth	52%	51%
Drop out rate	58%	54%
Average loan balance	108	119
Total loan balance	-	123,000
Portfolio outstanding	2.2M	3.9M
Portfolio at risk	0.20%	0.75%
Life insurance fund	1.9M	2.7M
No. of branches	22	22
No of credit officers	63	93
Clients per credit officer	406	416
Operational sustainability	58.6%	79.2%

Source: PRIDE (1999).

Note: i. Figures in USD

ii. (-) = Figures not available

4.4 Presidential Trust Fund for Self-Reliance (PTF)

4.4.1 Background

Presidential Trust Fund for self-reliance (PTF) was pioneered by the late Prime Minister of Tanzania Honourable Edward Moringe Sokoine in 1983; and founded by the former President of the United Republic of Tanzania –Mwalimu Julius Kambarage Nyerere. The fund was registered under the Trustees Ordinance No. 375 in August 1988.

PTF have an objective of being an effective tool for development. It aims at instilling into Tanzanians the need for starting and promoting economic projects for the purpose of self-employment. The fund provides soft loans to the target group in accordance to the objectives of the fund.

4.4.2 Lending model

PTF applies a group lending methodology which has evolved overtime. In this model clients are advised to form groups of five with other members who are not closely related such that: They have no blood relationship; they don't live in the same house; they don't have "landlord and tenant" relationship.

Groups of five are formed on basis of acquaintance, love and trust; free from interference by credit officers, the group has a function of providing joint liability for members within the group; and to advise, and assist the operations of members projects. Other functions include monitoring loan use and loan repayment by group members and to advise, warn or expel members in case of misconduct.

Six to eight 'groups of five' form a federation of groups called a 'Centre'. A centre has the functions of:

- Providing security to each group of five.
- Supervising the operations of the groups in terms of projects performance and loan repayment, and
- Advising and guiding the conduct of each 'group of five'.

The centres conduct meetings for all members once every week. The agenda for the meetings includes: attendance, loan repayment and savings, and discussions on performance of projects undertaken by members.

4.4.3 Access of borrowers

PTF loans are directed towards borrowers who have no permanent employment; who can form groups with other borrowers having similarity income levels. PTF also issues small loans (1st loan = 35,000/=, largest loan = 600,000/=). Loans are charged an interest of 30% on top of other fees. This is slightly higher than the prevailing market lending rate. All borrowers are supposed to attend in person, all weekly meetings at a centre close to them, and co-guarantee other members in the same group. Members are also supposed to visit the residence and ME of other fellow members for the purpose of screening, monitoring and appraisal for loans. The above conditions are cumbersome; hence make the well-off clients un attracted. In spite of these conditions poor people are still attracted because, they have few alternative sources (if any) of capital. These conditions make PTF loans accessible to poor people.

4.4.4 Screening process

PTF applies the solidarity group methodology for the purpose of screening in good borrowers. The screening process begins at group formation. Group accepts members who have good reputation and character. The group can dispossess any member who becomes a source of trouble in the group. So over time, groups become more homogenous in character as bad elements are eliminated during early loans. PTF generally charges a higher interest rates (30%) than the prevailing commercial lending rate. This eliminates most of opportunistic borrowers; those passing through this sieve have considerable seriousness towards borrowing.

4.4.5 Incentives to repay

PTF applies various methodologies towards providing incentives for loan repayment. The approach is closely related that applied by PRIDE Tanzania as described above. Usually, the meeting of the centre is not closed until full repayment is attained, either through on-the-spot contributions or withdrawing members' savings.

4.5 Huduma Ya Maendeleo Limited (HYM)

4.5.1 Background

Huduma Ya Maendeleo Ltd. (HYM) is an organization, which undertakes a programme of assisting development of micro-enterprises through credit and training. HYM receives financial and technical support from Mennonite Economic Development Associates (MEDA).

MEDA is an organization that is based in Canada and USA, having over 3,000 members including businessmen and experts in various professions. MEDA members have dedicated their life in serving the Lord in world economic development. MEDA members endeavour in sharing their faith, expertise and wealth with societies through assisting development programmes all over the world. Presently, MEDA has programmes for micro-enterprise development in severl countries; these are Bolivia, Haiti, Jamaica, Nicaragua, Russia, Zimbabwe and Tanzania.

Table 4.3 PTF Loan conditions for various loan sizes

No.	Loan Amount (TShs.)	Repayment/ Week (TShs.)	Interest/ Week (TShs.)	Savings/ Week (TShs.)	Total Repayment (TShs.)	Loan Duration (Weeks)	Interest Rate (%)
1	50, 000	2, 000	300	1, 000	3, 300	25	15
2	100, 000	2, 500	600	1, 000	4, 100	40	24
3	200, 000	4, 000	1, 200	1, 000	6, 200	50	30
4	300, 000	6, 000	1, 800	1, 000	8, 800	50	30
5	500, 000	10, 000	3, 000	1, 000	14, 000	50	30
6	1, 000, 000	20, 000	6, 000	1, 000	27, 000	50	30
7	2, 000, 000	40, 000	10, 000	1, 000	51, 000	50	25
8	3, 000, 000	60, 000	15, 000	1, 000	76, 000	50	25

Source: PTF, 1999.

HYM aims at reaching the following categories in the society: Micro-enterprises of different kinds e.g. production, repair, maintenance, and other services, which contribute to economic development of the community; Micro-enterprise owners who need credit in order to improve their micro-enterprises; Micro-enterprise owners who want to benefit from the training facilities provided by HYM and; Other people who live in areas served by HYM.

HYM is operated both commercially and cooperatively. Commercially because HYM require borrowers to repay today so that tomorrow it will be able to give more credits to the same or others in the community. Cooperative spirit is developed because HYM believes in advancement of individual members; as such HYM provides seminars and other trainings alongside credits. HYM operates two kinds of credit facility. These are solidarity lending technique and individual loans approach. In the beginning HYM emphasized on group based loans but over time it has shifted towards provision of individual loans. This study will examine HYM basing on its individual-lending model.

4.5.2 Loan access

HYM applies various ways for ensuring that only serious borrowers gain access to the individuals loan programme.

- Borrowers are supposed to be operators of micro-enterprises, which are located in permanent structures for ease of tracing them.

- HYM charges a 32% interest rate on top of other fees paid before getting a loan. This is a higher charge than in commercial lending.

- Loans are given in amounts between 300,000/= and 700,000/= which is a relatively small an amount to attract well-off borrowers.

- Borrowers are supposed to participate in a one-week seminar where prospective borrowers are introduced to the aspects of HYM loan programme and given lessons on management of micro enterprise operations.

- Borrowers contribute 5,000/= daily, during the seminar as part of the 20% of the loan amount they are supposed to offer as insurance deposit.

- Borrowers should be over 25 years of age: holders of business license for the past two years; live and work in the target area.

4.5.3 Screening process

HYM accomplishes the task of screening out good borrowers (from bad) using a number of ways, but generally they aim at identifying progressive micro-entrepreneurs who can put loans to good use. Targeted micro-enterprises are mostly those housed in permanent structures, whose location can clearly be identified. This excludes street vendors (machingas) type of business, roadside kiosks, make shift food stalls, or open space markets.

Table 4.4 HYM Loan conditions for various loan sizes

No.	Requirement	Individual Loan	Group Liability
1.	Registration	10, 000/=	I, 000/=
2.	Training	1 week	6 weeks
3.	Guarantee	One person	Group members
4.	Interest rate	32%	32%
5.	Savings	Voluntary	1% of loan /month
6.	Repayment	Monthly	Fortnightly
7.	Insurance	20% of loan	20% of loan
8.	Penalty	1% of instalment	1% of instalment
9.	Age	Above 25 years	Above 18 years
10.	Amount of loan		
	i.1st Loan	300, 000/=	50, 000/=
	ii. Last Loan	700, 000/=	150, 000/=
11.	Business license	2 years	1 years

Source: HYM (1997).

4.5.4 Strategies to enforce loan repayment

HYM applies various ways in order to ensure loan repayment. These are as follows; HYM provides close loan monitoring and supervision. Loan repayments are made once every month at a specific bank; each client on a specific date. A cashier from HYM is stationed at the bank to ensure that all clients accomplish their obligation appropriately. In the afternoon the cashier reports the performance back to HYM manager. Defaults are reported to respective credit officers who make site visits on the same day to establish the problem. The defaulting client is given an extra few days according to the nature of the problem while the guarantor is contacted. Usually the guarantor is in a position to rescue the client while the client overcomes the problem, which caused the failure.

Penalties and rewards await defaulters and good repayers respectively. Clients are categorized into three classes according to repayment performance. Clients in category A would have paid all instalments fully and on time. One delayed repayment relegates a client to category B, while more than one delay condemns the client to category C. Clients in category A will be eligible for larger loans, lower interest rate by (2%)and an interest on their insurance deposit. Clients in category B receive larger loans but with out a relief in interest rate. They will also miss an interest on their insurance deposits. Clients in category C are treated according to severity of their delinquency. They can receive the same loan amount as the preceding loan or a lesser amount or no loan at all.

As earlier mentioned, clients are supposed to deposit 25% of loan amount as insurance or will be deducted from the loan given. The urge of recovering this money is an incentive towards repayment.

Through the above-mentioned measures, HYM attains repayment rates as high as 85%, which are well above the 80% mark separating financially successful MFIs from financially poor performers (Hulme et. al. 1996). However, Malima (1997) is of an opinion that, a higher rate of loan repayment is necessary in order to compensate for excessively low repayment periods.

Table 4.5: Summary of Micro-finance Policies used by PRIDE, PTF and HYM

POLICY TYPE \ MFI	PRIDE	PTF	HYM
Access methods:			
Direct methods	✗	✗	✗
Small loan size	✔	✔	✔
Compulsory attendance	✔	✔	✔
Screening techniques:			
Market interest rate	✔	✔	✔
Use of self-selected groups	✔	✔	✔
Safe projects	✗	✗	✔
Local officials	✗	✗	✗
Incentives to repay:			
Intensive supervision	✔	✔	✔
Peer group monitoring	✔	✔	✗
Rewards and bonuses	✗	✗	✔
Progressive lending	✔	✔	✔
Compulsory saving	✔	✔	✔
Incentive to staff	✗	✗	✗

Source: Own survey data (2000)

Notes: i. (✔) Method is applied by the MFI.

ii. (✗) Method not applied by the MFI.

4.6 Similarities and Disparities amongst Case Studies

4.6 1 Overview

In the study of effective financial institutions for lending to the poor in five developing countries, Hulme and Mosley (1996) found out that all organizations with financial successes had the following design features:

Positive real interest rate, intensive loan collection regulation (monthly or more frequently), provision for voluntary savings or insurance and provision of incentives for repayment. It can be seen from this study that all the 3 MFIs in the study have the above-mentioned design features and hence the bases for their financial successes in Tanzania.

4.6.2 Interest rates and other fees

Micro-finance institutions usually conceal the effect of interest rate and other charges, loan duration and other conditions on costs incurred by borrowers. Two most common ways of secretly charging high interest rates are the demand of an insurance deposit to be paid at the beginning of the loan and use of shorter loan duration. Other ways include use of straight-line method of discounting instead of a declining balance method, demanding loan fees, penalty charges for delinquencies and intensive loan repayment instead of lump some payment at the end of loan duration.

Micro finance institutions in this study charge interest of 30 to 32% for duration of 8-11.5 months (instead of 12 months). MFIs also demand an insurance of 10 to 20% to be paid before loan disbursement. The effect of all these is an annual interest rate of between 50% and 100%.

MFIs conceal implication of those loan conditions on the costs of the borrower perhaps not with an intension of exploiting ignorant and defenseless clients, but with a good intention of not scaring out new clients who are ever skeptical of often unscrupulous lending conditions imposed by informal moneylenders and even formal commercial banks. New clients are doubtful whether their decision to borrow from those MFIs is a wise decision and always haunted by the danger of losing their precious hard earned assets in case the repayment burden becomes too heavy to bear. To this end, MFIs play a vital role in building the confidence of poor borrowers by not revealing the full extend of the costs to be incurred by the small borrower and at the same time manage to operate close to recovering lending costs.

4.6.3 Intensive loan collection

All micro-finance institutions in this study apply intensive loan collection methods. PRIDE and PTF demand weekly repayments in public, whereas HYM clients pay monthly in private. Making loan repayment in public raises the reputation cost of defaults, while it preserves money away from diversion to other immediate uses.

4.6.4 Voluntary savings and insurance

All MFIs in this study demand a form of insurance from clients before loan disbursement. PRIDE requires clients to save 1000/= to 2000/= weekly throughout the period the client remains a member. These contributions are kept in a life insurance fund that is non-accessible. In 1999, the life insurance fund had 2.7M USD, 69.2% of the outstanding portfolio (3.9M USD) (Table 4.2). Portfolio at risk is only 0.75%, which means that a large part of LIF can be lent safely.

PTF demands a fee of 5% of loan to cover for incidentals, which is non-refundable, while HYM requires a 20% insurance, which is refundable and may bear interest. All unscrupulous lending conditions imposed by informal moneylenders and even formal commercial banks. New clients are doubtful whether their decision to borrow from those MFIs is a wise decision and always haunted by the danger of losing their precious hard earned assets in case the repayment burden becomes too heavy to bear. To this end, MFIs play a vital role in building the confidence of poor borrowers by not revealing the full extend of the costs to be incurred by the small borrower and at the same time manage to operate close to recovering lending costs.

4.6.3 Intensive loan collection

All micro-finance institutions in this study apply intensive loan collection methods. PRIDE and PTF demand weekly repayments in public, whereas HYM clients pay monthly in private. Making loan repayment in public raises the reputation cost of defaults, while it preserves money away from diversion to other immediate uses.

4.6.4 Voluntary savings and insurance

All MFIs in this study demand a form of insurance from clients before loan disbursement. PRIDE requires clients to save 1000/= to 2000/= weekly throughout the period the client remains a member. These contributions are kept in a life insurance fund that is non-accessible. In 1999, the life insurance fund had 2.7M USD, 69.2% of the outstanding portfolio (3.9M USD) (Table 4.2). Portfolio at risk is only 0.75%, which means that a large part of LIF can be lent safely.

PTF demands a fee of 5% of loan to cover for incidentals, which is non-refundable, while HYM requires a 20% insurance, which is refundable and may bear interest. All the three MFIs pay interest on voluntary savings; as such there is no much incentive for clients to save with the lenders. Hence the three MFIs receive negligible voluntary savings from its clients.

4.6.5 Strategies for loan repayment

All the three organizations in the study provide several strategies for loan repayment. They all provide progressively larger loans for good loan repayers. PRIDE Tanzania charges a slightly lower interest rate on larger loan (2.0M and above), while HYM charges lower interest as from second loan. PTF doesn't have such a provision. All the MFIs also institute penalties on delays. HYM charges a penalty 1% of monthly repayment while PTF requires other members to pay for the defaulters and charge a 25% penalty and PRIDE Tanzania don't charge any penalty. Some punitive measures used in other countries such as the use of local leaders and announcing defaulters publicly (K-REP, 1993) are not applied by these organisations in Tanzania. The above discussion has aimed at illustrating the fact that these credit programmes operated by these organisations are well designed to attain financial successes.

4.7 Household Characteristics

4.7.1 Sex of respondents

Majority respondents in the study were females. Males form only 15.9% of all respondents while the remaining part (84.1%) are females. This is contrary to the fact that credit programmes in the study are open to both sexes. This might be a result of a hangover from the period when many MFI were providing financial assistance to disadvantaged categories of people such as women, youth, disabled and elderly in form of grants or at low interest rate. Men had very little access to these quasi-formal sources of funds. One reason might be the indirect method of screening in borrowers, such that those conditions favour women borrowers more than men. The conditions may include the small size of loans, group liability and frequent meetings.

4.7.2 Marital status

The majority of respondents interviewed were married. They form 67.6% of all respondents while single respondents are only 32.4%. Other analyses on age and household financial sources reveal that 62.2% of respondents receive financial assistance from their spouses for family maintenance. This result implies that married people have better chances of operating MEs and accessing loans than people who are not married. This might be true in the sense that spouses –mostly husbands in this case, provide financial support for initial capital, and an immediate support in case of failure to raise or save the required premium. Marriage also might relate to the amount of assets that borrowers can have access for offering as collateral. MEs operated by married owners have higher chance of survival in case the spouse has another source of income to meet, albeit partly, family maintenance costs.

4.7.3 Age of respondents

Majority respondents were of middle age between 31 and 49 years. Only one respondent falls in category No. 1 which includes all respondents with less than 20 years of age (0.7%). Respondents with age between 21 and 30 years and those of age 41 to 50 years of age, separately are less than half the number of respondents in the modal category (31-40years). Sixty seven percent (67%) of all respondents were married and 65% received financial supports from their family members.

Statistics indicates that many micro-enterprise owners are over 30 years of age, while mature people of age above 41 years form a small part of respondents. This indicates that the effort required to service the loan is substantial and hence demands relatively younger people but old enough, perhaps with some years of married life, a stable financial base and some entrepreneurial experience.

4.7.4 Number of dependants

Majority of respondents (45.5%) i.e. the modal group, have an average of four (4) dependants in their families. But it's ironic that the second largest category has between 6 and 8 dependants per family. This forms 29.7% of the population. Respondents with at most 2 dependants forms 16.6% of respondents, majority of which are aged between 21 and 30 years, with a high probability of having more children (or dependants) in the future. Families of respondents have a mean of 5 dependants per family. The more the dependants, the more the money needed for family needs. It follows that more money could be taken from the businesses, monies that could be reinvested for improvement of the micro-enterprises.

Table 4.6: Number of dependants in ME owners families.

Categories of dependants	Number of respondents	Percentage
< 2	24	16.6
3-5	66	45.5
6-8	43	29.7
9-11	10	6.9
>12	2	1.4
Total	145	100

Source: Own survey data (2000).

4.7.5 Source of money for family use

Micro-enterprises operated by respondents' form the only major source of money for family use (43%). While respondents who receive assistance from their spouses on top of what they take from the micro-enterprises are 27.5%. An equally substantial proportion of micro-enterprise owners (14.8%) takes nothing from their micro-enterprises hence solely depends on spouses' income to cater for family money needs. Other sources of money mentioned include absolute dependence on salary or other enterprises. Other respondents have a mixture of the sources mentioned above. In total, micro-enterprises support fully or partially 72.5% of families in the study.

Table 4.7 Source of money for families of ME owners

Money source	Number of respondents	Percentage
Enterprise only	61	43
Spouse only	21	14.8
Enterprise +Spouse	39	27.5
Salary only	5	3.5
Another enterprise	9	6.3
Other sources	7	4.9
Total	142	100

Source: Own survey data (2000).

4.7.6 Education level

Primary School leavers constitute 58.6% of all respondents. Respondents who had secondary education or above form 35.2% of the sample, while 64.8% of respondents had lower than secondary school education. Cross tabulation results between education level and employment shows that more respondents with secondary education or above were employed, than those who had less than secondary education. It indicates that the micro-finance schemes in the study operate for people who had otherwise limited opportunities in the society.

Table 4.8 Level of education attained by respondents

Education level	Number of respondents	Percentage
None	9	6.2
Primary	85	58.6
Secondary	48	33.1
College and above	3	2.1
Total	145	100

Source: Own survey data (2000).

4.7.7 ME owners' family expenditure

The amount of money needed by the family of micro-enterprise owner for daily consumption is supposed to indicate the extent of the burden which may befall the enterprise, or the standard of living of the micro-enterprise owners. The study results show an average of 2,900/= per day. A large proportion of respondents need below 4,000/= a day to meet the needs of their families. Table 4.9 shows that 9.1% need below 1,000/=; 37.2% between 1,000/=and 2,000/=; 28.7% between 2,000/= and 3,000/=. Other categories are 7.0% between 3,000/= and 4,000/= and 17.5% above 4000/=. When the money needed per day is related to the number of dependants (family members) it shows that 55.1% respondents use below 500/= per person per day, 32.7% between 500/=and 1,000/= per person (Table 4.10). Hence, a total of 87.8% of respondents consume amounts indicated to be below a 2 US $ international poverty line (www.worldbank.org). However, the aim is to show that these micro-finance schemes to a great extend attracts and caters for the poor categories.

Table 4.9 Amounts of money needed by family of respondent per month

Amount of money (T.Shs.)	Number of respondents	Percentage
Below 1,000	13	9.1
1,000-2,000	54	37.2
2,000-3,000	41	28.7
3,000-4,000	10	7.0
Above 4,000	25	17.5
Total	143	100

Source: Own survey data (2000).

Table 4.10 Categories of money needed for family use per number of dependant per day.

Money needed (T.Shs.)	Number of respondents	Percentage
500 and below	54.0	55.1
500-1,000	32.0	32.7
1,000 and above	12.0	12.2
Total	98	100

Source: Own survey data (2000).

4.7.8 Technical skills

Less than half of respondents have some technical skills relating to their micro-enterprises. These skills have been obtained formally (25.3%), from credit scheme (21.5%), or informally (52%). Informal education implies obtaining skills through experience or training away from classroom environment. It follows that only a small proportion of credit beneficiaries (21.5%) has received some technical skills from the credit scheme. The study indicates the importance of assisting micro-entrepreneurs obtaining the necessary skill of their trade. It also means that the potential of micro-enterprise is not well tapped. Through education, micro enterprises can contribute more towards poverty alleviation of individual household and the national GDP.

4.8 Enterprise Characteristics

4.8.1 Type of enterprise

Most micro-enterprises deal with consumables, textile and cosmetics; they form 63.5% of all respondents. Out of these, consumer shops and food stalls constitute 40% of the respondents, while textile and cosmetics constitutes the remaining 16.6%. It can be seen that this category deals with daily human necessities; as a means of winning a sure market, because it has less risk although perhaps less profitable.

Contribution of micro-finance to agriculture stands at only 10.3% as shown by the proportion of respondents who deals in agricultural production. Other categories of micro-enterprise indicated are office supplies (1.4%), manufacturing or artisan (4.1%) and mixed enterprises (20.7%).

Table 4.11 Type of enterprises operated by the respondents in the study

Type of enterprise	Number of respondents	Percentage
Consumer shop/food stall	68	46.9
Textile/ cosmetics shop	24	16.6
Agricultural production	15	10.4
Office supplies	2	1.4
Manufacturing/artisan	6	4.1
Mixed	30	20.7
Total	145	100

Source: Own survey data (2000).

4.8.2 Source and amount of the start up capital

The survey results show that 51.4% of micro-enterprise owners used their own saving to start their micro-enterprises. Other substantial source of start-up capital is financial support from relatives (26.8%) in most case husbands, and credit schemes (18.3%). Micro-enterprises started using the hard-earned savings of the owner or their relatives, have higher chances of survival than those started merely from credits. To support this argument, Buckley (1997) is of an opinion that, such MEs start with very small capital and owner's experience grows as the ME grows.

Majority of enterprises (56.3%) have been started by capital less than 10,000/= and still a substantial proportion (14.8%) had less than 5,000/= as start up capital. Other levels are 10,000/= to 20,000/= (16.2%); and 20,000/= to 50,000/= (24.6%). Table 4.13 provides statistics and shows that the micro-enterprises are started by very small amounts of capital.

Table 4.12 Source of capital for starting up MEs in the study

Source of capital	Number of respondents	Percentage
Own saving	73	51.4
Relatives	38	26.8
Credit	26	18.3
Others	5	3.5
Total	142	100

Source: Own survey data (2000).

Table 4.13 Amount of capital for starting up MEs in the study

Amount categories (T.Shs.)	Number of MEs	Percentage
Below 5,000	21	14.8
5,000-10,000	59	41.5
10,000-20,000	23	16.2
20,000-50,000	35	24.7
Above 50,000	4	2.8
Total	142	100

Source: Own survey data (2000).

4.8.3 Age of enterprise

The majority of micro-enterprises in the study areas had been in existence for between 5 to 7 years (41.4%). MEs with 1-3 years duration occupy the second position (Table 4.14). In general micro-enterprises in the study show sustainability for having operated in the same trade for a considerable number of years without collapsing.

Table 4.14 Age of micro-enterprises in years

Categories of age (Yrs)	Number of respondents	Percentage
<1	21	14.5
1-3	42	29.0
3-5	22	15.2
5-7	60	41.4
Total	145	100

Source: Own survey data (2000).

4.8.4 Amount of income generated by MEs.

Many micro-enterprises in the study generate income of between 5,000/= and 100,000/= per day (78.6%). Only 17.9% of micro-enterprises generate income below 5,000/= (Table 4.15). On average, the income generated by micro-enterprises is 30,000/= per day. This is about ten-times higher than the average amount of money needed for family use per day (2,900/=). This analysis indicates that MEs can play a significant role in promoting the welfare of micro-enterprise owners. If not used for family use can be re-injected for further expansion of micro-enterprises or used as start up capital for other micro enterprises.

Table 4.15 Amount of income per day generated by MEs in the study

Income categories (T.Shs.)	Number of respondents	Percentage
0-5,000	26	17.9
5,000-10,000	26	17.9
10,000-20,000	36	24.8
20,000-50,000	39	26.9
50,000-100,000	13	9.0
100,000 and above	5	3.4
Totals	145	100

Source: Own survey data (2000).

Analysis was made to determine the change of income generation over time. This variable intends to show how the income generated per day by micro-enterprises has increased or decreased over the life period of the micro-enterprise. To accomplish this the income differences were divided by the variable "age of enterprise" to get the difference per year.

Results show that 32% of micro-enterprises recorded an annual increase of less than 2,000/=, while 22.1% recorded an increase of between 2,000/= and 5,000/=. There are a small proportion (6.4%) of micro-enterprises with an annual increase above 50,000/=. Nevertheless an equally large proportion (27.9%) reports to have recorded a negative growth. On average however micro-enterprises have recorded between 2,000/= and 5,000/= income growth per year.

Table 4.16 shows that credit beneficiaries had an average annual increase in income generation of 947/= while MEs without credit had a general decrease of 783/= per year. However this difference is statistically insignificant (sig.= 0.55) as indicated by values (t = 0.599, df = 138).

Table 4.16 Comparison of annual income growth between credit beneficiaries and non- beneficiaries.

Credit beneficiary	N	Mean	t-value	df	Sig.
Yes	102	947.16	0.599	138	0.55
No	38				

Source: Own survey data (2000).

Comparison of income generation between two categories of either credit beneficiaries or non-beneficiaries, shows that the two categories were generating almost equal levels of income before one category had taken and used credit. Whereas, the same comparison after one category had obtained credit shows that credit beneficiaries had generally higher income levels than non-beneficiaries. However the difference is not statistically significant (Note that this categorisation has not based on type of trade undertaken by the MEs).

Table 4.17 Comparison of income generated before and after credit on credit beneficiaries and non-beneficiaries

Period	t-value	df	sig
Before credit	0.084	138	0.93
After credit	1.223	143	0.223

Source: Own survey data (2000)

4.8.5 Employment creation by MEs

It was hypothesized that credit to MEs has an effect of increasing the capacity of MEs to employ more labour (i.e. more people for the same number of hours or more hours for same number of people). That would mean that micro-enterprises with credit would employ relatively more labour than MEs without credit and for the same credit beneficiary there will be an increase in employment of labour after the ME obtain and utilize credit.

Results of the study show that, comparison of employment of labour between credit beneficiaries and non-beneficiaries at the time when both categories had no credit, indicate that both categories offered relatively same level of employment. Similar results hold even for the period when one category had obtained and utilized credit. The results are summarized in table 4.18

Table 4.18 Comparison of labour employment before and after credit for credit beneficiaries and non-beneficiaries

Period	t-value	df	sig
Before credit	0.626	138	0.532
After credit	0.618	142	0.538

Source: Own survey data (2000).

4.8.6 Value of enterprise

Value of enterprise shows how much the enterprise is worth at the present time. 57.8% of respondents have micro-enterprise worth between 100,000/= and

1,000,000/=. Micro-enterprises worth less than 20,000/= forms only 7.4% of all MEs in the study. Other categories are shown in the table below. It can be seen from the table that MEs worth more than 3,000,000/= also forms a very small proportion (5.9%) of the MEs in the study.

Table 4.19 Categories of value of MEs in the study

Value categories (TShs.)	Number of MEs	Percentage
Below 20,000	10	7.4
20,000-100,000	24	17.8
100,000- 1,000,000	78	57.8
1,000,000- 3,000,000	15	11.1
Above 3,000,000	8	5.9
Total	135	100

Source: Own survey data (2000).

The regression model already explained in chapter three subsection 3.5.2 has given the following results:

Eqn. 1: PRESVAL = -149763 + 3.2022 LNAMT

(4.856***) R^2 =0.33

Eqn. 2: PRESVAL = -295442 + 2.61 LNAMT + 1.753 CAPSTAT

(4.675***) (3.861***) R^2 =0.491

Eqn. 3: PRESVAL =1147920+2.694LNAMT+2.0CAPSTAT– 666620EDULEV

(4.98***) (4.41***) (-2.1**) R^2 =0.505

Eqn. 4: PRESVAL =2051336+2.987LNAMT+1.895CAPSTAT-784793 EDULEV

(5.55***) (4.3***) (-2.52**)

-106236AGENTER

(-2.14**) $R^2 = 0.578$

Eqn. 5: PRESVAL =231683+2.999LNAMT+2.0895CAPSTAT-86473 EDULEV

(5.55***) (4.3***) (-2.52**)

-146236AGENTER – 53861NODEPN

(-2.14**) (-0.006) $R^2 = 0.581$

Note:

** = Significant at 0.05%

*** = Significant at 0.01%

( ) = Figures are t-values.

Where;

PRESVAL = Present value of micro-enterprise.

LNAMT = Amount of loan received by MEs.

CAPSTAT = Amount of initial (start-up) capital.

EDULEV = Level of education attained by ME owners.

AGENTER = Years of ME since establishment.

NODEPN = Number of dependants.

The results show that present value of micro-enterprises has positive significant relationship with amount of loan and amount of initial (start up) capital, while education level and age of enterprise have a negative relationship. The variable termed 'number of dependants' is not significant.

The positive relationship between present value and loan amount indicates borrowers make proper use of loans by investing a substantial amount into MEs instead of diverting towards other needs. This might be an outcome and advantage of these untargeted loans, provided by semiformal organisations. To improve the performance of MEs, larger loans will be associated with higher values of ME.
The variable for initial/start up capital shows a positive relationship with present value. It implies that the higher the start up capital the higher will be the value of the MEs, at the present or future time. Owners of MEs use own saving to start up MEs. Many Tanzanians are poor, very few citizens can generate substantial amount of savings for starting up MEs. Hence MEs are started with very little amount of capital. MEs with little capital have little chance of survival (Mead, 1998).

The level of education attained by MEs owners has a negative correlation with the value of ME. It means that, people who had less education own many successful MEs. This is contrary to the conventional belief that an educated person is more capable of making better decisions and provides better quality actions. The reason for this condition could be, people with more education devote more time doing or looking for better opportunities in life. Perhaps most of them are still fully employed by other firms. They therefore devote little effort towards success of ME because they have more alternative opportunities than people with less education do. To the latter success in ME may mean existence or otherwise.

The variable termed 'age of enterprise' implies the number of years since establishment of the ME. It was hypothesized that age would correlate positively with performance. Age of enterprise was expected to contribute significantly to performance in the sense that ME will have more experience in accessing markets for the inputs or raw materials required and shall have secured reliable market for its products. These advantages will in turn result into a larger volume of business, and high productivity. The increase in income could then be reinvested into the business and raise the value of the ME even higher. But the converse applies. Regression analysis depicts a statistically significant negative relationship between age of enterprise and performance of micro enterprises in terms of present value, meaning that the more the number of years in business the lower is the present value of the ME. The reason to manifestation of this phenomenon might be the fact that people (and especially entrepreneurs) are easily tired by the monotony of doing one activity all the time, they always tend to try higher. They also diversify activities as a means of minimising risk. These diversifying actions often demand resources from the existing ME. Some people tend to indulge in other non-income generating ventures (e.g. building residential houses) after success periods in early year of ME operations. All these have negative effects on performance of MEs.

4.8.7 Amount of money received by family from the MEs per day

The study shows that on average micro-enterprises contributes 1,885/= per day for maintenance of families of micro-enterprise owners. A larger proportion (41.6%) receive less than 1,000/= per day from the micro-enterprises. Very few enterprises contribute more than 3,000/= per day to families of ME owners. As the average profit per day for the micro-enterprises is much higher (3,000/=), it is evident that micro-enterprises are able to maintain family needs of its owners.

Tables 4.20 Amount of money families of MEs owners receive from an enterprise per day.

Categories of money (T.Shs.)	Number of respondents	Percentage
< 1,000	52	41.6
1,000-2,000	35	28.0
2,000-3,000	24	19.2
3,000-4,000	6	4.8
4,000-5,000	2	1.6
> 5,000	6	4.8
Total	125	100

Source: Own survey data (2000).

4.8.8 Record keeping

The study has shown that large proportions of respondents claim to keep records of their transactions. Only 21% of respondents indicate they did not keep any written records. However 98% of the records kept involves recording only daily transactions such as purchase of sales-in the case of traders, and input and output or product for the case of micro-enterprises dealing in production. This level of records keeping is insufficient especially when the records are not used (say at end of month) to compute profits and losses of the transactions.

4.8.9 Registering or licensing of micro-enterprises

The study has shown that 62% at micro-enterprises are registered or licensed, or they seriously consider registering/ licensing of their businesses in the near future. A substantial proportion however (38%) has indicated to have no plans at all to register/license their activities. The reason given to justify the added costs for registering or licensing was the need to abide to the 'laws of the land'. A single respondent out of 31 nevertheless, indicated that licensing ought to expand the market of the micro-enterprise. Conventionally, registering and licensing is a sign of ME growth and transformation from informality towards formality (NISS, 1991), hence more access to advanced forms of finance. This study therefore shows that majority of micro-enterprises don't move towards this direction.

4.8.10 Market for enterprise products

The study has shown that only half of the respondents have reliable markets for their products, while 45% of respondents claim to have uncertain markets. Five percent of respondents complain of locating weak markets for their products.

Respondents who have market problems have indicated diversification as the only solution to their market problems. This indicates that respondents are not aware of other measures for securing more markets, which includes advertising, proper packaging and market research.

4.8.11 Factors of change in performance of micro-enterprises

The study has identified factors, which have contributed to changes in performance of micro-enterprises in the study. 'Experience' in operating the MEs and 'Credit'; have been mentioned as important factors by many respondents. Reinvestment out of other personal savings was mentioned by 7.6% of respondents. Some factors were said to negatively affect micro-enterprise performance. These are consumption (3.0%) and poor economy (23.5%) (Table 4.21). 'Consumption' is a reason in the sense that, money taken from micro-enterprises for consumption by ME owners' family deprives MEs of capital. Poor economy is associated with lack of market, poor prices, and low demand as a result of little amount of money circulating in the economy. However, credit has contributed positively, to better performance of the micro-enterprises as mentioned by 27.3% of respondents.

4.8.12 Factors inhibiting micro-enterprise expansion

Analysis of factors, which are considered to constrain micro-enterprise expansion, has shown that (Table 4.22), lack of enough capital is ranked higher (34.5%) than other factors. Micro-enterprises face competition, from other similar business by 24.8%. Lack of market or low demand is mentioned by 16% of respondents. Some MEs (10.6%) face business problems such as lack commodities for resale. Some respondents (6.2%) show that their micro-enterprises are overburdened by family problems.

Table 4.21 Factors contributing to changes in MEs performance

Factor(s) mentioned	Number of respondents	Percentage
Credit	36	27.3
Experience	24	18.2
Savings	10	7.6
Profit	4	3.0
Poor economy	31	23.5
Consumption	4	3.0
Credit+ Experience	13	9.8
Others	10	7.6
Total	132	100

Source: Own survey data (2000)

Table 4.22 Factors inhibiting expansion of MEs in the study

Factor(s) mentioned	Number of respondents	Percentage
Lack of capital/credit	39	34.5
Low demand	18	15.9
Competition	28	24.8
Business problems	12	10.6
Family problems	7	6.2
Others	9	8.0
Total	113	100

Source: Own survey data (2000).

4.9 Loan Characteristics

4.9.1 Credit organizations

Primary data were collected from 3 micro-finance intermediaries. These are PRIDE Tanzania, Presidential Trust Fund (PTF) and Huduma Ya Maendeleo. One respondent gave information concerning her/his credit with a fourth organization. These organizations are located in Ilala district but also have activities in other districts including Kinondoni district.

4.9.2 Loan amounts

The study shows that majority of respondents (61%) have received loans between 100,000/= and 500,000/=. Higher loan levels (500,000/= to 1,000,000/=) have the 2nd largest proportion (16.6%) of respondents. Values of the other categories are as follows: 10,000–100,000= 13.6% and above 1.0m= 3.6%. Results are summarized in table 5.18. When respondents were asked about extra loans, 95.1% indicated to need extra loan, and 97.8% indicated to need extra loans from the same organization. This may imply that clients are satisfied by the loan services they are receiving. But perhaps clients are not informed of better alternatives.

Table 4.23 Amount of loan received by MEs in the study

Loan amount (TShs.)	Number of respondents	Percentage
0-100,000	15	13.6
100,000-500,000	67	60.9
500,000-1,00,000	24	21.8
1,000,000 &above	4	3.6
Total	110	100

Source: Own survey data (2000).

4.9.3 Loan conditions

Respondents in the study were asked to mention major loan conditions they remember. Majority of respondents (22.2%) mentioned only attendance as the major condition. Other conditions mentioned are summarized in table 4.24.

Computation of multiple responses provide a more illustrative picture as follows: Attendance 40.0%; Savings 18.9%; Guarantee 22.0% and; Business 24.0%. These responses indicate loan conditions that receive much emphasis from the micro-finance intermediaries. The results show requirement for attendance ranks higher amongst major conditions.

4.9.4 Difficult or unpleasant loan conditions

The study has shown that respondents consider group liability as the most difficult and unpleasant condition, followed by high rates of interest. Other conditions, which were assumed by the study to be undesirable, received very little response. These include intensive repayment duration, short grace periods, and small first loans and short loan duration. These conditions collectively got only 24 out of 92 multiple responses (26%), while two loan-conditions (i.e. group liability and interest rate) received the remaining 74% of responses. However, respondents did not consider the loan conditions to be too difficult or very unpleasant as the question was asked (i.e. only mild difficult or unpleasant). Actually, 50% of interviewed clients didn't respond to the question. Clients seem to realize and appreciate the rationale behind most of the major conditions. This might be a result of education sessions, conducted by loan officers or through dealing with fellow members who default.

Table 4.24 Loan conditions remembered by credit clients in this study

Loan condition	Number of respondents	Percentage
Attendance	24	22
Guarantor	10	9.3
Savings	3	2.9
License	1	0.9
Collateral	18	16.7
Business	12	11.1
Savings &Attendance	16	14.9
Guarantor &business	12	11.1
Others	12	11.1
Total	108	100

Source: Own survey data (2000).

Table 4.25 Loan conditions considered difficult or unpleasant by borrowers in the study

Loan condition	No. of Respondents	Percentage
Group liability	19	26.4
Small loans	1	1.4
Intensive repayment	6	8.3
Loan duration	1	1.4
Interest rate	18	25.0
Weekly attendance	3	4.2
Collateral	1	1.4
Grace period	1	1.4
Group + Interest rate	11	15.3
Group + Weekly attendance	4	5.6
Interest rate+ Weekly attendance	2	2.8
Interest rate + Grace period	2	2.8
Weekly attendance+ Grace period	1	1.4
Others	2	2.8
Total	72	100

Source: Own survey data (2000).

4.10 Summary

This chapter has presented a discussion on design features of financially successful MFIs, these include strategies on how to ensure poor borrowers gain access to financial services, how to screen borrowers in absence of proper records and business plans and strategies on how borrowers are persuaded to meet their loan repayment obligation. It has also described and explained the objectives, loan procedures and performance indicators of the three MFIs in this study. The chapter also presents a discussion of how the MFIs in the study are designed and operated in line with the features for success.

Results and discussion has also been presented of descriptive and quantitative analysis conducted on primary data collected from MEs who are clients of MFIs in the study. On basis of the preliminary data analysis reported in this chapter, the following concluding remarks can be made:

Majority of clients in the MFIs in this study are females in spite of the fact that the MFI don't put special preference to female members. Many respondents are married and relatively grown up (over 31 years of age). Families of ME owners are relatively large, but the size is positively correlated to the value of the MEs. It means that ME owners who record good progress in operating their MEs tend to have more children or support more dependants.

ME income forms the largest source of money for family of ME owners. MEs income exceeds the average amount of money needed by ME owners families, hence ME income can support life of ME owners and their families. Micro-enterprises are started by capital obtained through own saving; credit plays an insignificant role in assisting people who want to start up MEs.

Results indicate that credit contributes insignificantly to the increase in labour employing capacity of MEs; this suggests that the initial effect of credit on ME performance ends with making the ME operator more usefully occupied without a need of hiring additional labour. The same effect is noted on income generation, there is no significant difference in income generated in both 'with and without' and 'before and after' comparisons The added capital through credit is used to make bulky purchase and spare the operator the burden of purchasing inputs frequently. Hence credit is not used for reaching and capturing more markets

Some hypothesized variables have shown to contribute significantly to the value of ME. 'Loan amount' and 'amount of start up/initial capital' have positive correlation with value of ME, while 'level of education' and 'age of enterprise' have a negative correlation to the value of MEs. Lack of capital is a major factor inhibiting expansion of MEs, other factors being competition and lack of markets.

Credit clients don't consider loan conditions to be too difficult or very unpleasant, although group liability and high interest rates provide some constraint. This implies that to ME owners MFIs in this study are both financially beneficial and socially acceptable.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

5.1 Overview

The broad aim of this study has been to assess the status and provision of micro-finance services in Tanzania and suggest necessary improvement in the national micro-finance policies and design of programmes. The study presents results of a survey that was undertaken with the view of supplementing information for promotion of the micro enterprise sector in Tanzania.

5.2 Conclusions

5.2.1 Status and provision of micro-finance services in Tanzania

All the three MFIs in the study have designed their policies basing on features of the New Micro finance Approach. These include positive real interest rate, intensive loan collection, provision for voluntary savings or insurance, and provision of incentives for repayment.

A summary of these factors is given below and some conclusions on the same are drawn as follows:

- Interest rate: Computations of interest rates and other fees charged indicate that loans costs between 50% and 100% annually. This is higher than the interest rate charged by formal financial institutions (about 30%). This situation is a great improvement from the former situation when such loans were heavily subsidized. Presently the rates charged cover a larger portion of lending costs. MFIs are becoming less dependent on donors hence are matching steadily towards sustainability. However, borrowers seem not to be aware of the extent of the costs. A substantial proportion of borrowers are of the opinion that the stipulated interest rates are high; even without considering the computations mentioned above.

- Loan collection: MFIs in this study use intensive loan collection technique to enhance high repayments rates. Repayments are made either weekly or monthly. Such intensive collection methodology is demanding not on borrowers side alone but also on the lender's side. The fact that the lenders' staff in this study are keen to undertake such stringent tasks is indicative of a high motivation as needed for success in any lending exercise. This is contrary to the previous situation when, it was alleged that, some lenders provided loans without expecting sufficient repayments.

- Loan insurance fund: All MFIs in the study demand borrowers to save regularly into an insurance fund. This reduces the effect of defaults to the organization. Insurance funds have contributed to the build up of loan portfolio. However, all MFIs in this study provide little incentive to effect substantial amounts of voluntary savings. Voluntary savings is a prominent source of fund for lending. For example BRI of Indonesia is fully financed by voluntary savings.

- Group liability: The problem of formal collateral faced by poor borrowers is overcome through use of informal type of collateral security. While PTF and PRIDE use group liability to ensure access of poor borrowers to credit, HYM demands a third party guarantor. Group liability has been mentioned to cause some discomfort to borrowers, although it doesn't amount to a serious problem. The use of these informal collateral security methods has also been associated with high performance in loan repayment to the MFIs in the studied areas.

It can be concluded here that, the major loan conditions described above have no effect of hindering accessibility of poor borrowers to loans provided by MFIs in this study. Because not a single respondent claimed to refrain from taking a subsequent loan due to these loan conditions. All clients indicated their intention of requesting subsequent loans from same organization; this is a good indicator of clients trust on the MFI.

5.2.2 Accessibility of poor borrowers to credit

Assessing accessibility of poor borrowers to credits provided by MFIs was one of the major aims of this study. This study has shown that, loan conditions imposed by MFIs in this study are favourable to poor borrowers than borrowers who are relatively well off. The study has shown that majority of respondents consume less than 1,000/= per day: Hence the majority of respondents can be classified as poor because they live below the international poverty line of 2 US $ a day per person *(www. worldbank. org)*

Respondents consider group liability and interest rate as difficult conditions, although only to a small extent. As mentioned above, these conditions are not too difficult to hinder accessibility of poor borrowers to credit schemes operated by MFIs in this study. Although it can be concluded that improvements on these conditions can enhance more accessibility.

Access of MEs to micro-finance is of paramount importance because lack of capital has ranked highest amongst constraints inhibiting expansion of MEs. However as the amount of loan increases, operations of MEs are constrained by market availability. Lack of market for MEs products becomes the most limiting factor. Before MEs can graduate into formality, they have to develop more marketing strategies.

This study has shown that respondents are not aware of other MFIs located and operating in their area. In most cases, borrowers knew the existence of the MFI through a 'relevant gossip' from a friend or neighbour, hence MFIs operate without competition from other MFIs.

5.2.3 Role of credit on employment and income generation

Results from this study have shown that credit has a positive relationship with increase in both employment and income generation capability of MEs, although the effect showed little significance. Results show that credit contributes more to productivity or quality of ME operations than to quantity of production or employment. This is due to the fact that ME owners use the extra capital from credits for making bulky purchase or apply more efficient technology. Hence credit beneficiaries use less physical effort than non-credit beneficiaries to generate the same amount of income. Mead (1994) in his study of the contribution of small enterprises to employment growth, also found out that, expansion of MEs contributes little to employment growth. New enterprises have a relatively greater impact on employment than enterprise expansion.

5.2.4 Factors which determine performance of micro enterprises

Performance of micro enterprises was hypothesized to positively correlate with initial capital of ME, amount of loan obtained, education level of ME owner and number of years since establishment of ME. Number of people who depend on ME owner was considered to have a negative relationship to ME performance. Results from this study have shown that amount of start up capital and loan amount have a statistically significant positively relationship with ME performance, whereas level of education attained by ME operator and age of micro-enterprise indicated to contribute negatively to the performance of a ME. Number of dependants has a positive relationship to the ME performance, although it is not statistically significant. The following conclusions can thus be drawn from these results:

- Performance of a ME increases with the amount of start up (initial) capital. MEs started by little capital have poor performance compared to MEs, which had larger amounts of initial capital.

- Performance of ME is improved by larger loans. MEs with larger loans have more capital than MEs without credits. It shows that larger parts of credits taken are injected into ME operations. Credits from MFIs in the study are generally not diverted to different activities or consumed.

- The education level attained by ME operator showed a negative relationship to performance of ME. This is contrary to the *'a prior'* assumption. This result indicates that MEs operations require more physical effort than academic qualifications. Operators with less education perform better, perhaps because they have fewer opportunities than others who are more educated. Hence MEs makes a suitable and convenient undertaking for the majority of people who have little education.

- " Number of years" since establishment of ME was assumed to positively correlate with performance of ME. Results have shown that long experienced traders have less capital in their MEs because they have invested in other ventures.

Owners of MEs with high capital values sustain large number of dependants. "Cause and effect" has not been established, but it amounts to the good fact that good performance of ME contributes to the welfare of more people in the society.

5.3 Recommendations

The following recommendations can be made from the conclusions drawn above.

5.3.1 Mobilization of voluntary savings

It has been concluded that, although MFIs in this study demand a contribution to a savings fund, they provide few incentives towards mobilization of voluntary savings.

It is therefore recommended that MFIs should target voluntary savings as a convenient source for loan fund. All the three MFIs in this study depend heavily on donor funds, which limit initiatives for attaining sustainability of operations.

5.3.2 Formation of a Micro-finance Board

This study has shown that clients of MFIs in this study have little knowledge of the effect of many loan conditions imposed by MFIs. The study is recommending that the government should form a micro-finance board, which shall oversee the conduct of MFI in the country. The board shall have the task of approving loan procedures proposed by every organization venturing into micro-finance; develop rules and procedures for micro-finance. This will protect poor borrowers from unscrupulous dealers and uphold the status and reputation of micro-finance.

5.3.3 Provision of business studies to micro-finance clients

MEs which have relatively larger capital are constrained more by lack of markets than loan access problems. The possibility of MEs graduating into formality through financial support is low without provision of better marketing strategies. It's recommended that financial support to MEs should be complimented by business studies on market promotion. MFI can contract other firms to undertake such studies at reasonable fees paid by credit clients.

5.3.4 Supporting development of new MEs

This study has found out that amount of initial capital and amount of loan contributes significantly to performance of MEs. However credit contributes more to employment creation and income generation when used to start up new micro enterprises. Stakeholders aiming at assisting employment creation should develop ways of financing new micro enterprises.

5.3.5 Expansion of micro-finance services

Lack of capital has been mentioned as a major constraint to ME development by both credit beneficiaries and non-beneficiaries alike. This underscores the continued relevance of micro-finance in Tanzania. The demand is large-the opportunity is high. More institutions are argued to venture into provision of micro-finance services and contribute towards the micro-enterprise finance revolution.

5.4 Limitations and Areas for Further Research

5.4.1 Limitations

This study experienced both time and financial constraints. As a result, data were collected through interviews at places away from where MEs operate. Therefore the surveyor could not ascertain authenticity of responses by respondents.

The researcher has applied various ways to ensure collection of accurate information, which include crosschecking questions and frequent computations.

However data and information given by respondents depended heavily on memory recall. In this situation some discrepancies are unavoidable.

Although the study involved major MFI in the country, the number of MFIs in the study is small. A broader survey would reflect a more accurate situation.

5.4.2 Areas for further research

In view of the aforementioned limitations there are several areas in which other researchers can undertake the study further. MFIs experience a substantial proportion of client dropout for reasons not properly documented. There is a need therefore to collect data and information from this category to ascertain the reasons for dropouts. Such a study can reveal some weaknesses in the micro-finance programmes or other limitations hindering the development of the micro finance sector. A time series survey of MEs is of paramount importance to trace and ascertain the trend or phenomena of ME development.

REFERENCES

Abboagye, A; Gozo, K.; Ahmed, I. (1987). World Recession and Global interdependence: Effects on employment, poverty and policy formation in developing countries. International Labour Office. Geneva. p 75-98.

Adams, D. W. (1979). "Small Farmer Credit Programs and Interest Rate Policies in Low Income Countries ". Land Management Issues and development Strategies in Developing Countries. Lincoln Institute of Land Policy, 1.

Adams, D. W. and Douglas, H.G. (1981). "A Critique of Traditional Agricultural Credit Projects and Policies. *Journal of Development Economics*. p 347-366.

Adams, D. W. and Von Pischke, J. D. (1980). "Fungibility and the Design and Evaluation of Agricultural Credit Projects ". *American Journal of Agricultural Economics 62 (4),* p 719-726.

Adams, D. W. and Von Pischke, J. D. (1992). Micro-enterprise Credit Programs: 'Deja Vu' *World Development.20, p* 1463-1470.

Amani, H.K.R. (1987). Agricultural credit in Tanzania: A Peasant Perspective. *Savings and Development 11 (4),* p 379-401.

Bagachwa, M.S.D. (1991). Choice of Technology in Industry: The Economics of Grain Milling in Tanzania: International Development Research Centre. Otawa. pp 144.

Bagachwa, M.S.D. (1993). Impact of Adjustment Policies on the Small Scale Enterprise Sector in Tanzania. Intermediate Technology. London. p 91-113.

Bagachwa, M. S. D. (1995). "Financial Integration and Development in Sub-Saharan Africa". A study of Informal Finance in Tanzania. ODI, Regents College, Inner Circle, Regents Park. London. pp 50.

Bardhan, P.K. (1980). "Interlocking Factor Markets and Agrarian development: A Review of Issues. *Oxford Economic Papers, 32,* p 82-98.

Basu, S. (1997). Why Institutional Credit Agents are Reluctant to Lend to the Rural Poor: A Theoretical Analysis of the Indian Rural Credit Market. World Development. 25 (2), p 267-280. Pergamon. London.

Begg, D., Fischer, S., Dornbusch, R. (1991). Economics Third Edition. McGraw Hill. London. pp 667.

Besley, T. and Coate, S. (1995). Group Lending, Repayment Incentives and Social Collateral *Journal of Development Economics 46 (1),* p 1-18.

Bhalla, S.S. (1978). The Role of Sources of Income and Investment Opportunities in Rural Saving. *Journal of Development Economics* 3. p 259-291.

Biseth, H. (1987). Credit for Small Scale Farmers in Northern Province, Zambia. Norwegian Centre for International Agricultural Development. NORAGRIC, Agriculture University of Norway. Agricultural Development Reports SKRIFTSERIE B, No.7 Occasional Paper, Series B, pp 119.

Bolnick, B.R. and Nelson, E.R. (1990). Evaluating the Impact of a Special Credit Programme: KIK/KMPP in Indonesia. *Journal of Development Studies. 26 (2),* p 299-312.

Bolnick, B. R. and Nelson, E. R. (1998). "Evaluating the Economic Impact of a Special Credit Programme: KICK/KMKP in Indonesia ". *World Development 26 (10),* p 1875-1891.

Boonma, C. (1988). Measures for the improvement of Agricultural Financing for Small Scale Farmers in Thailand. In proceeds of the Seminar on the Improvement of Financing Systems for Small Farm Management. 12-16 April 1988. National Agricultural Cooperative Federation (NACF). Food and Fertilizer Technology Centre for the Asian and Pacific Region (FFTC/ASPAC). Seoul, Korea. p 37-42.

BOT (2000). National Micro-finance Policy.

Bottomley, A. (1975). Interest Rate Determination in Underdeveloped Rural Areas *American Journal of Agricultural Economics. 57 (2),* p 279-291.

Bratton, M. (1986). Financing Small Production: A Comparison of Individual and Group Credit Schemes in Zimbabwe. *Public Administration and Development.* 6, p 115-132.

Buckley, G. (1997). "Micro-finance in Africa: Is it Either the Problem or the Solution?" *World Development* 25 (7), p 1081-1093.

Christen, R. P. (1997). Issues on Regulation and Supervision of Micro-finance Institutions. *The Tanzanian Bankers Journal.* 9, p 42-51.

Daniels, L. and Mead, D. C. (1999). "The Contribution of Small Enterprises to Household and National Income in Kenya " *Economic Development and Cultural Change. 47 (1).*

Donald, G. (1976). Credit for Small Farmers in Developing Countries. A Westview Special studies in Social, Political and Economic Development. Westview Press, Inc.Colorado, U.S.A. pp 286.

Dondo, A. (1997). Learning by Doing: The Experience of Kenya Rural Enterprises Programme (K-REP) in Micro-finance. *The Tanzanian Bankers Journal..*9, p 17-25.

Feder, G. and Slade, R. (1985). The Role of Public Policy in the diffusion of Improved Agricultural Technology. *American Journal of Agricultural Economics* 67 (2), p 423-438.

Gonzalez-Vega, C. (1984). "Cheap Agricultural Credit: Redistribution in Reverse" In Undermining Rural Development with Cheap Credit. D.W. Adam and others (editors), Boulder: West view Press.

Hulme, D. and Mosley, P. (1996). Finance Against Poverty. Routledge. London. pp 221.

HYM, (1997). HYM Loan Manual 1997.

Kashuliza, A. K. (1986). Financing Small Farmers in Tanzania: An Evaluation of Institutional Credit Allocation and Borrower Repayment Trends . MSc. Thesis, University of Guelph. Toronto. pp 219.

Kashuliza, A.K., Hella, J.P., Magayane, F.T. and Mvena, Z.S.K. (1998). The Role of Informal and Semi-formal Finance in Poverty Alleviation in Tanzania: Results of a Field Study in Two Regions. *REPOA Research Report No. 98.1.* Research on Poverty Alleviation. Dar es salaam. pp 61.

K-REP (1997). Credit Officers Training Manual. Longmans. Nairobi. pp 315

K-REP (1997). Demand for Rural/ Micro-finance Services in Tanzania. BOT. pp 65

Koutsoyiannis, A. (1977). *Theory of econometrics.* An introductory Exposition of Econometric Methods. Macmillan Education Ltd, London. Printed in Hongkong. pp 760.

Kuzilwa, J. A and Mushi, E. K. (1997). Credit Needs for Small Businesses. *The Tanzanian Bankers Journal. 9,* p 13-16.

Lele, U. (1975). The Design of Rural Development: Lessons from Africa. Baltimore. John Hopkins University Press for the World Bank. pp 246.

Lipton, M. (1976). Agricultural Finance and Rural Credit in Poor Countries. *World Development 4 (7),* p 543-553.

Malima, R. (1997). PRIDE Tanzania: Experience in Micro-finance Initiatives. *The Tanzanian Bankers Journal 9,* p 34- 41.

Maumbe, B. M. (1993). Economic Analysis of Agriculture Credit Delivery to Communal Farmers in Zimbabwe: A Case Study of Chiweshe Communal Area, M.Sc. Thesis. Sokoine University of Agriculture. Morogoro.

Mead, D. C. (1994). "The Contribution of Small Enterprises to Employment Growth in Southern and Eastern Africa ". *World Development 22 (12),* p 1881-1894.

Mead, D.C. and Liedholm, C.(1998). The Dynamics of Micro and Small Enterprises in Developing Countries. *World Development* 26 (1), p 61-74.

Mmari I.K.B. (1985). An analysis of Rural Credit Institution in Tanzania. The Tanzania Rural Development Bank (TRDB). MSc. Thesis Graduate. College University of Illinois. Urbana. pp 133.

Nagarajan, G.; David, C.C.; Meyer, R.L. (1992). Informal Finance through Land Pawning Contracts: Evidence from the Philippines. *Journal of Development studies* (29) (1), p 93-107.

Planning Commission (1991). Tanzania: The Informal Sector. Government Printer, Dares salaam.

PRIDE AFRICA (1999). Annual Report, 1999. pp. 15

PTF (1997). Pre-loan Training Guidelines, 1997. pp. 10

Pyke, F. and Sengenberger, W. (1992). Industrial Districts and Local Economic Regeneration: ILO International Institute for Labour Studies, Geneva. pp 72.

Rahman, S. (1997). Micro-finance: Helping the Poor to Help Themselves. Unesco courier. pp. 35

Ramli, A.R. (1988). Measures or Schemes for the Improvement of Agricultural Financing for Small Farmers. In proceedings of the seminar on the Improvement of Financing systems for Small Farm Management. 12-16 April 1988. National Agricultural Cooperative Federation (NACF). Food and Fertilizer Technology Centre for the Asian and Pacific Region (FFTC/ASPAC). Seoul, Korea. pp 17-29.

Rhyne, E. and Otero, M. (1997). Financial Services for Micro-enterprises: A New View of Micro-enterprise Finance. *The Tanzanian Bankers Journal* 9, p 33-42.

Sanderatne, N. (1978). "An Analytical Approach to Loan Defaults by Small Farmers " *Savings and Development. 2 (4). p 290-304.*

Sharma, M. and Zeller, M. (1997). Repayment Performance in Group-Based Credit Programmes in Bangladesh: An Empirical Analysis. *World Development 25 (2),* p 1731-1742.

Slangen,S.; Masini, M.; Cuevas, C.E.; Heidhues, F.; Weinschenck, G.; Nagle, A. and Vigano, L. (1989). Rural Finance Profiles in African Countries. Vol.2, FAO FINAFRICA Working Group. Milan. pp 462.

Sowa, N. K., Nuakoh, A.B., Tutu, K.A., and Osei, B. (1992). Small Enterprises and Adjustments: The Impact of Ghana's Economic Recovery Programme on Small Scale Industrial Enterprises. Overseas Development Institute. London.

Steel, F. W. and Webster, L.M. (1991). "Small Enterprises Under Adjustment in Ghana". *World Bank Technical Paper .138.* Washington, DC.

Stiglitz, H.R.V. (1990). "Monitoring Agents with Other Agents". *Journal of Institutional and Theoretical Economics 146,.* p 173-174.

Stover, R. D.; Teas, R. K., and Gardner, R. J. (1985). Agricultural Lending Decisions: A Multi-attribute Analysis.. *American Journal of Agricultural Economics 67 (3),* p 513-520.

Sugiano (1997). Micro-finance: Lessons from Bank Rakyat Indonesia (BRI). *Tanzania Bankers Journal 9, p 26-33.*

Temu, A.E. (1988). The financial Infrastructure and Agricultural Development in Tanzania. MSc. Agricultural Economics Thesis, University of Reading. London pp 75.

Tinnermeir, R. L. (1981). "Agricultural Finance and Rural Development ". Issues in Third World Development (Edited) by Kenneth C. Nobe and Rajan K. Sampath Boulder), Westview Press, Colorado.

Von Pischke, J.D. and Adams, D.W. (1989). Fungibility and the Design and Evaluation of Agricultural Credit Projects. *American Journal of Agricultural Economic 62 (4),* p 719-726.

World Bank (1975). Agricultural Credit. Sector Policy Paper, The World Bank. Washington DC.

World Bank (1989). Financial Systems and Development and World Development Indicators. World Development Report 1989. The World Bank, Washington DC.

Yankson, P.W.K. (1986). Small Scale Industries in the Implementation of a Growth Centre Strategy of Regional Development: A Case study in Ghana. *Industry and Development 17,* p 65-89.

Zeller, M. (1994). Determinants of Credit Rationing: A Study of Informal Lenders and Formal Credit Groups in Madagascar. *World Development 22 (12),* p 1895-1907.

Zeller, M. (1998). "Determinants of Repayment Performance in Credit Groups: The Role of Program Design, Intra-group Risk Pooling, and Social cohesion" *Economic Development and Cultural Change 46 (3),* p 599-620.

APPENDICES

Appendix I

MICROFINANCE ORGANIZATIONS QUESTIONNAIRE

A: Basic Information

1. Name...

2. Establishment Year...

3. Type of Organization

   a. Govt. Institution

   b. Non Govt. Institution

   c. Donor Agency

   d. Cooperative Society

   e. Others (specify)

4. How many branches do you have?

   i. In Dar Es Salaam...

   ii. In Tanzania..

5. How many clients do you have?

   i. In Dar Es Salaam..

   ii. In Tanzania...

6. How large is the portfolio for

   i. DSM Branches...

   ii. Tanzania...

7. What proportion of your portfolio is financing micro-enterprises?

....(Tshs)

8. What are the objectives of your financial support to micro-enterprises?

....

B: Loan Conditions

9. What type of micro-enterprises do you support?

....

10. What form of financial support do you provide to micro-enterprises

a. Grants

b. Credits only

c. Credit + Training

11. What type of loans do you provide?

a. Individual loans to individual enterprises

b. Group loans to individual enterprises

c. Group loan to group enterprises

d. Others (specify)...

12. Itemize the most important conditions for eligibility

....

13. (If you provide group loans) What characteristics of a group do you desire

i. Size..(No.)

ii. Sex...(male/female/both)

iii. Be related...(Yes/No)

iv. Be registered...(Yes/No)

v. Bank account...(Yes/No)

vi. Record keeping.. (Yes/No)

viii. Regular meetings...(Yes/No)

ix. Savings...(Yes/No)

14. What are the terms of the loans?

i. Size of loans

Min...

Max..

1st...

Subsequent...

ii. Interest rates...(%)

iii. Loan duration...(months)

iv. Repayment schedules

....

(weekly/monthly/others(specify)

15. What costs are covered by the interest rate charged?

....

16. Why do you give loans in the above-mentioned amounts?

....

17. What factors are considered when setting up the repayment schedules?

....

D: Repayment Performance

18. What client characteristics and conduct do you insist to ensure high rates of loan repayment...

19. What organizational /or operational procedures do you have to ensure high loan repayment rate...

20. What is the rate of loan repayment in this scheme?

....(%)

21. Default is declared after how long delayed payment

.... (Installments/weeks/months)

22. What is the rate of delinquency in the micro-finance scheme?

....

23. What percentage of loans are paid by other members of the group

....

24. What percentage of loans has been collected by foreclosing collateral security?

....

25. What proportion of clients manage to obtain subsequent loans

....

E: Micro-Enterprise Performance

26. Do you assess micro-enterprises before authorizing credit delivery?

....(Yes/No)

27. What parameters do you consider during micro-enterprises assessment

....

28. What proportion of micro-enterprises fail the assessment exercise?

....

29. What befalls micro-enterprises, which have obtained poor assessment report

Remain pending

Gets smaller loans

Abandoned loans

d. Others (specify)...

30. Have you ever performed an impact assessment of your financial assistance?

....(Yes/No)

31. (if Yes) What positive changes have you observed

....

32. What loan conditions seems unpopular amongst your clients

....

33. What prevents you from improving them?

....

Thank you very much; I wish you all the best.

Appendix II:

MICRO-FINANCE CLIENTS QUESTIONNAIRE

A: Micro-Enterprises' Basic Information

1. Name..
2. Type of enterprise (Product)...
3. Location..
4. Year of establishment...
5. Ownership

   a. Individual

   b. Group

   c. Others (specify)..

B: Owners Background Information

6. Name..
7. Age...
8. Education level

   a. none b. primary c. secondary d. college and above ....

9. Have you ever been employed (Yes/No) ....
10. (if Yes in 9) In what type of work

....

11. Are you now employed (Yes/No)
12. (i) Who assists in maintaining the family..............................(husband/wife)

    (ii) How many dependants do you have?..

C: Micro-enterprise Performance

13. How many hours do you work for the enterprise? (Man-hours)

i. Now...

ii. Before...

14. How much is being produced/sold

Now...

ii. Before...

(Kg/bags/units) per week

15. How much income does the enterprise generate?

Now...

ii. Before...

(Tshs. per week)

16. What are the reasons for the change in (17)(if any)

....

D: Family Expenses

17. a. What are the sources of money for family use............................

b. How much money is needed per day..

c. What other costs do you incur months e.g. electricity, house rent, transport, water bill and medical.

18. How much money has the family received from the enterprise

....(monthly/weekly/daily

Mention occasions when the family received large sums of money from the enterprise in the past year

i. (Date)..............................(amount)..

ii. How much is/will be repaid...

E. Technical, Management, and Markets

20. i. Do you have the technical skills required in the enterprise

(Yes/No/Little)

ii. Where did you get the skills?

a. Informal

b. Formal

c. Credit scheme

d. Elsewhere(specify)

21.i. Do you keep records of your transactions (Yes/No)

ii. (if yes)What records do you keep

....

22. Do you have enough market for your products?

(Yes/No/Little)

23 What inhibits the expansion of your micro-enterprise?

....

24. Do you intend to get a/(an extra) loan (Yes/No)

If yes

i. From which organization

....(Name)

ii. What amount..(Tshs)

iii. for what purpose..

25. Do you consider registering/ licensing your enterprise (Yes/No)

a. Give reasons

....

b. When will you register/license.................................(Months from now)

F: Access to Credit

26

(i). How much capital was used to start up your enterprise

....(Tshs.)

(ii) What is the value of your enterprise now...

27. What was the source of the start-up capital?

a. Own saving

b. Grants

c. Credit

28. Mention organizations, which can offer you financial assistance

....

29 How did you know of the organizations?

a. Mass media

b. Friends

c. Outreach

30. Why don't you apply for a loan from a bank?

....

(End of Interview for Non-Credit Beneficiaries)

31. From which organization did you obtain credit?

....

32.How long did it take you to get the loan?

....(Months)

33 How many visits/meetings did you make before getting the credit

....

34 What conditions were you required to meet

i. ....

ii. ....

35. What are the terms of the loan?

i. Amount of loan ....

ii. Interest rate ....

iii. Loan duration...

iv. Repayment frequency...

36. What conditions do you consider too difficult to meet or unpleasant

i. ....

ii. ....

37. i. Did the loan meet your requirement .... (Yes/No)

ii. How much did you require?

....(Tshs.)

iii. For what purpose

a. Investment...(Tshs.)

b. Operational...(Tshs.)

c. Others(specify)..(Tshs.)

38. i. Did you apply for a loan from any other institution

(Yes/No)

ii. What do you consider to be the major differences?

between this organization and the other organizations

....

G: Loan Repayment

39. In what intervals are you supposed to repay your loan?

....(Weeks)

40. How much are you supposed to pay in each installment?

i. Principal payment...(Tshs.)

ii. Interest rate..(Tshs.)

iii. Other fees...(Tshs.)

iv. Total..(Tshs.)

41. How many installments have you

i. Paid fully in time..

ii. Paid partially or late.................................... ....

42. What do you consider to be the main reasons for your arrears/No arrears

i. ....

ii. ....

iii. ....

43. How will/did you manage to clear your repayment obligation

a. Enterprise income

b. Own saving

c. Another enterprise/salary

d. Friends/relatives

e. Group members

f. Sell of assets

g. Others (specify)

44. Why do you think it's important to repay the loan

....

45. What action will be taken if you fail to clear the arrears?

....

I wish you all the best, thank you very much.