

**OPERATIONAL CHALLENGES FACING MICROFINANCE  
PARTNERSHIP WITH COMMERCIAL BANKS: THE CASE OF  
HEMBETI AND TURIANI SACCOS/CRDB PARTNERSHIP**

**BY**

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**ABSTRACT**

Financing the poor is expensive than commercial banking due to transactions and administration cost. Loan officers have to travel to remote areas to give loans and other services. The problem is aggravated further by the fact that poor people have only small sums to save which limit the banks' economic opportunities. Recently, Microfinance Company initiated efforts to assist the poor by creating awareness on the borrowing procedures. This situation attracted Microfinance Industries (MFIs) to go into partnership with commercial financial institutions. The lending programme appears to produce tangible benefits and does not distort the process of financial intermediation between micro savers and micro borrowers' survivor. The purpose of this case was to determine the operational challenges facing the MFIs partnership with commercial banks. Two SACCOS namely Hembeti and Turiani were used as case studies. The data were gathered through participating in the SACCOS general meetings and interviews with leaders and other members. The results narrate several challenges which face the SACCOS. For the case of Hembeti SACCOS, paddy storage was a problem as all respondents mentioned shortage of godowns. Farm input costs to both SACCOS was mentioned by more than 90% of the respondents as prohibitively high to the extent of compromising SACCOS members from effective farming activities. Education is an important component for the SACCOS management to manage business and financial aspect as organization grow. This study has found that 55% of Hembeti SACCOS leaders had primary school education different from their counterpart Turiani SACCOS with 92% of its management members with secondary school education and 8% being university

graduate. Furthermore, the 81% and 99% of Hembeti and Turiani borrowers respectively used their loans as planned and had significantly reduced credit risk. Therefore there is need for MFIs continue plans to build a vibrant market of microfinance services by setting fair pricing and profit levels. Need for micro credit to expand entrepreneurial activities is a very important aspect. The study recommends that MFI management should possess the necessary skills that would lead to implementation of range of financial services and policies that support the farmers in different matters. Adherence to agreed ethics and the general code of conducts shall be taken as necessary.

**DECLARATION**

I, MONICA KINGAZI, M do hereby declare to the senate of Sokoine University of Agriculture, that this study is my original work and has neither been submitted nor being currently submitted for a degree award in any other University.

Student Signature *Kingazi* ..... Date *3<sup>rd</sup> JULY 2008* .....

**The above declaration is confirmed by**

*M. E. Mlambiti* ..... *23/07/08* .....  
Prof M.E. Mlambiti (Supervisor) Date

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## **DEDICATION**

This study is dedicated to my late parents Jane Hyzers Kingazi and Hebert Kingazi  
and my sister Mainda Mary Kingazi

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**ACRONYM**

CRDB -	Cooperative and Rural Development Bank.
MFI -	Microfinance Institution
MFC -	Microfinance Company
MOA -	Mtibwa Outgrowers Association
SACCOS -	Savings and Credit Cooperative Society.
DANIDA -	Danish International Development Agency
NGOs -	Non Governmental Organisations.
SMEs -	Small and Medium Enterprises
BOT -	Bank of Tanzania.
GDP -	Gross Domestic Product.
KCGA -	Kilombero Cane Growers Association.

**Interpretation of key concepts according to cooperative societies act of 2003**

- Agricultural inputs means supplies needed for agricultural production and includes building materials, fertilizer, veterinary inputs, seed, animal feeding stuffs, breeding stock, draft animals, planting and harvesting materials, farm implements, land tools, fencing material, petroleum products, and other supplies and equipment normally used in agricultural production.
- Board means the governing body of a registered society to whom the management of its affairs is entrusted.
- Common need means the need which is common to all members of a registered society.
- Cooperative society means an association of persons who have voluntarily joined together for the purpose of achieving a common need through the formation of a democratically controlled organization and who make equitable contributions to the capital required for the formation of such organization and who accept the risks and the benefits of the undertaking in which they actively participate.
- Management board means the governing body of a registered society, elected by members at the General Meeting to whom the management of its affairs is entrusted.
- Member includes a person or registered society joining in the application for the registration of a society and a person or a registered society admitted to membership after registration in accordance with the by-laws and rules made under the Act.

- Microfinance Companies means non bank financial institutions with substantive core capital whose primary activity is to furnish secured and unsecured loans to households, smallholder producers and small and micro enterprises both in rural and urban areas.
- Registered society means a cooperative society registered under cooperative societies Act 2003.
- Officer means any officer of a society and includes chairman, vice chairman, secretary, treasurer, member of the board, general manager, chief accountant, or any other person empowered under the rules or the by –laws to act on behalf of a registered society.

## **1.0. Background Information**

### **1.1. History of microfinance development in Tanzania**

Microfinance, i.e. the provision of financial services to poorer people, holds enormous potential to support their economic activities and thus contribute to the alleviation of poverty. Widespread experiences and research have particularly shown the importance of savings facilities for the poor. In the framework of a financial system approach, adequate regulation and supervision of the microfinance industry increasingly move into the centre of attention to ensure the safety of the poor's deposits. Yet microfinance regulation and supervision are still in an embryonic stage, so that standardised approaches are not presently available (Wikipedia, 2007).

Microfinance is a newly emerging but a fast growing branch of financial institutions in Tanzania distinguished by its customer focus and unorthodox approach to risk management, service distribution and an intimate relationship with the customers (Beck *et al.*, 2005). The Government of Tanzania embarked on financial sector reforms in 1991, in order to create an effective and efficient financial system. These elements of the financial sector reform were embodied in the Banking and Financial Institutions Act of 1991. The Cooperative Societies Act of 1991 provided the basis for the development of Savings and Credit Cooperative Societies (SACCOS) as privately-owned and –organized equity-based institutions (Bikki, 2003). Specific amendments to the Banking and Financial Institutions Act 1991 identified the Bank of Tanzania as the regulatory and supervisory authority for microfinance companies. Under the regulations, microfinance institutions would be free to decide whether to

remain operating as credit only institutions or seek to be licensed as microfinance companies in order to be able to take deposits from the public.

Microfinance Policy was implemented in 2001; micro financing was officially recognized as a tool for poverty eradication and with its increased use and exposure to the country (Wikipedia. 2007). The financial service providers to low income groups can be divided into three main categories:-

- The first category being the commercial banks that are under the banking regulations and supervision by the bank of Tanzania.
- The second category of microfinance service providers consist of institutions that are not regulated by the Bank of Tanzania. These include SACCOS. SACAS and NGOs. These microfinance institutions provide financial services to the SMEs mainly in the form of micro credit with an exception of cooperative based microfinance institutions.
- The last category of microfinance service provider consists of non-institutional actors who operate in the informal sector.

## **1.2. Importance of MFI to the economy**

### **1.2.1. Agriculture**

According to BOT report of 2001, the agricultural sector accounted for 46.4% of Tanzania's GDP. However, recent data from TATIC (2008) indicate an increase of the GDP to about 47%, approximately 51 percent of foreign exchange, and contributed to 75 percent of total employment by the year 2004. The smallholder

farming dominates agricultural production and a large proportion is for subsistence. This however, employs majority of the work force in rural settings although it receives small share in commercial bank lending (Wikipedia, 2007).

The recent developments in microfinance appear to have greatly assisted the development of agricultural sector as it allow the poor to have access to funds without having large amount of collateral (Somji, 2007). It was shown further that, farmers need agriculture inputs and other resources for high quality agriculture production.

#### **1.2.2. Business**

The idea of giving loan to small entrepreneurs has helped to attract business investment through expansion of business activities (CRDB, 2006). The CRDB bank through its Microfinance Company has trained business members on how to manage their businesses profitable, so that they contribute substantially to job creation and poverty alleviation (CRDB, 2006). The 2005 World Development Report suggests that creating sustainable jobs and opportunities for micro-entrepreneurs are the key pathways out of poverty for poor people (The Economist, 2005).

#### **1.2.3. Savings**

Many growth models assume that saving is an important component for growth and development (Backlund, 2003). The idea is that capital accumulation increases growth and to increase capital there is need for increasing savings (Backlund, 2003). The poor are able to accumulate funds that can be accessed in times of problems. In

this case, saving reduces risks and increases the ability of individuals and households to access basic services like health and education thus having a more direct impact on poverty reduction(CRDB, 2006).

## **2.0 Place of commercial banks and SACCOS in the region's development**

### **2.1 Commercial banks**

Commercial banks are primarily located in the cities, not offering services to majority of population living in the rural areas (Backlund, 2003). Commercial banks regard rural as high risk area which explains why many banks have no branches in rural areas and why the rural formal financial sector is relatively small (Wikipedia, 2007). They find it difficult to attain financial information about potential borrower and most borrowers do not have collateral to meet conditions corresponding to banks regulation. These banks save the wealthier people in urban areas who can maintain minimum balance in their accounts, and who are capable of issuing collaterals when in need of loans (Backlund, 2003).

### **2.2 SACCOS (Savings and Credit Cooperative Societies)**

SACCOS are performing extremely well in providing thrift savings facilities to its members (CRDB, 2006). This sector also helps considerably the working class to have access to quick and easy loans (Wikipedia, 2007). They help to reduce risks to whole communities through diversification of sources of income, through provision of short term credit and a safe place to put their savings. Savings enabled investment which improve people's livelihood. They help their members ride out of seasonal shocks such as falls in market prices by warehouse storage (CRDB, 2006).

### **2.2.1 Role of SACCOS to its members**

SACCOS play a major role in the socio-economic development of the people. By definition, a SACCOS is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled society (CRDB, 2006). It is a legal entity owned and democratically controlled by its members and is based on the ethical values of self-help, self-responsibility, democracy, equality, equity and solidarity (Wikipedia, 2007). SACCOS are located near member's home or workplace which reduces transaction costs (Beck et al, 2005).

## **2.3 Sources of capital**

### **2.3.1 Members' shares**

In order to be a SACCO's member, the person must contribute to building up the capital through shares.

### **2.3.2 Members' Deposit**

The basic feature of a SACCOS is that it should be capable of running on the financial resources of the members such as savings/deposits.

### **2.3.3 Credit provision**

Loans are provided against collateral or through group guarantee. This minimizes lending risks and facilitates successful repayment of loans thus qualify for the repeated loan. Unfortunately personal capital contributions do not meet the

requirements for most members. This is the reason why SACCOS seek financial partnership with commercial financial institutions like CRDB for financial services.

## **2.4. Management of the SACCOS**

Savings and Credit Co-operative Societies are autonomous organizations, regulated by the Co-operatives Act. The Co-operative Societies are owned and managed by the members. The management of SACCOS is duly elected committees who are expected to perform their duties prudently and diligently on behalf of the members to whom they stand accountable and responsible.

### **2.4.1 Establishment of Board**

Every registered society establishes a Board to manage its day-to-day activities.

### **2.4.2 Membership of the Board**

Every Board of a registered society is supposed to have not less than five members and not more than nine members including the chairman and vice –chairman.

### **2.4.3. Board tenure**

The board is supposed to hold office for a period of up to nine years comprised of 3 terms of three years provided that some members are not voted out in the general

meeting. No member is allowed to serve for more than three consecutive terms but may be eligible for re-election after expiration of one term of three years.

#### **2.4.4. Powers of the Board**

The board ensures the full and proper administration of the society subject to the by-laws of the society. The board may appoint a suitable person to administer and manage the affairs of the society and may employ such number of persons as the board may think fit to assist such person in the discharge of functions.

### **3.0. MFI partners in Morogoro**

In Morogoro there are 32 SACCOS that have partnership with CRDB Bank. The major economic activities of the SACCOS members are agriculture and business enterprises. CRDB bank provides professional services as well as provision of loan to the MFI partners. This enables the MFI partners to cope with changes, operating principles, values and objectives. Despite the efforts made by the CRDB bank to make the MFI stable, still there are challenges facing the MFI management and Board members, which need to be addressed.

#### **3.1. History of SACCOS/CRDB partnership**

CRDB stands for Cooperatives Rural and Development Bank however is not a cooperative. This privately owned bank is one of the oldest banking institutions in Tanzania. CRDB was created under the Companies Act and is under the authority of the Bank of Tanzania (external regulation and supervision). However, unlike the other commercial banks its primary source of funding comes from DANIDA, which serves as one of CRDB's single largest shareholders. CRDB banks provide loans to micro finance institutions such as SACCOS the largest group of MFI in this case (Wikipedia, 2007).

CRDB as a more conservative bank has taken this approach in order to reduce their risks in micro finance by loaning to groups such as SACCOS instead of micro and small enterprise borrowers (Wikipedia, 2007). CRDB provides SACCOS with financial stability. The bank first encourage people to save before they seek for loans

because in developing a model of the micro finance has been observed that no system of sustainable development can take place without first building the saving culture (CRDB, 2006). The CRDB Bank recognises that incorporating various incentives for cooperation with smaller intermediaries and building upon each partner's comparative strengths would create strong synergies required to overcome the many barriers denying the greater Tanzanian population access to finance. Thus CRDB established the CRDB-SACCOS partnership.

The CRDB-SACCOS partnership is reached after signing a three years partnership Agreement that is renewed after three years. The bank delivers financial and non financial services to their partner MFIs through well trained relationship manager who is responsible for:-

### **3.1.1 Financing**

Through its microfinance methodology it makes available long and short term finance to both rural and urban clients and manage all loans given to the SACCOS.

### **3.1.2 Choice of partner SACCOS**

The initial step that the CRDB bank does is to ensure that all potential cooperative societies are legally established and comply with cooperative society's act of, 2003. Secondly the Bank checks the past records of the intermediary to see whether it operates according to good principles. The Bank also favours intermediaries with good loan portfolio, good growth rate by checking increase of membership and shares. It also prefers intermediaries that are free to talk about new ideas, activities

and achievement. Once selected the MFI partner signs the partnership agreement and continually receives financial services from the Bank. The MFI receives technical assistances in financial matters, materials and training on various matters from the CRDB bank.

### **3.1.3. Service and Technical support**

The CRDB bank provides training, technical assistance and advice on how to monitor their activities and performance in order to minimize risks putting more emphasis on maintaining standard, good leadership and governance.

### **3.1.4. Modernizing rural finance**

The bank modernizes rural financial services, such as assisting in modernizing SACCOS' premises, introduction of banking services, and money transfer.

## **3.2 SACCOS in partnership with CRDB bank**

SACCOS in partnership with CRDB are of two types i.e. occupational and self-reliant SACCOS.

### **3.2.1 Occupational SACCOS**

These are tied to working places and register a degree of success because savings and loan repayment are deducted from their payroll, which diminishes significantly the possibility of default and ensures the discipline for regular deposits. In most Occupation SACCOS, education and literacy is higher as compared to self reliant SACCOS (Oketch, 1997).

### **3.2.2 Self reliant SACCOS**

These are SACCOS found mainly in rural areas and especially among the group struggling to be sustainable. Many poor households save money during periods with high income to be able to spend during periods with low income (Backlund, 2003). Seasonal fluctuations are common and require people to save or borrow during the low income periods. Loans are extremely expensive due to high interest rate charged by the bank. The members of Self-reliant SACCOS have irregular sources of income, which implies that they may have difficulty in commercial loan repayment (Backlund, 2003).

### **4.0. Problem statement and justification**

Providing financial services to poor people is quite expensive, especially when related to the size of the transactions involved. This is one of the most important reasons why banks don't make small loans (Wikipedia, 2007). A 50,000 Tanzanian shillings (TZS ) loan, for example, requires the same personnel and resources as a TZS 2,000,000 one thus increasing per unit transaction costs. Loan officers must visit the SACCOS to evaluate creditworthiness on the basis of interviews with the board members and references, and in many cases, follow through with visits to reinforce the repayment culture. It can easily cost TZS 12,500 to make a micro loan. This might represent 25% of the value of the loan amount, and force the institution to charge a "high" rate of interest to cover its cost of loan administration (Wikipedia, 2007). This situation has forced MFIs to go into partnership with commercial financial institutions.

The challenge that is ahead, therefore, is how to create an appropriate regulatory and supervisory framework without introducing distortions that would undermine the efficiency of the market in allocating resources efficiently. These are distortions that would ultimately affect the process of financial intermediation between micro-savers and micro-borrowers. This is the focus of this study.

## **5.0 Objectives of the study**

### **5.1 General Objective**

The general objective of this study was to identify operational challenges facing MFI partnership with commercial banks.

### **5.2 Specific Objectives**

- i) To examine problems encountered in securing loan
- ii) To assess why SACCOS members fail to pay loan in time
- iii) To assess whether credit offered help the SACCOS members' access farm inputs

## **6.0 Methodology.**

### **6.1 Case studies**

#### **6.1.1: Description of study areas**

The case study was based on two SACCOS in Morogoro region. The two SACCOS studied were Hembeti and Turiani. These SACCOS were selected because of their good performance. Other SACCOS visited but not included in the study included the Maendeleo, Kilosa Teachers, Dakawa, Dumila, Hembeti, Mpanga, Ngerengere, Elgibo, Moro Central Market, Moro Teachers, KCGA Udzungwa, ROA-KIRUVI, Matombo and Mvomero.

### **6.2 Data Collection method**

During the present study, primary and secondary data were used to gather information. Data were gathered by participating in the general meetings. All the problems addressed by SACCOS members were recorded and answers provided by the SACCOS leaders were noted and logical judgement inferred. In addition to this method interviews were conducted in order to gather relevant additional information.

#### **6.2.1. Types of data**

##### **6.2.2 Primary Data**

For primary data, interviews were conducted to collect information on storage requirement for Hembeti SACCOS, concerns for costs of agricultural inputs, level of

education for SACCOS management team, repayment performance of SACCOS members and interest rates charged by the bank.

### **6.2.3 Secondary Data**

Secondary data were also used in this study, which involved retrospective retrieval of various documents and reports relevant to the research problem obtained from CRDB Morogoro. Other sources of secondary data were Sokoine National Agricultural Library, and various sites visited over the Internet as shown in the references.

### **6.2.4. Data analysis**

Data were summarized in excel sheet and descriptive statistics was used to calculate the percentage and means.

## 7.0: Results and discussion

### 7.1: Case results

The results of the present study are summarized and discussed according to activities that have been identified as the main challenges faced by SACCOS in their partnership with commercial banks.

#### 7.1.1: Hembeti and Turiani SACCOS

##### 7.1.1.1: Storage requirement for the Hembeti SACCOS members

The present study revealed that some members of SACCOS in Hembeti were not able to store paddy because they had three godowns which are not enough. The booming production was attributed by the increased accessibility to loan. (Table 1). All of the SACCOS management respondents raised the issue of the need to build more godowns to increase productivity through warehouse financing. However, there is no warehouse storage practised at Turiani SACCOS.

**Table 1: Showing storage requirement for the SACCOS members from Hembeti.**

	Number of Respondent (n =10)	Percent (%)
Enough storage		
Not enough	10	100
Enough	0	0
Total	10	100

### 7.1.1.2: Farm input cost

This study has found out that microfinance farm input scheme greatly help the farmers in securing loans through their SACCOS. But there are components in their activities that need to be improved if they are to become a sustainable part of financial development. Most farmers (90%) do not afford the cost of credit to purchase farm inputs. For example in case of Hembeti to purchase a tractor it is required for the member to deposit 25% of the total cost i.e. Tshs 7.5 million. However, 95% of Hembeti and 85% of Turiani members admitted that the costs of the input are prohibitively high and are not affordable (Table 2).

**Table2: Hembeti and Turiani SACCOS showing response of members on their concern about agricultural input cost.**

Description	Hembeti		Turiani	
	Number of Respondents	Percent %	Number of respondents	Percent %
Affordable cost	1	5	3	15
High cost	19	95	17	85
Total	20	100	20	100

Source: 1. General meeting of November 2007, Hembeti SACCOS.

2. General meeting of October 2007, Turiani SACCOS.

In Turiani cane growers require cane loaders to load harvested cane into lorries otherwise it is not possible to harvest. To purchase a cane loader, a member needs to have 25% down payment of total cost of the loader. Cost of the loader is 100 million Tshs which means a member should have 25 million Tshs to acquire a loan. Most of

the SACCOS members are poor such that they can not afford the 25% down payments for the can loader. A member can hire a loader, but he needs to wait for sometime before he gets it. This further shows how the performance of the agricultural based SACCOS can be compromised by unaffordable high costs of farm inputs.

### **iii) Education level**

For better performance of SACCOS. members need to have attained a secondary or tertiary level of formal education. This is important in enhancing a smooth and successful implementation of the SACCOS activities. Lack of formal education makes it difficult for the members especially the leaders to understand economic management such as avoiding bureaucratic costs and understand need of protecting SACCOS interests. The results of this study shows that about 55% of Hembeti members in management had primary school education. This was different from the Turiani SACCOS which had 92% of its management team members with secondary school education and 8% being university graduate (Table 3). Normally, when non-professionals and less educated members dominate the board, board of directors becomes very responsive to local social issues but fail to manage a financial aspect that becomes complex as organisation grows.

**Table 3: Hembeti and Turiani SACCOS showing the levels of education for SACCOS management team as indicator of professional management**

Education levels	Hembeti		Turiani	
	Number of respondents	Percent (%)	Number of respondents	Percent (%)
Primary	5	55	0	0
Secondary	4	45	11	92
College	0		0	0
University	0		1	8
Total	9	100	12	100

Source: 1. Know your customer Report Dec 2007 Hembeti SACCOS.

2 . Know your customer Report December 2007 Turiani SACCOS.

In absence of other limitations, Turiani SACCOS management need to make business succeed and remain true to the priorities set by members since its members are more educated compared to Hembeti. Furthermore, the Turiani organisation is large enough to need professional management who are value based. This could be the reason as to why eight percent of its management staff had attained a higher education as indicated in Table 3.

#### **iv) Repayment performance**

Results of this study has further shown that 81% and 99% of Hembeti and Turiani borrowers respectively use all of their loans for the purpose mentioned in the application. This issue of the use of loans is a sensitive one among providers of

micro-credit. It is argued that people should respect their contract and invest into the project that has been stated in the application, for which there is a precise budget and which has been assessed by the other group members and the credit officers. This reduces the credit risk which ultimately end at delayed to repay the loan on time or failing completely. In this study, members were obedient and showed a high degree of commitment by paying their loans on time (Table 4).

Credit risk refers to the danger of late or non-repayment of loans. Despite the often-observed high repayment rates in micro finance, the use of collateral substitutes combined with weak contract enforcement power creates considerable risk. Repayment incentives mainly derive from the promise of access to subsequent loans. However, these conditions may not be enough to ensure repayment, particularly when access to repeat loans appears threatened For instance when there are liquidity shortfalls, economic crises, high dependency on donor funds, or when the methodology employed produces conflicting incentives, as in group lending when a few group members default repeat loaning may not be fulfilled as planned.

Credit risks are highly correlated when loans are granted to a relatively homogeneous clientele in terms of geographical proximity and/or market segment (Wikipedia, 2007). Micro loan portfolios typically lack diversification, primarily comprising short-term working capital loans. They can be adversely affected by an externality such as drought, fire calamities or diseases.

**Table 4: Hembeti and Turiani SACCOS showing repayment performance as indicator of credit risks**

Description	TURIANI		HEMBETI	
	From progress report (Tshs)	Percent (%)	From progress report (Tshs)	Percent (%)
Arrears free loan	1,342,219,050	99	173,090.120	81
Arrears more than 30 days	15,992,993	1	15,155.762	19
<b>Total</b>		<b>100</b>		<b>100</b>

Source: Progress Report Dec, 2007 –CRDB bank.

**v) Interest rates charged to cover delivery costs**

Table 5 shows interest rates charged to borrowers by formal microfinance institutions. This shows that for financial service to be sustainable, delivery cost must be recovered. When institutions set interest rates to cover efficient delivery costs, the result is win-win long-term, sustainable financial services that generate a positive impact on the poor (Wikipedia,2007).

**Table 5: Showing interest rate charged to cover delivery costs**

Description	Charges per month/year	Repayment period
Business loan	2.5% per month	Six months
Agriculture loan	2.5% per month	Eight months to two years
Grain reserve	2% per month	Twelve months
Farm input	20% per year	Three years.

Source: - CRDB bank

## **7.2: Case Discussions**

### **7.2.1: Hembeti SACCOS Ltd.**

It is a Cooperative society registered under cooperative society Act, no 20 of 2003 with registration number MGR 273

#### **7.2.1.1: Aim and Objectives**

Hembeti SACCOS is a financial cooperative, owned and managed by its members. As such, it is committed to the co-operative principles of the Co-operative Societies Act, 2003, which include democratic member control, member economic participation, and concern for community.

#### **7.2.1.2: Mission**

Hembeti SACCOS mission is to be an ethical and innovative provider of financial services to its members, through strong financial performance so as to serve as a catalyst for the self-reliance and economic well being of its membership and community. Its purpose is “working with people and communities to help them thrive and prosper.”

#### **7.2.1.3 Membership of the SACCOS**

The SACCOS has 562 members and 291 non members (customers). Most Hembeti residents are farmers cultivating paddy under irrigation scheme. They harvest after every six months. The SACCOS owns one godown with capacity of 700bags of 100kg each. They also have two rented godowns whose total capacity is 1000 bags.

In this respect farmers are able to store their produce at the time of harvest and sell at time when price is conducive. This has potential to allow them get larger share of the revenues in the warehouse financing.

#### **7.2.1.4 Services offered by the SACCOS**

##### **a. Warehouse financing**

The warehouse financing provide to the members partial payment in terms of loan immediately after delivery to the warehouse. The cash obtained helps the members to meet their household financial needs as well as enhancing further production that they would have missed due to lack of immediate cash. The SACCOS has other products than Agriculture.

##### **b. Savings Account.**

The SACCOS has a suitable building to keep the money safe and secure for peoples savings. The savings Account is open to members and non members of whom members benefit from savings interests. Other benefit to members is that they are allowed to borrow three times the amount they have saved.

##### **c. Business loan**

The loan is open to member with existing business who has good savings with the credit society. The member is supposed to pay 3% interest rate. Limit of the loan is three times his savings.

**d. Social loan**

This loan is provided to help in social emergencies like death, sickness or need for school fees. It is paid in single instalment after 30 days and the maximum amount of loan is limited to 100,000.Tshs.

**7.2.1.5 Challenges facing Hembeti SACCOS**

1. The storage facility is not sufficient to the SACCOS as more people are cultivating more each year due to availability of land and cash. Also the rented godowns are not of good quality as they lack proper ventilation and are not pest proof. They are easily invaded by bats, which causes off odour that may destroy the produce stored. The SACCOS management raised an issue of need to build another godown to increase productivity through warehouse financing.

2. Extension officers do not advice the SACCOS leaders on proper storage of the produce. All bags of paddy are piled on top of rice husks, which is dangerous in case of fire outbreak. They also do not have any facilities to combat fire in case the accidents happen. This was observed by the CRDB Relationship Manager during audit visit.

3. Lack of market information, which forces some leaders to travel to few internal markets, likes Morogoro market to access information about prices and other market information.

4. High input cost result to hardship to most farmers as up to 95% of the members admitted that the input costs are not affordable.

5. Misunderstanding between SACCOS members and the management. This causes falling of operating standard due to unavailability of clear policy on management ethics. Also some board members disclose confidential matters to non-board members. This brings conflict between members and some board members compromises the smooth operation of the organization.

6. Some members use their loans for needs other than the intended ones. As a result they fail to pay loans in time and sometimes suffer from loss of their collaterals. This issue of the use of loans is a sensitive one among providers of micro-credit

### **7.2.2: Turiani SACCOS Ltd**

This is legally established SACCOS with registration number MGR 268. Registered under cooperative society Act no 15 of 1991. It was formally known as MOA SACCOS. The MOA SACCOS board members were voted out in 2004 due to poor leadership. The members decided to reconstitute and capitalize the society and renamed it as TUR SACCOS. Through bad experience the SACCOS members learnt to choose leaders who are professional and decided to computerize its systems.

#### **7.2.2.1: Aim and objectives**

Turiani SACCOS is a financial cooperative, owned and managed by its members. As such it is committed to the co-operative principles of the Co-operative societies Act, 2003, which include democratic member control, member economic participation, and concern for community.

#### **7.2.2.2: Mission**

Turiani SACCOS mission is to enable sugarcane out-growers living around Mtibwa area, Mvomero District to mobilize savings and obtain credits at a competitive interest rate.

#### **7.2.2.3: Membership of the SACCOS**

The SACCOS has 2110 members and 4299 non members (customers). Most Turiani ward residents are sugarcane growers under irrigation scheme and some depend on rain fed agriculture. Most members declare that they were able to expand their cultivated acreage and increase income. However, poor availability and prohibitive

high costs of agricultural inputs compromises the performance of SACCOS members.

#### **7.2.2.4: Services offered by the SACCOS**

Turiani SACCOS gives loan in instalments at times of farm preparation, planting and harvesting. The loan is accessible during the seasons. Loan is repaid after harvest. The services provided to members is of high quality where there is a good system to collect deposits and loan repayment through check cash and deed of undertaking by Mtibwa Sugar Company for sugarcane out-growers. The sugarcane price is fair and is set by members themselves.

#### **7.2.2.5: Other products offered by SACCOS to members:-**

##### **a. Business loan**

It is a loan given to members with already existing business. The loan is three times the savings one has in the society .The loan is given in lump sum and repayment is every month at 4% interest rate.

##### **b. Emergency or social loans**

This kind of loan is given helping order to solve social problems like death, sickness, and school fees. The loan limit is 100,000 Tshs which is supposed to be repayment after 30 days with interest rate of 4%.

**c. Group loan**

Some members do not have enough money to save; in this case they unite into groups of five people for the purpose of getting loan. Loan limit is 500.000 Tshs and is paid weekly. After sometimes some group members gain financial stability and can withdraw from the group and start own saving.

**d. Farm input loan**

Most farmers seek to have own tractors and few to get cane loaders. These are expensive products so the borrower should deposit 25% of the requested amount and should be able to pay for registration and insurance.

**7.2.2.6: Challenges facing Turiani SACCOS**

- a) The rate of sugar cane burning has increased steadily but is practiced by farmers to speed the task of harvesting, remove weeds and undergrowth, destroy insects, solve labour problems, and minimize labour costs. Over 95 percent of cane burning is deliberately started by the farmer. The other five percent is attributed to carelessness or neighbourly sabotage. Sugar cane is supposed to be harvested within four days after burning otherwise is a waste. Due to unavailability of cane loaders most farmers get losses and sometimes may fail to repay the loan. Members cry out for a reasonable risk management tools.
- b) Unavailability of cane loaders and heavy duty tracks makes it difficult to harvest sugarcane on time to some of the farms.

- c) The operating standards are falling because the SACCOS do not have a clear policy on the management ethics and they know little about risk management.

### 7.3 Alternatives

1. In order to solve problems of warehouse storage, the SACCOS management should mobilize fund to build a modern warehouse which in one way or another may help to clear the situation.
2. To solve the problem of misunderstanding between SACCOS members and the management the following should be practiced: -
  - (i) Leadership: The SACCOS management should learn to influence people on developing their organisation without putting too much pressure to members that may raise conflict. Leaders must be patience and take criticisms as a challenge but not raise fight with the members.
  - (ii) Commitment: The management team should behave according to agreed values, share the sense of purpose, understand what they are trying to achieve and show commitment to their work. They should feel proud to work as a team and should work together not against each other.
  - (iii) Respect and Recognition: Board members should treat members fairly and with respect so that they feel that they are recognised for their contribution towards SACCOS development.

(iv) **Relationship:** People in the management team should feel free to share their concerns, address their constructive conflicts openly and make decision.

(v) **Planning and Monitoring:** The SACCOS Board should call meetings to review progress, spot problems and correct. The board should understand the work plan and monitor performance regularly.

(vi) **Responsibility and Accountability:** Within the board, each member should understand each others role and responsibilities. Reporting lines must be clear and should avoid unnecessary misunderstanding .A key element in achieving greater accountability is to clarify which level of the management is responsible for a given function.

3. To help the SACCOs members protect their warehouse products (savings) and to secure market information the following should be done:-

(i) **External supervision:** Supervision not only establishes the rules for behaviour and responsibilities of actors but also monitors performance and enforces a prudent financial management framework, which protects the members and their savings. It is just as important that MFI's staff personnel possess the necessary skills and convictions for implementing a range of financial services to be offered to the agricultural sector. Furthermore, it is

important to stress that partnerships do not represent a solution to the issue of profitability of some agricultural activities. Some participants bore witness to actions designed to segment agricultural activity by profitability in order to favor the financing of profitable activity over the rest.

(ii) Working Practices and Procedures

The Board must make sure that systems and procedures are followed. The members should be given all the information needed, the working methods are documented and documents are accessible. Members should agree on working methods and understand the working systems.

4. To solve a problem of members channelling loans to another business than those asked for, the following alternatives should be practised:-

(i) Business Training: Business training helps microfinance clients, especially those with no previous experience in running their own businesses and handling finances, to use their loans properly.

(ii) Contractual respect: Some members argue that people should respect their contract and invest into the project that has been stated in the application, for which there is a precise budget and which has been assessed by the other group members and the credit officers. Failing to do so would mean that budgets are useless.

5. To solve the problem of input cost the following alternative may be practiced:-

(i) Group loan

In situations where farmers cannot raise 25% of the total costs for tractors and loaders, farmers are strategically advised to form kind of partnerships in their SACCOS. People in partnership will be able to share the required 25% for purchase of tractors, implements and cane loaders.

#### 7.4. Best alternative

A deep qualitative analysis of co-operatives and especially of their management and financial status in most cases need to be addressed. Challenges of board member to disclose to non board members what has been discussed and misunderstanding between SACCOS members may be solved through adherence to ethics and the general code of conduct as stipulated in the Annex I.

Turiani-SACCOS need to develop new informed policies on the role of fire to combat the challenge of fire hazards. In brief: (a) the legislation should cover the requirements for firebreaks of 4 metre width around any prospective farm, (b) notification for adjoining landowners, (c) responsibilities and duties for extinguishing fires and (e) punishments, (f) prohibit fires to be set on without permission.

## 8.0: REFERENCES

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**9.0: ANNEX 1:****GENERAL CODE OF CONDUCT AND ETHICS**

Code of conduct and ethics for management, board members and members is supposed to be reviewed from time to time

Must be communicated to all SACCOS members, Management and board members.

Implementation of this code of ethics will be through compliance to the cooperative society's act of 2003 this document therefore becomes a mandatory.

***Integrity and impartiality***

1. Regardless of his political opinions, a member of management board shall serve with courtesy, honesty, integrity, probity and objectivity.

***Political affiliation***

2. A member of management board is entitled to his own views on political matters but shall not be permitted, in the course of the performance of his duties, to express those views publicly or seek to influence his colleagues or those who seek his services to subscribe to his political beliefs.

***Comments***

3. A member of management board shall not –
  - (a) Make public comments that support or criticise a political party;

- (b) Make public comments that may compromise, or may reasonably be seen to compromise, the political neutrality of his office;
- (c) Except in furtherance of official duties, publicly comment on matters in relation to which he has been professionally involved; or
- (d) Expressly or by implication, represent that any public comments he makes reflect the views or opinions of his organisation if that is not the case.

***Responsibility to organisation***

- 4. A member of management board shall ensure that he carries out his duties in a way that is consistent with his being part of his organisation.

***Efficiency***

- 5. A member of management board shall perform his duties with diligence, prudence and efficiency.

***Canvassing for favours***

- 6. A member of management board shall not canvas either directly or indirectly for any favours in the committee or in the organisation.

***Conflict of interests***

- 7. A member of management board is required to observe the following requirements in relation to his private interests –

- (a) he shall ensure that he does not subordinate his official duties to his private interests or put himself in a position where there is conflict between his official duties and his private interests;
- (b) He shall not associate outside his official duties with any financial or other activities in circumstances where there could be suspicion that his official position or official information available to him was being turned to his private gain or that of his associates;
- (c) He shall not engage in any occupation or business which might prejudice his status as an officer or bring the co-operative society into disrepute;
- (d) He shall maintain at all times the ethical standards, which the public expects of him in transacting official business with efficiency, integrity and impartiality.

*Gifts, etc*

- 8. (1) A member of management board shall neither ask for nor accept any property or benefit of any kind for himself or for any person, on account of anything to be done, or omitted to be done by him in the discharge of his duties by virtue of his official position.
- (2) A member of management board who is given a gift shall:–
  - (a) Report the matter to the authorised officer, who shall direct the appropriate mode of disposal of the gift; and

(b) Comply with any such direction.

(3) A gift referred to as bribe or questionable payment shall not be accepted by any member of management board.

***Conduct of private affairs***

9. (1) a member of management board shall not neglect his financial and other obligations or neglect to settle them.

(2) A member of management board shall live within his means and avoid incurring any financial liability that he cannot satisfy.

(3) A member of management board shall manage his finances prudently to avoid financial embarrassment.

(4) A member of management board shall be a role model to his colleagues and other people around him and shall therefore refrain from activities that may bring the committee into disrepute.

***Guarding of information***

10. A member of management board shall ensure that confidential or secret information or documents entrusted to his care are adequately protected from improper or inadvertent disclosure.

***Breach of Code***

11. Where a member of management board has committed a breach of this Code, appropriate action will be taken in accordance with the 2003 Act and other applicable laws.

***Performance of duties, general***

12. Any member of management board shall, to the best of his ability, carry out his duties and ensure that the services he provides are provided efficiently and honestly.

***Professionalism***

- 13 Any member of management board shall –
- (a) Carry out his duties in a way that maintains public confidence in the integrity of his society;
  - (b) Treat the society members and his fellow officers with courtesy and respect;
  - (c) To the extent appropriate to his office, seek to improve the standards of performance and level of professionalism in his organisation;
  - (d). Observe the ethical requirements of that body;
  - (e) Observe official working hours and not be absent without proper authorization or reasonable cause;
  - (f) Maintain an appropriate standard of dress and personal hygiene.

***Rule of law***

14. (1) Any member of management board shall carry out his duties in accordance with the laws made under the cooperative act of 2003.

(2) In carrying out his duties, a member of management board shall not violate the rights and freedoms of any member of the society.

***Conflict of interest***

15. (1) Any member of management board shall use his best efforts to avoid being in a position in which his personal interests conflict with his assigned duties.

(2) A member of management board shall not award a contract, or influence the award of a contract, to –

- (a) Himself;
- (b) A spouse or relative;
- (c) A business associate;

***Nepotism, etc.***

16. A member of management board shall not practice nepotism or favouritism.

***Giving of advice***

17. A member of management board who has a duty to give advice shall give honest and impartial advice without fear or favour.

***Misleading the members***

18. A member of management board shall not knowingly give false or misleading information to members of the society or to any other member of management board.

***Sexual harassment***

19. (1) A member of management board shall not sexually harass a member of the society or a fellow member of management board.

***Election of member of management board***

20 A member of management board shall practice and promote the principle that member of management board should be –

- (a) Elected on the basis of integrity, competence and suitability;
- (b) Elected in fair elections, the election should be free and democratic and no member shall be elected through illegal means.

***Submitting of declarations, etc***

21. A member aspiring to be elected to the management board shall submit filled form disclosing the following information.

- A) Personal details or personal history and experience in cooperative society.
- b) Cooperative membership records indicating performance, records in fulfilling membership obligations provided in the Act, Rules and by laws.
- c) Level of education
- d) Type of business or activities being undertaken by that member
- e) Anticipated contribution to the development of the Cooperative society after becoming a cooperative leader.

***Leadership,***

The cooperative leadership shall be of a high integrity, any person applying for a post in the executive staff shall have to prove to the satisfaction of the electing board that:-

- a) Has good education, sufficient to enable that person to handle the relevant responsibilities.
- b) Has the ability to manage the affairs of the cooperative society
- c) Has records of honesty of the highest level
- d) Is participating fully in cooperative society's membership affairs
- e) Has never been disqualified from cooperative leadership at any level of the cooperative system