THE ROLE OF MICROFINANCE IN IMPROVING THE LIVELIHOODS OF THE COMMUNITY: THE CASE STUDY OF CRDB-MICROFINANCE COMPANY

BY

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ABSTRACT

Microfinance is defined as the supply of loans, savings, and other basic financial services to the poor. People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and shield themselves against risks. Poor people, with access to savings, credit, insurance, and other financial services, are more resilient and better able to cope with the everyday crises they face. This study aimed at describing the role of microfinance services in improving the livelihood of the community. The research was conducted at CRDB-Microfinance Company Limited. This company was established in 2001. A focus group research design was used to collect data from clients of microfinance institutions throughout the country. A simple random sampling procedure was applied to obtain the microfinance institutions. Out of 193 partner institutions, only five partner institutions were selected for the study. The primary data collection was through interviewing the management of microfinance institutions. This included the secretaries or managers. The secondary data was obtained from existing information/literature, published and unpublished reports. It also involved surfing/browsing through different websites by internet. Trend analysis was employed to come up with certain judgments. The study showed an increase in number of members, shares, deposits, loans disbursed as well as the net profit in respect to time. This shows that people have faith in microfinance institutions and they are benefiting from them. The increase in shares and deposits increases the capital base of the institutions enabling them to lend to more people as well as bigger amounts. The increasing of disbursed amount shows that people are taking the loans.

As in June 2006 the company was serving more than 105 652 clients through 193 partner institutions in the Tanzania Mainland. Also by December 2007 the company had disbursed a total of Tshs 122 126 501 000. The study goes further to the microfinance market as well as the regulatory environment in Tanzania. It gives the brief profile of CRDB Bank Limited and the history of CRDB-Microfinance Company including its initial proceedings, supports it offers to SACCOS, Products and services it offers to SACCOS and members. It also gives the brief profiles of other commercial banks and financial institutions involved in microfinance in Tanzania. The study concludes that microfinance industry seems to be the only vehicle in improving the livelihood of the community after many people being left out of the conventional financial system. Also the study gives some recommendations on areas which should be worked on in order to make the impact of microfinance services to be vivid in improving the livelihood of the community.

DECLARATION

I, Florian Alibagaya Kalemera, do hereby declare to the senate of Sokoine University of Agriculture that this work has not been submitted for a degree award to any other University and that is my own work

A. Florian ……………………………… 20th June 2018 …………………………………

Florian Alibagaya Kalemera Date

(MBA-Agribusiness student)

The above declaration confirmed by

……………………………… ……………………………………

Ms Betty Waized Date

(Supervisor)

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DEDICATION

This work is dedicated to my beloved parents, Mr. Jason Kalemera and Mrs. Florida Kalemera who laid the foundation for my education.

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LIST OF ABBREVIATIONS

ACB	-	Akiba Commercial Bank
ATM	-	Automated Teller Machinc
BFIA	-	Banking and Financial Institutions Act
BOT	-	Bank of Tanzania
CBO	-	Community Based Organization
CGAP	-	Consultative Group to Assist the Poor
CRDB	-	CRDB Bank Limited
DANIDA	-	Danish International Development Agency
FINCA	-	Foundation for International Community Assistance
IFAD	-	International Fund for Agricultural Development
MDG	-	Millennium Development Goal
MFC	-	Microfinance Company
MFI	-	Microfinance Institution
NMB	-	National Microfinance Bank
NGO	-	Non Governmental Organization
POS	-	Point of Sale
PTF	-	Presidential Trust Fund
PRIDE	-	Promotion of Rural Initiative and Development Enterprises
ROSCA	-	Rotating Saving and Credit Association
SACA	-	Savings and Credit Association
SACCOS	-	Savings and Credit Cooperative Society

SHG	-	Self Help Group
SME	-	Small and Medium Enterprises
SEDA	-	Small Enterprises Development Agency
SIDO	-	Small Industries Development Organization
TAMFI	-	Tanzania Association of Microfinance Institutions
Tshs	-	Tanzanian shillings
TPB	-	Tanzania Postal Bank
UNDP	-	United Nations Development Program

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background Information

Microfinance is the supply of loans, savings, and other basic financial services to the poor. People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credits, savings, pensions, insurance, and money transfer services. The poor rarely access services through the formal financial sector. They address their need for financial services through a variety of financial relationships, mostly informal. Credit is available from informal commercial and non-commercial money-lenders but usually at a very high cost to borrowers. Savings services are available through a variety of informal relationships like savings clubs, rotating savings and credit associations, and other mutual savings societies that have a tendency to be erratic and insecure (CGAP, 2007).

Providers of financial services to the poor include donor-supported, non-profit non-government organizations (NGOs), cooperatives; community-based development institutions like self-help groups (SHG) and credit unions; commercial and state banks; insurance and credit card companies; wire services; post offices; and other points of sale. NGOs and other non-bank financial institutions have led the way in developing workable credit methodologies for the poor and reaching out to large numbers of the poor. Throughout the 1980s and 1990s, these programs improved upon the original methodologies and bucked conventional wisdom about financing the poor. They have shown that the poor repay their loans and are willing and able to pay interest rates that cover the costs of providing the loans (CGAP, 2007).

Financial services for the poor have proved to be a powerful instrument for poverty reduction that enables the poor to build assets, increase incomes, and reduce their vulnerability to economic stress. With nearly one billion people still lacking access to basic financial services, especially the very poor, the challenge of providing financial services to them remains. Convenient, safe, and secure deposit services are crucial need (World Bank, 2003).

Poor people, with access to savings, credit, insurance, and other financial services, are more resilient and better able to cope with the everyday crises they face. Even the most rigorous econometric studies have proven that microfinance can smooth consumption levels and significantly reduce the need to sell assets to meet basic needs. With access to micro insurance, poor people can cope with sudden increased expenses associated with death, serious illness and loss of assets (CGAP, 2007).

Access to credit allows poor people to take advantage of economic opportunities. While increased earnings are by no means automatic, clients have overwhelmingly demonstrated that reliable sources of credit provide a fundamental basis for planning and expanding business activities. Many studies show that clients who join and stay in programs have better economic conditions than non-clients, suggesting that programs contribute to these improvements. A few studies have also shown that over a long period of time many clients do actually graduate out of poverty (CGAP, 2007).

By reducing vulnerability and increasing earnings and savings, financial services allow poor households to make the transformation from "every-day survival" to "planning for the future". Households are able to send more children to school for longer periods and to make greater investments in their children's education. Increased earnings from financial services lead to better nutrition and better living conditions, which translates into a lower incidence of illness. Increased earnings also mean that clients may seek out and pay for health care services when needed, rather than go without or wait until their health seriously deteriorates (CGAP, 2007).

Microfinance programs have generally targeted poor people most of whom are women. By providing access to financial services only through women-making women responsible for loans, ensuring repayment through women, maintaining savings accounts for women, providing insurance coverage through women-microfinance programs send a strong message to households as well as to communities. Many qualitative and quantitative studies have documented how access to financial services has improved the status of women within the family and the community (Woller, 2007). Women have become more assertive and confident. In regions where women's mobility is strictly regulated, women have become more visible and are better able to negotiate the public sphere. Women own assets, including land and housing, and play a stronger role in decision making. In some programs that have been active over many years, there are even reports of declining levels of violence against women (Woller, 2007).

Although access to financial services opens up possibilities of improving the economic conditions of the poor, in some cases, clients can be left worse-off. Ill-advised credit can lead to too much debt. Sustainable financial services that improve the conditions of the poor depend on a clear vision of sustainability, on careful program design, on efficient operations, and very importantly, on constantly trying to understand and meet client needs (CGAP, 2007).

1.2 Problem Statement and Justification

People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credits, savings, pensions, insurance, and money transfer services. The poor rarely access services through the formal financial sector. They address their need for financial services through a variety of financial relationships, mostly informal. Credit is available from informal commercial and non-commercial money-lenders but usually at a very high cost to borrowers (CGAP, 2007).

In 1991, the Government initiated financial sector reforms in order to create an effective and efficient financial system. The main objective was to allow financial institutions to operate on a commercial basis, making business and management decision free from Government interventions within the norms of prudential supervision. But these reforms seemed to leave the low income people out of the financial system. To some extent Microfinance services managed to absorb the low income people in the financial system; therefore it enables the low income people to participate in the economic activities which in turn will improve the individuals as well as the nation (BOT, 2006).

There is still a debate as to whether Microfinance has reached the targets due to the fact that poverty is still prevailing. This reason drove me to conduct the study on the role of Microfinance in improving the livelihoods of the community and create awareness on the same to the community at large.

1.3 Objectives of the study

1.3.1 General Objective

The main objective of this study was to describe the role of Microfinance services in improving the livelihoods of the community.

1.3.2 Specific Objectives

- To create awareness to the general public of the products and services offered by Microfinance services.

- To show how Microfinance services can be used to improve the economic status of the individuals as well as nation's.

- To give the recommendations on some areas that will help up in increasing the impact of the Microfinance services in improving the livelihoods.

1.4 Significance of the study

The significance of the study is the awareness creation to the community at large of the services and benefits obtained through Microfinance.

Also by seeing the achievements obtained by some projects financed by Microfinance in this study, people from other places may be inspired to start theirs in their localities. For example warehouse system through Chimala SACCOS in Mbeya region and sugarcane out growers' scheme through ROA-Kiruvi SACCOS in Kilombero, Morogoro region. This can be copied by people from different places for different crops and therefore improve them economically as well as socially.

In this study there are some recommendations given which can be taken as challenges to Microfinance practitioners so as to improve Microfinance services.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 History of Microfinance

The origin of microfinance is often dated as late as the 1970s. Only then, it is often argued, did any programs pass two key tests:

- To show that poor people can be relied on to repay their loans, and
- To show that it is possible to provide financial services to poor people through market-based enterprises without subsidy.

Timothy Guinnane, an economic historian at Yale University demonstrates that the success of Friedrich Wilhelm Raiffeisen's village banking movement in Germany, which actually began in 1864 and reached 2 million rural farmers by 1901, resulted in large part from its ability to pass both these tests.

Guinnane shows how the village-based bonds of association of these early credit unions gave them both the information and enforcement advantages needed to make loans to people who were both too poor and too remote to access bank loans. Raiffeisen was moved to action by the poverty of the freed serfs, and by the degree of exploitation they faced from local moneylenders (Jurgen, 2004).

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world (Jurgen, 2004).

Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. One of the earlier and longer-lived micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift. Swift's idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak they were making loans to 20% of all Irish households annually (Jurgen, 2004).

In the 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives (Jurgen, 2004).

The concept of the credit union was developed by Friedrich Wilhelm Raiffeisen and his supporters. Their altruistic action was motivated by concern to assist the rural population to break out of their dependence on moneylenders and to improve their welfare. From 1870, the unions expanded rapidly over a large sector of the Rhine Province and other regions of the German States. The cooperative movement quickly spread to other countries in Europe and North America, and eventually, supported by the cooperative movement in developed countries and donors, also to developing countries (Jurgen, 2004).

In Indonesia, the Indonesian People's Credit Banks (BPR) or The Bank Perkreditan Rakyat opened in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units (Jurgen, 2004).

In the early 1900s, various adaptations of these models began to appear in parts of rural Latin America. While the goal of such rural finance interventions was usually defined in terms of modernizing the agricultural sector, they usually had two specific objectives: increased commercialization of the rural sector, by mobilizing "idle" savings and increasing investment through credit, and reducing oppressive feudal relations that were enforced through indebtedness. In most cases, these new banks for the poor were not owned by the poor themselves, as they had been in Europe, but by government agencies or private banks. Over the years, these institutions became inefficient and at times, abusive (Jurgen, 2004).

Between the 1950s and 1970s, governments and donors focused on providing agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. These efforts to expand access to agricultural credit emphasized supply-led government interventions in the form of targeted credit through state-owned development finance institutions, or farmers' cooperatives in some cases, that received concessional loans and on-lent to customers at below-market interest rates. These subsidized schemes were rarely successful. Rural development banks suffered massive erosion of their capital base due to subsidized lending rates and poor repayment discipline and the funds did not always reach the poor, often ending up concentrated in the hands of better-off farmers (Jurgen, 2004).

Meanwhile, starting in the 1970s, experimental programs in Bangladesh, Brazil, and a few other countries extended tiny loans to groups of poor women to invest in micro-businesses. This type of micro enterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These "micro enterprise lending" programs had an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) targeting very poor (often women) borrowers (Jurgen, 2004).

ACCION International, an early pioneer, was founded by a law student, Joseph Blatchford, to address poverty in Latin America's cities. Begun as a student-run volunteer effort in the shantytowns of Caracas with $90 000 raised from private companies, ACCION today (2004) is one of the premier microfinance organizations in the world, with a network of lending partners that spans Latin America, the United States and Africa (Jurgen, 2004).

SEWA Bank. In 1972 the Self Employed Women's Association (SEWA) was registered as a trade union in Gujarat (India), with the main objective of "strengthening its members' bargaining power to improve income, employment and access to social security." In 1973, to address their lack of access to financial services, the members of SEWA decided to found "a bank of their own". Four thousand women contributed share capital to establish the Mahila SEWA Co-operative Bank. Since then it has been providing banking services to poor, illiterate, self-employed women and has become a viable financial venture with today (2004) around 30,000 active clients (Jurgen, 2004).

Grameen Bank. In Bangladesh, Professor Muhammad Yunus addressed the banking problem faced by the poor through a programme of action-research. With his graduate students in Chittagong University in 1976, he designed an experimental credit programme to serve them. It spread rapidly to hundreds of villages. Through a special relationship with rural banks, he disbursed and recovered thousands of loans, but the bankers refused to take over the project at the end of the pilot phase. They feared it was too expensive and risky in spite of his success. Eventually, through the support of donors, the Grameen Bank was founded in 1983 and now serves more than 4 million borrowers. The initial success of Grameen Bank also stimulated the establishment of several other giant microfinance institutions like BRAC, ASA, Proshika, etc (Jurgen, 2004).

Through the 1980s, the policy of targeted, subsidized rural credit came under a slow but increasing attack as evidence mounted of the disappointing performance of directed credit programs, especially poor loan recovery, high administrative costs, agricultural development bank insolvency, and accrual of a disproportionate share of the benefits of subsidized credit to larger farmers. The basic tenets underlying the traditional directed credit approach were debunked and supplanted by a new school of thought called the "financial systems approach", which viewed credit not as a productive input necessary for agricultural development but as just one type of financial service that should be freely priced to guarantee its permanent supply and eliminate rationing. The financial systems school held that the emphasis on interest rate ceilings and credit subsidies retarded the development of financial intermediaries, discouraged intermediation between savers and investors, and benefited larger scale producers more than small scale, low-income producers (Jurgen, 2004).

Meanwhile, micro credit programs throughout the world improved upon the original methodologies and defied conventional wisdom about financing the poor. First, they showed that poor people, especially women, had excellent repayment rates among the better programs, rates that were better than the formal financial sectors of most developing countries. Second, the poor were willing and able to pay interest rates that allowed microfinance institutions (MFIs) to cover their costs (Jurgen, 2004).
1990s These two features - high repayment and cost-recovery interest rates - permitted some MFIs to achieve long-term sustainability and reach large numbers of clients (Jurgen, 2004).

Another flagship of the microfinance movement is the village banking unit system of the Bank Rakyat Indonesia (BRI), the largest microfinance institution in developing countries. This state-owned bank serves about 22 million micro savers with autonomously managed micro banks. The micro banks of BRI are the product of a successful transformation by the state of a state-owned agricultural bank during the mid-1980s (Jurgen, 2004).

The 1990s saw growing enthusiasm for promoting microfinance as a strategy for poverty alleviation. The microfinance sector blossomed in many countries, leading to multiple financial services firms serving the needs of micro entrepreneurs and poor households. These gains, however, tended to concentrate in urban and densely populated rural areas (Jurgen, 2004). .

It was not until the mid-1990s that the term "micro credit" began to be replaced by a new term that included not only credit, but also savings and other financial services. "Microfinance" emerged as the term of choice to refer to a range of financial services to the poor, that included not only credit, but also savings and other services such as insurance and money transfers (Jurgen, 2004).

ACCION helped found BancoSol in 1992, the first commercial bank in the world dedicated solely to microfinance. Today, BancoSol offers its more than 70,000 clients an impressive range of financial services including savings accounts, credit cards and housing loans - products that just five years ago were only accessible to Bolivia's upper classes. BancoSol is no longer unique: more than 15 ACCION-affiliated organizations are now regulated financial institutions (Jurgen, 2004).

Today (2004), practitioners and donors are increasingly focusing on expanded financial services to the poor in frontier markets and on the integration of microfinance in financial systems development. The recent introduction by some donors of the financial systems approach in microfinance - which emphasizes favorable policy environment and institution-building - has improved the overall effectiveness of microfinance interventions. But numerous challenges remain, especially in rural and agricultural finance and other frontier markets. Today, the microfinance industry and the greater development community share the view that permanent poverty reduction requires addressing the multiple dimensions of poverty. For the international community,. this means reaching specific Millennium Development Goals (MDGs) in education, women's empowerment, and health, among others. For microfinance, this means viewing microfinance as an essential element in any country's financial system (Jurgen, 2004).

Today, microfinance plays a major role in the development of many African, Asian, and Latin American nations. Its impact is substantial enough to have warranted acknowledgment by the United Nations who declared 2005 "The international year of microfinance", reminding people that millions worldwide benefit from microfinance activities (CGAP, 2007).

2.2 History of Microfinance in Tanzania

Microfinance in Tanzania began with NGOs (Non-Government Organizations) and SACCOS (Savings and Loans Cooperatives) in 1995 and has continued to grow with the increased success of microfinance internationally (BOT, 2006).

Microfinance is still a relatively new concept in Tanzania; in 1995 it was mainly linked to women and poverty alleviation. The government tried to convince commercial banks to support small and medium businesses. Once the National Microfinance Policy was implemented in 2001, microfinance was officially recognized as a tool for poverty eradication and with its increased use and exposure to the country; banks have taken an interest in offering microfinance. The National Microfinance Bank, AKIBA Commercial bank, Tanzania Postal Bank and CRDB

Bank are commercial banks which support microfinance. There are some financial organizations involved in microfinance in Tanzania, including FINCA, PRIDE and SEDA as well as the Tanzania Postal Bank. Community banks and small banks have taken an interest in this, as well as many NGOs and non-profit organizations. A recent 2005 survey done by the Bank of Tanzania (the overseer of microfinance under the Ministry of Finance) updated the directory of microfinance practitioners and includes basic information on microfinance institutions including commercial banks, financial institutions, financial Non-Governmental Organizations (NGO), Savings and Credit Cooperatives Societies (SACCOS) and Savings and Credit Associations (SACAs). The directory includes a total of 8 banks, 45 CBOs, 2 companies, 95 Government programs, 1 620 SACCOS, 48 SACAs and 62 NGOs (BOT, 2006).

Microfinance involves activities directed at provision of access to financial services for working poor or small and micro-enterprises. Micro financial services comprise of micro credit, savings, micro leasing, micro insurance and other forms of financial services. The micro finance market consists of the poor who are essentially involved in some form of economic activities. The small and micro enterprises in Tanzania operate in the informal sector, which is estimated to support about 60% of the economically active population (BOT, 2006).

2.3 Microfinance market

2.3.1 Demand

It is estimated that there are close to 8 million small and micro entrepreneurs who need financial services and the number is growing by 4% annually, the majority of whom are found in the rural areas in Tanzania. The SMEs are involved in a wide range of businesses including trading, small scale manufacturing, agriculture (crop farming and animal husbandry) and services (food vending, transport, hair and beauty saloons etc) (World Bank, 2003).

2.3.2 Supply

Microfinance institutions operating in Tanzania provide financial services to the SMEs mainly in the form of micro credit with an exception of cooperative based microfinance institutions, which are predominantly savings based. The credit based institutions number between 80 and 100 out of which 42 are registered members of the Tanzania Association of Microfinance Institutions (TAMFI), the local microfinance network. (BOT, 2006) The main microfinance institutions can be categorized as non governmental organizations (NGOs), Cooperative based institutions namely SACCOS and SACCAs while the third category is banks. The major players in the NGOs category include PRIDE Tanzania, FINCA (Tanzania), Small Enterprise Development Agency (SEDA) and Presidential Trust for Self-Reliance (PTF). Others, which are relatively smaller in size, include Small Industries Development Organization (SIDO), YOSEFO, SELFINA, Tanzania Gatsby Trust, Poverty Africa and the Zanzibar based Women Development Trust Fund and Mfuko. There rest consists of very tiny programmes scattered throughout the country mainly in the form of community based organizations (CBOs). Banks that are actively involved in microfinance services delivery include the National Microfinance Bank (NMB), CRDB bank, Akiba Commercial Bank (ACB) and a few Community/regional banks namely, Dar es Salaam Community Bank, Mwanga Community Bank, Mufindi Community bank, Kilimanjaro Cooperative Bank, Mbinga Community Bank and Kagera Cooperative Bank (BOT, 2006).

It is estimated that all the MFIs in Tanzania put together serve a combined client population of about 400,000 SMEs, which is only around 5% of the total estimated demand. (BOT, 2006). Commercial banks including community banks account for around 50 000 while the NGO category accounts for the an estimated population of 220 000 clients. PRIDE Tanzania being the largest single player accounts for about 29% of the market share in this category or 16% of the existing total market share (BOT, 2006).

2.3.3 Urban versus Rural distribution

The distribution with respect to the concentration of microfinance activities in Tanzania is skewed in favor of the urban areas leaving rural areas grossly under served. Most MFIs with an exception of tiny rural based SACCOS are reluctant to extend their services to the rural areas due to poor infrastructure, high risk and high cost of operation. The latter is brought about by the fact that rural areas in Tanzania by nature are sparsely populated (BOT, 2006).

2.3.4 Cooperative based MFIs

The cooperative based MFIs consist mainly of SACCOs numbering about 800 in total and found all over the country. The SACCOS account for about 130 000 of the combined client population, most of whom being savers. It is important to note that cooperative institutions in Tanzania has had a very bad history as most were associated with financial mismanagement to the extent that they lost peoples' trust and confidence. The cooperative based financial institutions therefore, could not make any meaningful impact in the lives of their members as they operated at very small scales due to funding constraints. However, since year 2000 the government in collaboration with some donors has been implementing a special programme to resuscitate the cooperative based financial institutions. The drive, which is on going, has given rise to a new generation of SACCOS being established countrywide. However, these are still new to the business and it will take some time before their impact is felt (World Bank, 2003).

2.4 Regulatory Environments

The government is concerned about the state of poverty in Tanzania. It is therefore, actively involved in providing some poverty alleviation interventions. The government views microfinance not only as an effective tool for poverty alleviation but also as an important ally in that direction. To this end the government has been keen to improve and develop the microfinance industry. It has established a fully fledged directorate of microfinance within the central bank-Bank of Tanzania, which spearheaded a number of key processes towards the development of the industry. One of the unique aspects as a first step was the formulation of the National

Microfinance Policy in year 2002 to guide the microfinance activities in the country. The policy gave rise to the formulation of legal, regulatory and supervisory framework for microfinance activities. It is important to point out that the entire process starting from policy formulation to the development of legal, regulatory and supervisory framework was highly participatory involving all the stakeholders in the industry including MFIs. The legislation was concluded in year 2003 by an amendment of the Banking and financial Institutions Act 1991, Bank of Tanzania Act 1995, Cooperative Societies Act 1991 and other related statues giving the Bank of Tanzania the mandate to license, regulate and supervise deposit taking equity-based microfinance companies to be established (BOT, 2006).

The legislation also empowers BOT to regulate and supervise cooperative based institutions whose sizes are above a certain threshold. Therefore under the framework, MFIs could now be licensed to take public deposits and hence carry out financial intermediation just like banks. Under the legal framework, the credit only NGOs will not be subjected to prudential norms but will be required to abide by non prudential guidelines and supervised under the Ministry of Finance. On the other hand, cooperative based microfinance institutions other than those to be regulated by BOT would be regulated and supervised under the Ministry responsible for Cooperatives (World Bank, 2003).

CHAPTER THREE

3.0 METHODOLOGY

3.1 Study Institution

The research was conducted at CRDB-Microfinance Company Limited. This company was established in 2001. As in June 2006 the company was serving more than 105 652 clients through 193 partner institutions in the Tanzania Mainland. Also by December 2007 the company had disbursed a total of Tshs 122 126 501 000.

3.2 Research design

A focus group research design was used in the study so as to simplify the data collection from different groups who are clients of microfinance institutions throughout the country. This approach is cost effective and leads to attainment of more data in a considerable time.

3.3 Sampling procedure

A simple random sampling procedure was applied to obtain the microfinance institutions. Out of 193 partner institutions, only five partner institutions were selected for the study.

3.4 Method of data collection

The primary data collection was through interviewing the management of microfinance institutions. This included the secretaries or managers.

The secondary data was obtained from existing information/literature, published and unpublished reports. This involved reading different materials pertaining microfinance and finance at large. These materials ranged from financial policies and regulations, financial institutions' profiles, stakeholders' perspectives/opinions on microfinance role in poverty reduction etc. It also involved surfing/browsing through different websites by internet.

3.5 Data analysis

The data were organized into time series to observe trends and changes over time which enabled the researcher to draw reasonable conclusions.

CHAPTER FOUR

4.0 FINDINGS AND DISCUSSION

Tables 1-5 below shows the increase in number of members, shares, deposits, loans disbursed as well as the net profit in respect to time. This shows that people have faith in microfinance institutions and they are benefited from them. The increasing shares and deposits tend to increase the capital base of the institution, therefore making it able to lend more people as well as bigger amounts. The increasing of disbursed amount shows that people are taking the loans which are mostly used in running the businesses, building assets, meeting social needs and shielding them against risks.

Table 1: The growth of Kibaigwa Financial SACCOS

Year	Members	Shares	Deposits	Loans Issued	Net Profit
2001	507	34 857 000	7 352 720	63 637 000	3 475 000
2002	665	48 217 000	24 856 164	127 724 250	28 880 000
2003	1 277	153 073 194	73 068 109	380 834 500	45 742 103
2004	1 691	195 818 969	103 696 519	397 009 950	65 952 152
2005	1 876	431 206 817	249 477 739	1 134 715 900	111 354 212
OCT, 06	1 917	446 938 747	216 958 698	2 711 034 170	36 412 279

Source: Kibaigwa SACCOS, 2006

Table 2: The growth of Mshikamano SACCOS

Year	Members	Shares	Deposits	Loans Issued	Net Profit
2002	165	12 885 000	12 702 650	8 680 000	151 140
2003	610	82 659 800	92 769 200	219 970 000	18 319 382
2004	1 140	176 951 500	85 567 940	763 704 000	44 894 562
2005	1 413	267 971 781	109 832 781	1 439 229 000	38 928 836
Oct, 06	1 762	412 453 962	93 651 127	2 226 528 500	62 394 652

Source: Mshikamano SACCOS, 2006

Table 3: The growth of Majengo Sokoni SACCOS

Year	Members	Shares	Deposits	Loans Issued	Net Profit
2002	291	6 900 328	2 403 820	183 362 000	8 622 220
2003	607	143 422 480	4 494 860	576 266 500	31 215 522
2004	748	180 365 517	14 295 826	960 976 500	43 886 062
2005	1 119	283 654 329	40 094 720	1 525 598 600	42 990 447
Nov,2006	1 336	370 070 021	60 526 803	2 221 823 600	68 183 633

Source: Majengo Sokoni SACCOS, 2006

Table 4: The growth of Turiani SACCOS

Year	Members	Shares	Deposits	Loans issued	Net Profit
2002	169	12 885 000	12 702 650	16 970 000	151 140
2003	610	82 659 800	92 769 200	219 790 000	18 319 382
2004	1 140	176 951 500	85 567 940	763 704 000	39 889 947
2005	1 413	267 971 781	109 832 781	1 439 229 000	59 552 741
May,2006	1 493	30 567 752	127 203 527	1 669 445 000	29 969 648

Source: Turiani SACCOS, 2006

Table 5:The growth of Usaca SACCOS

Year	Members	Shares	Deposits	Loans disbursed	Net Profit
2004	124	8 094 900	3 735 022	11 859 206	2 164 839
2005	217	9 294 900	54 162 599	91 500 600	4 402 811
June,2006	673	14 595 400	174 115 706	329 368 206	6 667 122

Source: Usaca SACCOS, 2006

In 1991, the Government initiated financial sector reforms in order to create an effective and efficient financial system. The main objective was to allow banking institutions to operate on a commercial basis, making business and management decision free from Government interventions within the norms of prudential supervision. But these reforms seemed to leave the low income people out of the financial system. To some extent Microfinance services managed to absorb the low income people in the financial system; therefore it enables the low income people to participate in the economic activities which in turn will improve the individual as well as national economy.

4.1 Brief history of CRDB Bank Limited

CRDB BANK LIMITED is a private commercial bank. The Bank was established on July 1st 1996 to succeed the former Cooperative and Rural Development Bank (CRDB), which was a public institution with majority of shares held by the Government of the United Republic of Tanzania. The succession was a result of the liberalization of the banking industry in Tanzania.

The liberalization which followed the enactment of the Banking and Financial Institutions act (BFIA) of 1991 and Government's policy to divest its interest in the sector prompted a recapitalization of the Bank to levels stipulated by the BFIA (1991).

4.1.2 CRDB Bank's restructuring

CRDB has been blessed with an invaluable partnership from the Danish International Development Agency (DANIDA). DANIDA's commitment and support in technical, managerial and financial areas of the Bank's operations has been instrumental for the success of CRDB BANK LIMITED.

DANIDA therefore was fundamentally involved in CRDB's restructuring as demanded by the BFIA (1991). The restructuring, which started in 1992, aimed at a more efficient organizational system, better returns to shareholders and overall improvement in the financial performance of the Bank. The exercise involved:

- Organizational restructuring where the organizational structure was comprehensively decentralized and designed to make the Bank more customer oriented, more accountable and with ability to compete in the free market economy.
- Operational restructuring where operational policies and procedures were streamlined to make the Bank more efficient and customer oriented in its operations.

- Financial restructuring where the Bank was to start operating on sound financial basis and fulfilled conditions and measures of financial soundness mainly as outlined by BFIA (1996).
- Human resource management where requirements for human resources were established and manpower downsizing was effected. To have optimum number of employees with respect to customers and bank profitability, 600 employees had to be retrenched. Measures were taken to ensure that jobs restructuring would stimulate employees to work be more productive and aim higher.
- Cultural change where new corporate culture attributes stressing on customer service and ability to compete were introduced to Bank staff.

4.1.3 CRDB Bank ownership

Shareholding diversification was one of the aspects of the CRDB financial restructuring. In an unprecedented exercise CRDB became the first successful major Tanzanian privatization that involved the sell of shares to the public.

CRDB BANK LIMITED is owned by over 11 000 shareholders under the following major groups (by value of shares):

Table No 6: CRDB Bank ownership

Institution	Percentage shares
Individuals	37.0
Co operatives	14.0
Companies	10.2
DANIDA investment fund	30.0
Parastatals (NIC&PPF)	8.8
TOTAL	**100.0**

Source: CRDB Bank Limited. 2006

The authorized share capital of CRDB BANK LIMITED is Tshs 20.0 billion and presently the paid up capital is Tshs 12.3 billion.

CRDB Bank Limited is a bank that cares for its customers and has the capacity to advise its clients. It is a bank committed to responsible development of Tanzania's economy and society by financing only environmentally friendly projects.

Vision of CRDB Bank

We aspire to be a local leading profitable retail bank, which is customer-need driven with high quality products and services offering competitive returns to shareholders.

We will have a wide, fully linked outreach in Tanzania with strong, effective management, competent, professional and motivated staff.

Mission of CRDB Bank

We are a local leading Tanzanian bank providing quality financial services with a strong focus on retail clients and customized corporate services while ensuring a competitive return to shareholders.

Through our wide linked branch network and dedicated staff, we offer convenient access throughout the country.

Corporate culture values of CRDB Bank

1) Accountability

We are accountable for our actions and attitudes.

2) Commitment

We are committed to achieving the objectives of the bank by making them our own objectives.

3) Cost Consciousness

We are committed to minimizing cost and maximizing value of each bank activity we undertake.

4) Courtesy

We show respect and consideration in all our interactions; we are polite and attentive and useful at all times to our customers and colleagues.

5) Decisiveness

We take and implements appropriate decisions in our daily assignments.

6) Knowledge

We are skilled, competent and capable. We are dedicated to performing work of the highest standard.

7) Performance Driven

We are individually and collectively committed and motivated to achieving results.

8) Professional Integrity

We are trustworthy, honest and loyal. We take pride in and uphold the Bank's reputation for integrity and confidentiality in customer dealings.

9) Promptness

We are attuned to our customers' needs, both internal and external. We are committed to deliver a fast and efficient customer service.

10) Responsiveness

We are responsive to our customers; we listen to and provide effective solutions to their needs.

4.2 Microfinance

4.2.1 The Microfinance Policy

The overall objective of the Tanzania's Microfinance Policy(of 2000) is to establish a basis for the evolution of an efficient and effective micro-finance system in the country that serves the low income segment of the society, and thereby contribute to economic growth and reduction of poverty by;

- Establishment of a framework within which microfinance operations will develop.
- Laying out the principles that will guide operations of the system.
- Serving as guide for coordinated intervention by the respective participants in the system, and

- Describing the roles of the implementing agencies and the tools to be applied to facilitate development.

4.3 The history of CRDB-Microfinance Company

Around the year 2000, CRDB realized that the institutional reforms they have implemented following their restructuring had set them on a strategy which alienated the majority of Tanzanians whose income is less than Tshs250 000 per annum. The lower end of the market had become extremely impoverished following the structural economic crisis of the early 1990s, while most players in the financial industry were targeting the increasingly saturated high-end of the market.

In the meanwhile DANIDA required a channel for their funds earmarked for poverty alleviation and, as a shareholder of CRDB Bank, requested that the funds be channelled through CRDB. CRDB, with the support of DANIDA, researched possible mechanisms and models through which they could reach the lower end of the market on a commercial basis. The linkage model was selected, as it was found most appropriate given that it builds on the financial systems of the very communities it wishes to serve. The model was built on the following three assumptions:

- That a large number of community-based financial institutions already existed, and had the ability to act as intermediaries to mobilize deposits;

- That there was a large demand for financial services in rural areas and that the community-based institutions could meet this demand on a self-sustaining basis if they had the necessary capacity and access to capital;
- That both depth and breadth of outreach could be achieved in a self-sustainable manner through local financial intermediaries, which could provide a broad set of services through a large network to the currently under-services segment of the market.

CRDB researched and developed a proposed strategy for implementation of a linkage model. The model was approved by the management and shareholders of CRDB (including the in-house DANIDA adviser), who pledged total support for the programme. DANIDA provided managerial advice, technical support and financial support in the form of a limited guarantee fund.

The microfinance initiative at CRDB was initially rolled out in pilot form as a Division of CRDB Bank. CRDB entered into a lengthy consultative process with SACCOS, community leaders and key stakeholders, and the first linkages were formalised in 2001 in four pilot regions (Iringa, Dodoma, Mbeya and Morogoro). Towards the end of 2004, CRDB decided to formalise the microfinance initiative and the CRDB Bank Microfinance Company Limited (CRDB- MFC) was registered as a separate company under the Companies Ordinance Cap. 212. CRDB Bank Limited owns 100% of CRDB (MFC).

CRDB -MFC intends to be operating as an independent financial institution, but currently is still waiting for approval of its application for a license from the Bank of Tanzania. In the interim it is operating under the banking license of its holding company, CRDB Bank Ltd.

4.3.1 Initial proceedings of CRDB-MFC

In the year 2000, CRDB started negotiating with existing SACCOS and key players in the market, such as IFAD, on the formation of linkages with CRDB. CRDB also approached various community leaders and existing ROSCAs and SACAs. This presented a lengthy process of negotiation, where a team from CRDB spent much time in the selected regions.

The pilot process is described by the MFC management as one of collaboration, rather than a process of selection. The pilot initially focused on four regions: Dodoma, Iringa, Mbeya and Morogoro. Contrary to the usual linkage model of first approaching the 'easy' areas, CRDB opted for these four regions exactly for the opposite reasons: these regions are of the poorest in Tanzania, with low incomes, and few other financial intermediary initiatives prevalent. The rationale for selecting these 'difficult' regions was that, should they succeed in these areas, the other regions would be 'easy' and a sure success to follow.

CRDB obtained a list of 400 potential SACCOS from the selected regional offices. After much deliberation, only 20 of these were selected for the pilot programme. CRDB also negotiated with communities and assisted them in forming new SACCOS, with the intention of linking them to CRDB in the future.

The selection of SACCOS was not based on historical performance, as most SACCOS had no records available and international standards could therefore not be used. Rather, SACCOS were selected based on the following:

- Commitment to learning;
- Commitment to make available time;
- Willingness to provide CRDB with required information;
- Experience with/prevalence of fraud;
- How the SACCOS were managing themselves and whether they were serious about what they were doing.

The process followed more from building relationships with the SACCOS over time and mutually negotiated agreements, than a quick assessment of SACCOS' historical performance. The initial assessments were undertaken through multiple field visits by CRDB microfinance staffs.

4.3.2 The support offered by MFC to SACCOS

The support ranges from assisting a community in the formation and registration of a SACCOS to capacity building and on going technical assistance.

The following provides an overview of the forms of support provided to SACCOS by the MFC:

4.3.2.1 Initial assistance

The process may well start with the MFC facilitating the formation of the SACCOS through collaboration with existing savings and credit groups in the community, community leaders, and other players in the market. The MFC will also assist newly formed SACCOS with registration at the Ministry of Agriculture, Food and Cooperatives.

After signing the partnership agreement between the two parties, CRDB may assist the SACCOS in finding a suitable place to establish an office, or assist in improving current premises. The MFC also provides the SACCOS with basic equipment, such as a computer, safe, counter and money counting machines. In addition, the MFC provides the SACCOS with an incentive of up to Tshs.4 000 000. The level and nature of support varies and depends on the initial needs assessment undertaken by the MFC.

The MFC also provides advice on how the SACCOS should market themselves, and linked SACCOS display their association with CRDB on their external signage to encourage community confidence in their operations.

4.3.2.2 Management and governance

The MFC provides advice and training on how the SACCOS should be structured. This includes the separation of management and governance, and each linked institution is now hiring independent full-time staff, while the Board of Directors or Management Committee concentrate on leadership and governance.

4.3.2.3 Reporting System

The MFC specifies the reporting format required by the SACCOS and SACCOS' staffs are trained on how to develop the necessary reports. Detailed performance reports have to be submitted to the MFC on a monthly basis, within five days after month-end. The Board of Directors is trained in the basics of accounting and controls, and tasked with internal supervision through daily internal reporting.

However, much of the 'control' by the MFC takes place through maintaining a close relationship with the SACCOS. Regular visits to the SACCOS will be undertaken by the region representative to review the SACCOS' books of account, conduct spot checks of the cash management of the SACCOS and physically count the cash in the strong room. The regularity of the visits depends on various factors, but normally a SACCOS will be visited at least twice per month.

4.3.2.4 Training

SACCOS' staffs and board members receive an initial six days of classroom-based training. This is followed by on job training provided by the MFC's regional representatives. Everyone is trained in the basics such as account entries, record keeping, tracking and monitoring of cash and capital, and internal controls.

Training is being provided to the Management Committee (board members of SACCOS), professional staff and ordinary members. Every year, depending on the number of MFIs recruited or the need for retraining, the MFC organizes the training at the nearest venue to where most of the participants will be coming from.

SACCOS' members are continuously being trained, and the responsibility for organizing and facilitating the training lies with the field officers. If there is a need for support, the officer will request support from other field officers, Cooperative Department or Head Office staff.

The MFC pays for all costs for the first training to all three parts of management structure (board, staff and ordinary members): Subsequent additional training might be done on a cost sharing basis between the MFC and the respective SACCOS. By now, most SACCOS have sufficient funds to meet members' training costs.

4.3.2.5 On-going technical support and advice

The regional representatives (Relationship managers) of the MFC provide on going technical support and advice through their regular visits. This includes assisting SACCOS in product development, pricing, distribution methods, advice on marketing techniques and on job training.

The support in product development is one of the reasons that the product offering of the various SACCOS differ based on the very specific needs of their communities. The MFC is in no way prescriptive. On contrary, the MFC team emphasizes customization of the product offering based on local community needs and assists SACCOS in this process.

4.3.3 Products and services offered by the MFC to SACCOS and Members

In addition to the technical support provided to SACCOS, the MFC provides various credit services to SACCOS, and some other services such as money transfers, insurance and the Tembocard to SACCOS' members.

4.3.3.1 Credit Services

The MFC has a number of loan types available to SACCOS, depending on their financing needs. A SACCOS must meet certain basic requirements to qualify for a loan. These requirements include audited accounts for the past three years; details of SACCOS' members, SACCOS share capital, past performance report for individual borrowers, and so forth. SACCOS established by CRDB do not have to meet the initial requirement of audited financial statements, as these SACCOS are well-known to the MFC. The main qualifying criteria are the quality of SACCOS' loan portfolios, management capacity, and profitability.

A SACCOS can borrow up to 200% of its arrears-free portfolio. The SACCOS must also deposit 25% of the loan amount ("as alien") in cash at CRDB Bank. This is put in a fixed deposit account which bears an interest of 4.5% per annum.

As at December 2006, the on-lending interest rate charged to SACCOS was 13.5%, plus a 1.5% loan application fee which is equivalent to a commitment fee or loan processing fee.

Other Products and Services Offered to SACCOS and their Members

4.3.3.2 Cash collection facilities

MFC collects cash from the SACCOS for safe-keeping. In this case the MFC hires a vehicle and security from the regional CRDB branch.

4.3.3.3 Insurance Services

CRDB Bank Limited is an agent of Royal Insurance. Thus the SACCOS secure their cash in custody, transit and teller cubicles against burglary through the CRDB Insurance agency.

4.3.3.4 Money Transfers

Money transfer facilities are available to Saccos' members through deposits made at any CRDB branch, or from the SACCOS via the MFC to a CRDB branch.

4.3.3.5 Tembocard

CRDB Bank's Tembocard service is available at some SACCOS. There are two versions of the Tembocard; the first one is a debit card which allows clients to transact at CRDB and partner ATM's anywhere in the country. The other is a smartcard (Tembocard Express) version, and is usually issued to rural SACCOS members who do not have access to CRDB ATMs. The SACCOS have point-of-sale equipment (POS) which enables them to load value into the client account. The clients generally use these smartcards for merchant-related purchases, such as paying for their agricultural inputs or stocks.

4.3.3.6 Impacts of CRDB Microfinance to the community

CRDB-MFC through SACCOS has facilitated different farming projects. These are like;

- The sugarcane out growers in Kilombero, Morogoro region through ROA-Kiruvi SACCOS by September 2007 had been given loans of up to Tshs 3 069 667 000 for their activities which enabled them to prepare and run sugarcane plantations. Firstly, CRDB-MFC mobilized Kilombero sugarcane out-growers to start a SACCOS. In the first batch the SACCOS was given Tshs 6 000 000 to increase its capital base. But since the sugarcane production requires huge amount of money, CRDB-MFC introduced a tripartite contract involving CRDB-MFC, SACCOS and Kilombero Sugar Company, since the later is the sole buyer of sugarcanes. In this contract the out-growers are given the credit by CRDB-MFC through the SACCOS for producing sugarcanes. During selling sugarcanes to the factory, the SACCOS deducts the amount in credit and returns it back to CRDB-MFC. Also there is another credit product for farmers which lasts for three years and it is repaid in annual basis after the harvest.
- The paddy growers in Chimala, Mbeya region through Chimala SACCOS by August 2005 were given in the first batch Tshs 700 million for the paddy warehouse system. During an eight-month period, starting from 16th August 2005, CRDB-MFC and Chimala SACCOS in Mbeya region introduced an inventory credit scheme under which 582 400 Kilograms of paddy valued at Tshs 150.2 million were delivered to a warehouse awaiting the best price for sale. Against this delivery, the 42 small scale farmers obtained a non-

negotiable warehouse receipt indicating the variety, quantity and condition of paddy delivered, along with their names and villages from where the grains originated, against which the farmers could obtain short-term credit of up to 75% of the value of warehouse grains. In the first period, the bank provided the SACCOS a wholesale loan of Tshs 700 million for the product. By August 2005 at the time of harvest, a kilogram of paddy would have fetched just Tshs 250 due to pressure for liquidity. However, as a result of the facility farmers were under no pressure for cash and were able to wait up to March when they sold their inventory at Tshs 650 per kilogram, thereby making gains of Tshs 400 per kilogram. Even after paying off the bank loan, the intermediary still made a profit of Tshs 1.9 million. This initial positive result has enabled the intermediary to attract 314 new members in the new season, with another additional 72 were awaiting approval of their membership. Remarkably, in the new season of 1st June 2006, 37 farmers had already delivered 600 000 Kilograms of paddy to the warehouse. The number of paddy growers, too, has exploded, with up to 200 new farmers preparing to grow rice. From its own funds Chimala has disbursed Tshs 17.2 million in loans for paddy growing. This system can be introduced to different parts of the country and be implemented according to the economic activities of the particular places. This will boost the economic condition of the community

- The vine growers in Chinangali, Dodoma region through Fune SACCOS are about to be given in the first batch Tshs 1.4 billion for the vine yards preparations.

- As on 30th June 2006 CRDB-MFC had reached 105 654 customers and cumulatively by December 2007 CRDB-MFC had disbursed a total of Tshs 122 126 501 000.

These are just examples, there are many projects facilitated by CRDB-MFC. Therefore we can see how microfinance services contribute in improving the livelihood of the communities.

4.4 Other Commercial Banks involved in Microfinance

4.4.1 National Microfinance Bank

The National Microfinance Bank (NMB) was created from the restructuring of the National Bank of Commerce (NBC) by an Act of Parliament after NBC's mandated break up due to its monopoly of commercial banking in Tanzania. NMB is registered in the Companies Registrar and is under the authority of the Bank of Tanzania in external regulation and licensing and prudential supervision. NMB's main sources of funds are deposits and capital making it a self sustainable financial institution. The advantage of NMB is its size and network of currently 104 branches and agencies in nearly every district of Tanzania (currently only 12 branches accommodate microfinance operations). It plans to add 16 more branches and offices that can offer microfinance services. Aside from being a large bank, its microfinance operations are of considerable stature. NMB's outstanding microfinance portfolio stands at Tsh 907.5 million (693 000 USD) at the end of 2001, with an average of Tsh 323 000 (246 USD) per account. Their loans are comparable to those of other commercial banks that offer microfinance (i.e. AKIBA and CRDB). NMB makes loans to individuals as well as groups of people and businesses in small enterprise. The primary microfinance product offered and stressed are savings deposits which is the easiest to obtain at NMB and quite reliable as well. NMB's specific strategy towards microfinance is unique in that they link large corporate customers to microfinance loan customers. NMB calls this the Kilombero strategy after they linked the loans given to the Kilombero sugar Company to sugar cane out-growers. The Kilombero strategy encourages growth through loans for the use of capital and growth to both small and large enterprises.

NMB encourages and expands microfinance in three ways: 1. Loans to micro and small enterprises for the purchase and inventory and supply of goods 2. Collection and payment services to large corporate clients to/from micro and small enterprises 3. Add-on services such as money transfers and payroll services to both the large corporate clients and micro and small enterprises.

4.4.2 AKIBA Commercial Bank

AKIBA has 3 branches in Tanzania (all in Dar es Salaam) and has taken a relatively risky approach to microfinance by embracing and expanding it within their practices. The microfinance products offered at AKIBA are savings deposits, group and individual micro enterprise loans. Their license came from the Companies' Act and they are also under the authority (external regulation and supervision) of the Bank of Tanzania. They are currently self sustainable with their source of funding coming from deposits and capital.

They are the first commercial bank to pioneer microfinance in Tanzania and have seen a great amount of success with current outstanding loans at Tshs 18 billion (13.7 million USD), 4 billion of those being individual micro loans and the remainder being loans to groups or businesses. The minimum loan is Tshs 200 000 (150 USD) and the maximum loan remains at 10 million Tshs Women create over 50% of 12 200 borrowers and generally borrow between Tshs 20 000 and 500 000.

Being a bank without as much outreach as a bank such as the National Microfinance Bank, AKIBA has an easier time focusing on its microfinance operations and is able to measure its success at a quicker and easier than NMB. In addition, reforms to the bank's practices have an efficient turnover time as opposed to larger banks and training of employees to a standardized practice is much easier in a bank such as AKIBA.

AKIBA attributes its success to providing services outside the normal financial institution in teaching invaluable business practices as well as focusing on savings and deposits. The growth in deposits can be attributed to the increase in micro loans and the motivation for attaining loans through microfinance as well as additional success in other banking areas.

AKIBA does acknowledge that they do have challenges ahead, however most of these challenges relate to their successes and planning of logistics for increased success such as increasing research and development, mobilizing more deposits to meet loan demands, a suitable MIS system for increased competition (MIS systems manage and monitor large portfolios), human resource training and recruiting (human resources is a relatively new concept in Tanzania and essential to microfinance), balancing between micro and corporate finance (AKIBA only accepts corporate loans from in-house growth, meaning only those microfinance groups that have grown within their bank can obtain larger corporate loans), and anticipated tougher re-regulation by the Bank of Tanzania due to AKIBA's higher interest rates. In preparation for these challenges, AKIBA has every intention to remain in microfinance and anticipates great success.

One interesting aspect of AKIBA is that 80% of their customers have never held a bank account of any form of savings account at an institution before. This is due to the fact that most banks have turned these people down due to their lack of prior credit. AKIBA attributes their success to being able to gain these clients and then teaching them "the culture of savings." However in pursuing microfinance and its goals, AKIBA bank, with all of its branches located in Dar es Salaam are not able to reach the very poor particularly those in the rural regions of Tanzania. AKIBA's customers are assumed to be wealthier in that most of them lived in or near Dar es Salaam (they live close enough to travel to the capital). In consideration of the goals of microfinance and who they would most benefit, AKIBA does not pursue the very poor, and however the benefits of microfinance to those in the city are substantial and also important to poverty alleviation within the city and increasing economic growth.

4.4.3 Tanzania Postal Bank

The Tanzania Postal Bank is the 4th commercial bank that is involved in microfinance. Like the National Microfinance Bank, the Tanzania Postal Bank was created by an Act of Parliament and like the previous banks; it too is under the Companies Registrar and under the authority of the Bank of Tanzania (external regulation and supervision). Its source of funding is through deposits and capital. TPB was formerly the Tanganyika Post Offices Savings Bank and due its previous functions as a post office with savings deposit services in all post offices throughout the country (through simple accounts), Parliament decided to utilize TPB and create a financial institution of it to promote savings. As of 2000, TPB had 4 branches and 15 operating units in larger post offices. TPB's only microfinance service offered is savings and fixed deposits. What is beneficial about TPB is that it offers convenient savings services to those in rural areas due to its widespread presence throughout the country. In addition, these savings services are not as difficult to obtain as an account within a larger bank and those Tanzanians who are more uncomfortable with the use of a bank and or do not have as much credit or capital to create a savings account have access to the savings in the Tanzania Postal Bank. A minimum of Tshs 5 000 is required to create an account with TPB. As of the year 2000, TPB had deposits of Tsh 41.5 million and continues to grow although facing competition from SACCOS and commercial banks. The total number of customers that TPB has at the end of 2001 is 1 038 243 account holders. This gives each account an average of Tshs 40 000. TPB's primary focus is on savings mobilization for the public of Tanzania, however it also offers Western Union transfers and participates in the Interbank Foreign Exchange Market, both increasing TPB's financial success and adding profit to the business. TPB has acted more like a business particularly since the millennium with an increasing investment portfolio (rose 9% to Tsh 39 373 million in 2001) primarily investing in Treasury bills and government stocks (accounting for 72.3%). The Tanzanian Postal Bank also offers various types of loans ranging from personal, installments, short-term and micro-credit (offered to groups). TPB's loan portfolio mainly consists of "working capital financing, bridging finance, commercial transport loans, crop financing, export-import financing, guarantees and bonds, direct personal loans, employer collective guarantee scheme and group-based loans." The number of loans approved has also grown in 2001 from 69 in the year 2000 to 356 loans the year after. Problem with increasing loan portfolios is the definite risk involved. Contributing to this risk are issues such as "weaknesses in the legal system regarding contract enforcement, weaknesses and time-consuming title deeds registration procedures, lack of credit reference bureaus, and past history of non-performing loans (examples from other banks)."

4.5 Some of Financial Institutions involved in Microfinance

4.5.1 FINCA Tanzania

Foundation for International Community Assistance (FINCA) Tanzania was founded in 1998 with the mission to provide financial services to the world's lowest-income entrepreneurs so they can create jobs build assets and improve their standard of living.

FINCA Tanzania works in Dar es salaam, Coastal region, Morogoro, Iringa, Mbeya, Ifakara, Mwanza, Mara, Shinyanga, Tabora and Bukoba; it covers about 60% of the country overall including 65% in population centers.

FINCA's village bank loans empower rural people, inculcating leadership skills and confidence in them. These loans further the Government's poverty reduction strategies by allowing communities access to better medical services, food and education, particularly improving the well-being of people in rural areas. FINCA grew its client base by over 200% since 2001 by expanding to cover 60% of the country and introducing new products. FINCA has overcome a severe liquidity crunch by commercial borrowing. The products offered by FINCA include loans, voluntary savings and insurance. By 2006 FINCA had 36 550 clients, 2 354 village banking groups and had an outstanding loan balance of $ 5 059 767.

5.5.2 PRIDE Tanzania

Promotion of Rural Initiative and Development Enterprises Limited (PRIDE Tanzania) is a micro finance institution involved in the provision of credit to small and micro entrepreneurs in Tanzania. Its objective is to promote small-scale business entrepreneurs in the informal sector through provision of non-collateral credit to individuals. It started its operations in January 1994 with its first branch and head office in Arusha. The operations started first on a two-year pilot phase running from September 1993 to August 1995 involving three branches in Arusha, Tanga and Dar es Salaam. After the successful completion of the two-year pilot phase a five-year expansion phase was approved. The second phase had its main goal stated as "to expand the programme to a network of 25 branches serving 30 000 clients and attain operational sustainability in its fifth year". By May 2006, PRIDE had an outstanding loan balance of Tshs 150 billion.

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

After working on some drawbacks facing microfinance industry, the impact of microfinance in improving the livelihood of the community will be vivid since microfinance seems to be the only vehicle to do so after many people being left out of the conventional financial system. This will also lead to the attainment of millennium development goals.

5.2 Recommendations

There are some recommendations which should be worked on in order to make the whole process to go efficiently and to be effective, also to make the impact of microfinance to be tremendous and involving many beneficiaries. These include;

Many people, especially rural residents are not aware of the benefits obtained through microfinance services. There should be sensitization programmes aimed at creating public awareness on microfinance.

The availability of credit whenever needed and the credit processing time are among crucial aspects which build credibility of the financial institutions to the clients, hence increasing the number of clients. Therefore microfinance practitioners should try their level best to minimize or eradicate/mitigate bureaucracy in their operations.
Committed leaders with the required skills are the key to microfinance institutions' prosperity. The microfinance institutions should get leaders who are committed to

avoid incidents of fraud and theft, and this in turn will build trust and increase the number of clients.

Good infrastructures like roads tend to reduce the transportation cost which has an impact on the price of produces. By building good roads, buyers will be attracted to go to buy the produces produced by microfinance beneficiaries, therefore increasing their economic status.

The time between becoming a member of Microfinance institution and being eligible to access the credit ranges from one to three months in most Microfinance institutions. This time span is denigrated by many people to be as an obstacle for many people to join the Microfinance institutions. Therefore the Microfinance institutions' practitioners should come up with an optimum period which will be enough to scrutinize the new member at the same time it will not discourage people from joining the Microfinance institutions.

Some of the clients of the Microfinance institutions are living or conducting the funded projects very far away from the Microfinance institutions, sometimes more than fifty kilometers . This distance becomes difficult for Microfinance practitioners to visit them from time to time from the assessment time to loan recovery time, therefore leading to defaulting. The Microfinance institutions should have clients who are at the reasonable distances whom they can handle well unless they have reliable transportation means and which is cost justifiable.

Team work is very important in achieving the goals. Stakeholders in Microfinance should work collectively in order to achieve the goal of improving the livelihoods of the community. These stakeholders include commercial banks, financial NGOs, SACCOS etc. They should co ordinate in their operations in order to know the coverage and depth of their services, so as to be in a better position of achieving their common goals.

The tendency of not abiding to policies, bylaws, rules etc by Microfinance institutions' practitioners has caused some problems in day to day activities. For example non adherence to credit polices by loan committee on disbursement of loan and control such as lending loan amount beyond the lending ratio of 1:3 of deposits to credit, issuing of another credit before finishing the previous one, improper record keeping and omissions of the useful information etc. These have led to an increasing loan delinquency and defaults to the institutions which are not a good indicator to the financial institution. Therefore Microfinance institutions' practitioners should abide to the policies, rules, regulations etc in order to make operations to go as intended.

Poor knowledge on the credit use is one of the reasons for defaulting. For example misuse of loans by borrowers such as buying luxuries instead of investing in the intended business or activities, poor business plans for some members lead to the collapse of the business etc. There should be entrepreneurial education to people receiving the loan, also the people should be more serious by not diverging the funds and should follow the advice given by the experts.

Motivation tends to raise the working morale. The payments of the Mfis' workers should be proportional to the work load in order for them to work heartily hence increasing efficiency. Most of these workers are working for the whole day; therefore they should have peace of mind in order for them to work properly. Whenever surplus is obtained there should be some kind of bonus as incentives.

Some of the Microfinance institutions leaders have the ability of doing whatever they want in the institution since they were the initiators or have certain influence. They can even bypass some procedures. This is very dangerous to the prosperity of the institution. Nobody should be above the regulations. There should be clear rules, procedures, policies, bylaws etc which should be followed by all practitioners.

The regulations and supervision of SACCOS are under the Registrar of Cooperatives in the Ministry of Agriculture, Food security and Cooperatives under the Cooperative Act, 2003 and the saving and Credit Cooperative Societies Regulation of 2004. During my field visits it was found that, the number of employees in the Ministry of Agriculture, Food security and Co operatives who are responsible for monitoring and controlling of SACCOS are few in number compared to the growing number of SACCOS in the country. This factor has imposed some difficulties to Co-operative officers in scheduling well their time table to visit and to train SACCOS' staffs and board members about co-operatives regulations, policies, accounting principles and laws. This situation is pointed out as one of the causes of poor management in many SACCOS. Therefore the Ministry should look for more officers who are hard working and having required knowledge, improve their working conditions so that they can work effectively and efficiently in order to achieve the intended goals.

The low ability to raise and mobilize internal funds from different sources so as to meet the members' loan requirements and future expansion plans is one of the drawbacks of many SACCOS; some of them depend on donors' sources of fund. This in turn weakens the capital base and becomes unable to meet loan demand from their customers. This leads to the loan amount applied to SACCOS to be higher compared to the fund available to pay all the approved loans from members. This necessitates loan committee to issue loans in groups by the first in, first out process so as to avoid inconveniencies to members. But this has been the major complain for most members of SACCOS that loans are not available at the right time especially agriculture loans in rural SACCOS. This affects the intended activities especially those which are seasonally. The SACCOS should learn to operate as business entities by learning how to raise funds or borrowing from other financial institutions in case of the shortage in order to meet the loans demand of their customers.

The increasing incidents of robbery and burglary in the country especially in banks and financial institutions tend to slow down the pace of improving the livelihoods of the community. For example between November 2003 and May 2006, three robbery incidences took place in Kibaigwa SACCOS in Dodoma region. In all incidences the robbers were equipped with strong fire arms while using explosives to get access to strong rooms. There should be reliable security around financial institutions and other places at large since it expensive for SACCOS to finance it itself. Also financial institutions should be careful in getting its practitioners since some robbery incidences had been facilitated by some mfis' practitioners. The institutions should also insure the money and properties in order to cover the risks associated to the robberies.

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APPENDIX

Profile of a microfinance institution under CRDB-MFC

Mwashita Savings and Credit Cooperative Society Limited (Mwasacco) started on 10th January 1997 with registration certificate DOR 535. The main objectives of its establishment was/are:

1. To take shares, Savings and Deposits from the member.
2. To disburse soft loans with low interest to its members.
3. To enable members to use and save money for their benefits by;
    a) To encourage them from time to time to increase their shares and savings.
    b) To invest the excess money, by buying Government bonds or invest in big development projects situated in Dodoma municipal.

Mwasacco started its operations officially in 1998. Up to December 2005 its capital was about Tshs 147 705 000/= and it had disbursed 937 loans worth Tshs 772 258 000/= as follows:

Table : Mwashita SACCOS loan disbursement

Year	Loan	Value (Tshs)
1998-2003	145	150 354 000/=
2004	289	199 370 000/=
2005	391	370 882 000/=
2006 (April)	112	51 652 000/=

Source: Mwashita SACCOS, 2006

Membership criteria

Any person with the following qualities is eligible for the membership

a. A resident of Dodoma.

b. With sound mind.

c. Having 18 years or above.

d. Be able to pay an entrance fee of Tshs 10 000/= and to buy at least one share worth 20 000/=.

e. All membership applications should be addressed to the manager together with three recent passport size photographs.

f. The member contributes Tshs 1 000/= monthly for SACCOS development.

Available products

Savings and Deposits accounts

A member can open the following accounts;

1. Savings account

An opening amount is Tshs 5 000/= and interest bearing amount is Tshs 30 000/= or above. Annual interest rate is 3.5%.

2. Minor account

An opening amount is Tshs 5 000/= and interest bearing amount is Tshs 30 000/= or above. Annual interest rate is 3.5%.

Savings withdrawal

A member can withdraw money from his/her saving account anytime during office hours.

Credits/Loans

Types of credits/Loans available are;

1. Social loans

These credits concern development activities of members like house construction, education, buying of personal transportation means etc.

2. Business loans

These loans are issued for commercial issues like shops, crops merchandise, transportation business, small industries etc.

3. Agricultural and Animal keeping loans

These loans are issued to members who keep/raise animals for commercial purpose. The animals are like milk cows, broilers and layers chicken. Agricultural loans are for farming crops like maize, Paddy, Grapes and gardening.

4. Social Emergency loans

These loans are issued to members with emergency problems and the amount is Tshs 100 000/= for two months period, the interest is 2% per month.

5. Business Emergency loans

The interest is 12% per month or 14% per two months or 16% per three months.

Credit/Loan undertakings

All credits are charged interest according to the time of concerned loan. Three months loan is charged the interest of 4.5%, six months loan is charged the interest of 9% and the twelve months loan is charged the interest of 18% per annum or 1.5% per month.

The loan applicant should have/adhere to the following.

1. Should be a member for more than a month, i.e 30 days.
2. Should have deposited to the SACCOS at least Tshs 60 000/=
3. A requested loan should not exceed three times the amount deposited to the SACCOS.
4. Should have the ability to repay the loan and interest within the loan time/period.
5. Should have at least two referees who are members of the SACCOS. These referees should list their collaterals in the loan application form of the applicant.
6. His/her collaterals should have the value which is more than 50% of the applied loan.