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MASTER OF SCIENCE IN COMMUNITY ECONOMIC DEVELOPMENT (2005)

AMANI AND UPENDO WOMEN GROUP MICROCREDIT SCHEME DEVELOPMENT
MBEZI WARD – DAR ES SALAAM, TANZANIA

EUPHRASIA HERMAN NJIKU

Supervisor's Certification

This is to certify that I have gone through the Project Report of Ms. Euphrasia Herman titled "Amani & Upendo Women Group Micro-credit Scheme Development" and found it in a form acceptable for the partial fulfillment of the requirements for the Masters of Science in International Community Economic Development provided by the Southern New Hampshire University and Open University of Tanzania.

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Deus D.P. Ngaruko

Date: 05 April 2005

Statement of Copyright

Declaration

This is my own original work, and that it has not been submitted for the similar degree in any other University.

Signed ....

Date: 02/09/2005

Dedication

To my beloved husband, Tom Henry Magehema for his encouragement throughout the course, and to my beloved children Raynard and Kevin who really missed my company for long.

Abstract

This report is the output of the study which has been exploring ways in which the community based organizations can be used as instruments to alleviate poverty. The aim was to explore the extent to which the CBOs are practical, dynamic and potential actors in promoting desired socio-economic development activities in the struggle to alleviate poverty. Micro-credit, micro-financing and micro-enterprises are terms that have been used to describe and define the situation in which small loans are extended to people for the purposes of setting up small and usually self-employment projects that generate income. The research conducted aimed at examining micro-credit schemes as grassroots organizations, membership participation and accessibility, demand for credit and ways to increase lending portfolio through proposal preparations and their *modus operand* – which are inherent catalytic element to make them practical, dynamic, sustainable and potential in their activity sphere. The study has revealed that the credit facility is important in fostering small scale entrepreneurs to be more practical and proactive in delivering socio-economic activities. The role played by the CBO in creating entrepreneurial morale to small businesses in their locality is acknowledged. The CBO is ready to expand its services as acknowledged by demand of loans and readiness of members to access the loans. Borrowers are organized into groups and have showed their satisfaction with the current leadership. They have income generating activities, which reduce the risk of default. There are also effective mechanisms through which to disseminate valuable information on ways to improve relevant concerns of the members.

Above all, the CBO has targeted one of the most vulnerable groups in society – women. By providing opportunities for self-employment, the micro credit programmes will significantly increase microentrepreneurs' security, autonomy, self-confidence and status within the households.

Acknowledgement

First of all, I express my gratitude to my employer for allowing me to attend the course. I also thank the management of the Open University of Tanzania and Southern New Hampshire University for giving me this valuable chance to participate in this very important course. Special thanks should go to all instructors of the entire subjects. I am especially thankful to Mr. Michael Adjibodou, and Mr. Khatibu Kazungu who tirelessly devoted their time to take us through the project cycle.

It would be unbecoming if I do not express my gratitude to the research respondents I visited during data collection. I also thank the Mbezi Ward leadership who gave invaluable assistance to me in fulfilling the research requirements.

This study has involved the effort of many people who are to be on an endless list. But here it necessitates me to mention Mr. Deus P. Ngaruko who supervised my project and sincerely thank him for his careful reading and suggestions which improved much of the presentation and assistance in various aspects pertaining to the successful completion of this report.

With all assistance I received, however, all errors and omissions in this report, remain as the sole responsibility of the author.

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List of Abbreviations

CBOs	Community Based Organizations
ILO	International Labour Organization
MFIs	Microfinance Institutions
NBC	National Bank of Commerce
NGOs	Non-Governmental Organizations
NMB	National Microfinance Bank
ROAP	Rural workers' Organization Action Programme
SACCOS	Savings and Credit Cooperative Society
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Scientists
Tsh.	Tanzanian Shilling
UN	United Nations
URT	United Republic of Tanzania
USD	United States Dollar
USAID	United States Aid
WCARRD	World Conference on Agrarian Reform and rural Development
WEO	Ward Executive Officer

CHAPTER ONE: BACKGROUND TO THE STUDY PROBLEM

1.0 INTRODUCTION

A major task for the developing world, including Tanzania, is to build development strategies for eradicating poverty in rural and urban areas, where the majority of people live. Tanzania is one of the poorest countries in the world. By 1998, nearly 12 million people were living below the poverty line in rural communities in Tanzania (Bagachwa, 1994). This study explores ways in which micro-credits programmes can be supported and be used as instruments to alleviate poverty in urban and rural areas.

The UN agencies have long appealed to developing nations to formulate development policies and plans focusing on poverty eradication (Munkner and Shah, 1993). In Tanzania, as early as the 1960s, development policies were finalized in the Arusha Declaration blueprint and its socialist (Ujamaa) structures. The UN agencies were mandated for development in the third world. They directed their concern to development strategies in the developing countries. The International Labour Organization (ILO), in its "Rural workers' Organization Action Programme" for involvement of the poor in Development (ROAP of 1977) and the World Conference on Agrarian Reform and Rural Development (WCARRD of 1979) had one objective in common. This was "to assist the developing world in getting appropriate development strategies in an effort to alleviate poverty.

The World Agencies together with developing nations, through research and action programmes have come to realize that:

i) Voluntary organizations formed and managed by people themselves are the only effective instruments to transform development initiatives, and thus eradicate poverty.

ii) Participation, self-help initiatives, and autonomous management are key elements required in these organizations.

iii) Concerted efforts from all stakeholders must go towards promoting self-help organizations, and to encouraging peoples' participation in development programmes.

Tanzania has local self-organizations at grassroots level. These include non-governmental organizations and community based organizations (CBOs). These organizations together constitute an "associative sector" of the economy. They are meant to counter-balance the overwhelming influence of the profit-oriented private sector and the state controlled public sector. When functioning properly, they offer an opportunity for partial reshaping of the economic system that governs the daily lives of the poor majority, in a direction congruent with their interests (Verhagen, 1997).

1.1 Community Based Organizations

The term "community-based organization" means a private nonprofit organization, tribe or tribally sanctioned organization or other type of group that works within a community for the improvement of some aspect of that community. Community-based organizations deal with interventions at the community level and generally work with some social issue(s).

Community-Based Organizations (CBOs) include non-profit organizations, faith-based organizations, tribes, and their subsidiaries. The (CBOs) are value-driven organizations oriented to meeting the needs of the poor. They are normally established locally, of the community and operating on small scales. These CBOs are organized informally and some have little experience or resources, but are characterized by a high degree of commitment and fill an urgent temporary needs. They are ad-hoc' in nature, rising to address a need and some of them dissipate after that need is addressed.

In developing countries like Tanzania, there is an increasing reliance of the CBOs to shoulder the burden of socio-economic development aimed at poverty alleviation. This reliance comes in large measure because of the vacuum created by the inability of governments to meet the basic needs of the absolute poor. Also, because perceptions that their transaction costs are lower than those of the government and that they are closer to their clients (beneficiaries), engender ownership through participation, and they are effective in their delivery of basic services to the poor.

The nature and extent to which CBOs have affirmed these perceptions is part of the underlying rationale for this project.

1.2 The *Amani* and *Upendo* Women Group

The *"Amani na Upendo"* [1]Women Group is a Community Based Organization with 33 members, all residents of Mbezi-Luis in Dar es Salaam. The group was formed in 1999.

[1] Means Peace and Love

The group has finalized the process of preparing its constitution which explains clearly the mission of the group and what the group wants to achieve. The group is also among the groups that are recognized by local leaders. Communication with the Ward Executive Officer (WEO) revealed his willingness to extend support to the group. The WEO is very positive and promised to extend any support deemed necessary to enable the group to advance more and meet the objectives.

1.2.1 Mission Statement

Striving to maintain Peace and Love among women particularly in Mbezi-Luis by way of helping each other in social and economic activities; maintain good relations among themselves, formulate strategies to enhance economic activities to raise incomes, catalyze the formation of other groups and render better services to group members.

1.2.2 Programs

The group has 3 different programs that it deals with. These include:

1.2.2.1 Environmental Care

The group strives to avoid and reduce any negative environmental effects that may be caused by activities such as businesses they operate. The environmental care is aimed at provision of environmentally safe sanitary facilities, at community level through campaigns. The community is sensitized to the growing concerns caused by the hygiene, water and environmental degradation and recognizes and integrates the links between personal hygiene, water and environment. Specific activities such as cleanliness are also conducted.

Thus, the group is responsible for taking care of environment where they support the establishment of tree nurseries and plant trees and flowers, and advocacy for waste disposal control by educating people not to throw garbage haphazardly. The garbage disposed without proper control leads to environmental pollution which is hazardous to health. The group advocates for public awareness that leads to inform and understanding the relationship between human development and environment.

1.2.2.2 Counseling

The group recognizes that, sometimes people need help with problems that are too difficult to handle alone. There are times in lives when somebody feels it is helpful to talk to a counselor. It is also common that some people need help in making transition, and this is where a counselor can help.

The group has two counselors, who are nurses by profession and among the roles that they discharge include the help in:

- Resolve issues concerning family,
- Cope with feelings of anxiety and depression,
- Address problems such as eating disorders,
- Enhance self-esteem,
- Balance demands for home/work, etc.

The counseling services are provided through visiting families that need such services. The services are free of charge. Most counseling is done on a one to one basis. The counseling is done to members of the group in case a member is experiencing any problems that need attention of the counselor. The number of sessions depends on the nature and extent of the problem, and is determined by the beneficiary and the counselor. The services are further extended to the community where people infected with HIV/AIDS, street children particularly those in the "Child in the Sun" camp are visited. The services offered include short-term counseling for support through life change or developmental issues, crisis intervention and extensive referrals.

1.2.2.3 Savings and Credit Scheme

The provision of financial services has been increasingly considered as a major instrument for employment creation aiming at poverty eradication.

For the group members, most of whom are self-employed-small scale farmers, petty traders and micro-entrepreneurs in the urban informal sector, they need such schemes to boost up their capital. The lack of financial resources restricts their ability to expand production or undertake improvements in productivity and income.

Being more than only an instrument to raise incomes and sources of employment, credit services for the group members are also means of empowering them. Armed with the economic capacity to obtain goods and services that credit services provide, the women have stronger bargaining power when negotiating and dealing with other interest groups in a community. A woman for instance, who is able to have access to micro-credit, can also gain increased access to primary health care, safe water and sanitation for her family, and family planning information and services. She is also more likely to enroll her children, particularly girls in school. The common social development characteristic of many micro-credit programs for poor people especially women, is the regular meetings of solidarity groups either on weekly, biweekly, or monthly basis.

The "*Amani & Upendo*" Group Savings and Credit Scheme issues small loans to members but due to limited capital, the size of loans is small. The initial loan size is Tsh. 50,000 and maximum loan size is 150,000. Currently, the major source of income for the group is through members' contributions, interest for the credits and penalties. The amount issued as loans have been perceived very inadequate due to the fact that, as business expand, one would like to diversify or invest in other ventures. Members are thus ready to outsource loan funds from donors, hence require some skills in preparing funding proposals.

1.3 Problem Statement

A major constraint that the poor often face is access to credit at market rates to improve their income generating activities. While formal sector credit institutions have found the poor unbankable, several community- and trade-based savings and credit groups have proven that not only are they bankable, but that they are much more likely to repay their loans than upper-income groups. Experiences have shown that many micro-entrepreneurs joining these schemes not only break the cycle of poverty for their own families but also create employment in their communities.

Community based savings and credit groups have emerged as an effective medium through which credit can reach the poor. Most of these community savings and credit schemes were pioneered by local and international NGOs. In community based savings and credit schemes, the poor community members play the central role in accumulating the savings, setting the terms of credit and guaranteeing that monies borrowed are paid back. The solidarity that is developed through the successful functioning of the groups strengthens the confidence and commitment of the individual members and helps them to improve their livelihoods and lifestyles. It also feeds their capacity for community development.

Through interacting with the group, it was revealed that most constraints facing the group are related to access to credit fund for members to be able to borrow for improving their micro enterprises. There are also problems related to registration which impede the group from entering into contracts with development organizations that sponsor activities like training, offer grants and even loans. This study intends to investigate current features of the CBO and members activities with the view to suggesting viable solutions to problems impeding the functioning of their savings and credit scheme.

1.4 Rationale

The current study is carried to get hands on experience from the community based groups that are already working towards implementing the savings and credit schemes for poverty alleviation. It comprises of two way learning; I as a trainee to learn and get ground experience on issues related to microfinance, and group members to learn from a trainee particularly on areas that require guidance on selecting options that are better for their development. The interactive learning process also creates a link between a student, the community and the University.

1.5 Objectives of the Study

The main objective of the study was to contribute towards establishment of viable micro-credit schemes in a way which will enable the women groups to be practical, dynamic, and potential actors, the way they can promote desired socio-economic development activities and help in generating their income. Micro-credit, micro-financing and micro-enterprises are terms that have been used to describe and define the situation in which small loans are extended to people for the purposes of setting up small and usually self-employment projects that generate income. For the purposes of this paper, the terms micro-financing, micro-credits and micro-enterprises will be used interchangeably to describe offering a combination of services and resources to people who under normal circumstances, do not have access to the commercial banking sector.

In order to study the problem (research question) – how can the group members access micro-credits, the primary objectives were set as follows:

i) To determine the potential of the CBO to mobilize resources and in turn lend to members and promote socio-economic development in an effort to run income generating activities for poverty alleviation.

ii) To determine the receptivity and effectiveness of the group in utilizing micro-loans

iii) Based on i & ii above to draft a funding proposal for the CBO's savings and credit scheme.

1.6 Limitations of the Study

- Short time to cover all members of the CBO and non-members to see if the CBO is accessible to rest of the population
- Research funding/money was not adequate
- However, with limited time and resources, I managed to conduct this study and the findings justify representing the true picture and the needs of the CBO.

2.0 CHAPTER TWO: LITERATURE REVIEW

2.1 Theoretical Review

Desk studies were conducted to review Tanzanian micro-finance literature, and literatures from other sources, all relevant *Amani* and *Upendo*-documents such as constitution, work plans, and other secondary data and information. Secondary data were collected during literature review and some during fieldwork interviews by collecting relevant documents/statistics or literature, as they are deemed necessary.

From the theoretical literature Review, much of the research discussed the role of women in the Economic Development since it is a current topic of controversy within the community. Other articles examined and discussed the roles of women in various Poverty Alleviation Initiatives. Importantly, one of the journals, "World Development, Vol. 24(1): 45-63" (Goetz, A. & Gupta, R 1996) went beyond an explanation of the roles of women and dealt with why the role of women in the microfinance is an important topic. Authors of the journal examined the roles of women in the microfinance as related to feminism and how the roles of women within a larger framework are devalued.

Another article "The Role of Groups and Credit Cooperatives in Rural Lending –World Bank 5, no. 2: 187-204" (Huppi, Monika, and Gershon Feder, 1990) indicates that successful group lending schemes work well with groups that are homogeneous and jointly liable for defaults. The practice of denying credit to all group members in case of default is the most effective and least costly way of enforcing joint liability. Another way to encourage members to repay is to require mandatory deposits that are reimbursed only when all borrowers repay their loans. The article points out that credit cooperatives which mobilize savings deposits are less dependent on external sources and increase the borrowers' incentive to repay. The success of credit cooperatives requires training of members as well as management. Experience suggests that credit cooperative should not expand their activities beyond financial intermediation until they develop strong institutional and managerial capabilities.

The myth that the poor households in developing countries, who often earn less than a dollar a day, are not creditworthy or able to save has been firmly put to rest in recent years. Poor households, it has been found, place special value on reliable and continued access to different types of financial services, available at reasonable cost and catering to their specific needs. Credit and Savings facilities can help poor households manage and often augment their otherwise meager resources and acquire adequate food and other basic necessities for their families. Credit facilities enable them to tap financial resources beyond their own and take advantage of potentially profitable investment opportunities. Well-managed savings facilities provide incentives for households to build up funds for investment or future consumption. Credit and savings facilities enable microentrepreneurs to invest in enterprise improvements potentially making the difference between grinding poverty and economically secure life. Short term borrowing or savings are often used to maintain consumption of basic necessities when household incomes decline temporarily.

The task of providing financial services at a reasonable cost to those who have limited assets has not been easy, however. Until the 1980s the provision of savings services was also neglected because the importance of providing deposits services to the poor was not appreciated and because donor finance was available on attractive terms. Distributing loans at subsidized interest rates was emphasized. And it was all too easy for the socially powerful and wealthy to preempt most of the benefits of the subsidized distribution of credit. These type of actions greatly eroded borrower discipline and loan arrears ballooned. Not only did the banks failed to serve the poor who were unable to pledge collateral, they also became chronically dependent on larger and larger infusions of subsidy money, quickly sliding beyond any prospect of long-term financial sustainability. Many of them degenerated to costly and inequitable income transfer programs. However, Government, donors and NGOs continued to look for alternative models for extending financial services to the poor.

Richardson, D.C in his “Micro banking Bulletin” has provided some doctrines which answers the questions: Have micro-credit programmes succeeded in meeting the needs of the poor? Are non-governmental organizations (NGOs) such as aid charities or private credit unions, better than governments at reducing poverty by bankrolling grassroots enterprise? Though poor people tend to trust official schemes less, both types of credit programme have shown a tendency to overlook poor people's needs by failing to recognize how complex and variable a handicap poverty can be, especially for women. A wealth of policy lessons can be learned by analyzing how these schemes are designed and delivered, with a spotlight on how they define or profile poverty.

Most micro-credit programmes are intended to reduce poverty by compensating the poor for their lack of access to loan capital from formal credit institutions. But they may fail to take proper heed of poverty as a tangle of contrasting forms of exclusion. This literature review assesses and compares the record of official and independent credit programmes in this light. NGOs are widely preferred to government institutions as providers of credit. But yardsticks used on either side to assess performance can differ, making claims about their relative merits hard to evaluate.

One lesson that emerged from government schemes was that in places where gender inequalities were less severe, women were able to use their loans more productively. But overall, the signs were that targeting women for preferential treatment was not enough to ensure significant poverty reduction, particularly where gender bias at the delivery end meant programmes concentrated on 'traditionally' female (usually low-paid and low-productivity) activities.

More general criticisms of government-run schemes were that:

- they were 'bolted-on' to mainstream banking systems in a haphazard way, and as a result met few of the needs of the poor

- they lacked awareness of background disadvantages faced by the poor - such as lack of access to markets or to political influence. This meant credit alone was not enough to improve the situation of the poorest; more powerful groups in a community could easily corner the benefits.

By contrast, NGO programmes tended to follow more flexible rules, and to use credit to tackle poverty through a range of support activities, including group organization and providing practical information on how to use credit. Not all responses to NGO schemes were positive. Some were criticized because they were often unable to reach the poorest, partly because of unrealistic repayment rules, and partly because some of the poorest were reluctant to take on more debt. Some NGOs appeared to be biased in their approach to women, and worked with women only because they were seen as better credit risks than men, rather than out of recognition of their abilities or talents.

In terms of more general lessons arising from experiences to date, it was observed that:

- credit may not do much to alleviate the poverty of those recipients whose only asset is their labour power, and who may need additional complementary resources to enable them to use loans successfully.

- sustainability of credit programmes may mean that rules to ensure loan recovery need to be waived or modified for the poorest sections of the community.

- government-run schemes can spread their net much wider than NGO-run credit programmes, hence the latter are not necessarily better than state institutions at using credit to reduce poverty. Their flexibility and willingness to experiment does, however, provide an important model for future anti-poverty initiatives of all kinds.

2.1.1 Historical Overview of Microfinance in Tanzania

Up to around 1995, microfinance was a relatively new concept, mostly linked to women and poverty alleviation. Only a few institutions and donors were involved (most notably

USAID and NORAD). The government tried to woo commercial banks to give credit to the small and medium-scale enterprises, the so called the 'missing middle'. They supported this process through the establishment of credit guarantee schemes, setting up credit and business development service parastatals to deliver general training, entrepreneurship training, and credit, but in all this, micro enterprises were completely left out of the equation.

The important role of finance as a catalyst in the economy is well acknowledged and consequently received a good attention. The role of microfinance however, is focused on financing of micro and Small Enterprises (SMEs). The pioneering work of Yunus (1983) – founder of the Bangladesh Grameen Bank – is a worthwhile example. Yunus points to the economic strength of credit to small businesses and low income households to break the vicious cycle of low income – low savings – low investment (quoted from Rutashobya, 1991).

The Micro and Small Enterprises (MSE) covers a wide range of enterprises (industry, transport, commerce, services, agriculture, etc.) ranging in size from part time, seasonal activities of a single person to small, formal enterprises employing several non-family members. The micro credit service providers recognizes that different types of micro and small enterprise clients have different characteristics and demand different services. Hence the strategy of the government is to encourage a range of institutions that uses specialized methods to serve their particular market niches. These can include commercial and development banks, credit unions, mutual or community banks, non-governmental organizations (NGOs), finance companies, cooperatives, savings and credit associations, and other socio-economic groupings that foster savings and credit related services. At the same time, however, the operations of such groups should be based on the premise that fundamental principles of microfinance are applied widely and must be observed by all institutions if they are to succeed. Moreover, support mechanisms have to be consistent with best practices and long-run development of sound financial systems.

The MSE sector in Tanzania is an outcome of the structural adjustment policy rather than by design. It is amongst the products of the failure of both the agrarian and the formal wage employment to meet basic human needs. The MSE sector is growing rapidly in response to the sharp fall of incomes and the exploding problem of unemployment. The government is not creating enough jobs to absorb the rising ranks of the unemployed. Removal of guaranteed employment for graduates, retrenchment from Government service, restructuring of parastatal organizations and low absorption rate of the increasing number of school leavers at all levels amplify the problem.

The MSE is expected to be the immediate employer of the unemployed. Many people both young and adults are increasingly turning out to the sector as either employees or owners (Omari; 1991, Koda; 1995). Too many individuals being in the sector is a search for alternative employment opportunities, either to supplement their wage income or some cases it is the only source of income (Koda, 1995).The National Informal Sector Survey (1991) show that microenterprise generate employment to more than 2.4 million people. This is more than 22% of the total labour force and is much higher than the formal wage employment that was employing only 6.7% of the total labour force. The sector is also said to have the highest annual employment growth rate of 10% (Toroka and Wenga, 1997).

2.1.2 Financial Sector Reforms

The Government of Tanzania embarked on financial sector reforms in 1991, in order to create an effective and efficient financial system. The lynchpin of the reforms consisted in the Government's commitment to permit banking institutions to operate on a commercial basis, making their business and management decisions free from outside intervention within the norms of prudential supervision. The principal elements of the financial sector reforms included liberalization of interest rates, elimination of administrative credit allocation, strengthening the Bank of Tanzania's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing the entry of local and private banks into the market. 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.

Despite the progress being achieved in the mainstream banking system, financial services to the poor and low income households in the rural and urban areas have been slow to develop and the access of these large segments of the population to financial services has remained stunted. Government realized that in order to have an efficient and effective financial system, additional focus must be placed on the expansion of financial services to the low-income segment of the population, and that the microfinance sector must be an integral part of the country's financial system. Recognizing the widening institutional gap the Government, in collaboration with the donor community, took action to facilitate the development of the microfinance industry. One of the important actions was initiating the microfinance policy formulation process in 1996 with a nation-wide demand study on rural and microfinance.

A draft National Microfinance Policy document that was the subject of discussions at a stakeholder meeting in May 1999 was submitted to Government for approval, which finally came in February 2001. The National Microfinance Policy articulates a clear vision and strategy for the development of a sustainable microfinance industry, specifying the respective roles of the key stakeholders the Government and its principal agencies in policy formulation and implementation, the different institutional providers of microfinance services, and the donor community. In its statement of the overall microfinance policy, the Government recognizes the microfinance sector as an integral part of the financial sector, which falls within the general framework of its Financial Sector Reform Policy Statement of 1991.1

Macroeconomic and Policy Context

Structural transformation in Tanzania has been notably limited, and achievements relative to expectations have been marginal. Agriculture still dominates the economy: the share of agriculture (45%), exports (75%) and employment (80%) are lower than levels at independence but higher than in most developing countries. Nonetheless the non diversified economy hampers the flexibility to withstand shocks when they occur. A striking feature of the Tanzanian growth experience is that when the respective growth trends for key variables are placed side by side, investment and growth hardly seem to correlate. The main factors behind the slow progress in Tanzania's development are primarily inadequate capital accumulation and productivity growth, poor support for the transformation of agriculture, disrupted progress in building human capital, and delayed demographic transition. Gross domestic investment increased from 13 % of GDP in 1964 to 30 % in 1991, and then declined sharply to 18 % in 1997. There were significant losses in investment productivity during the 1970s ands early 1980s, reducing the economy-wide rate of return from nearly 30% in the 1970s to nearly 5% in the mid-1980s.

After four decades of independence Tanzania remains one of the 10 poorest countries in the world. Its per capita GDP of US$267 is low, and far less than the averages for Sub-Saharan Africa and East Asia of US$500 and US$970 respectively. Poverty remains widespread and deep, with half of Tanzanians living under conditions of deprivation. Poverty is concentrated in the rural areas where approximately 70 % of Tanzanians live.

As the reforms were been introduced, unemployment increased, and an informal sector became an important means of livelihood for a considerable proportion of the population. At the same time the need to support women as a specific marginal group appeared on the agenda of many development agencies. The Government, donors and NGOs (emerged after liberalization) initiated credit programmes in support of the informal sector and women. The majority of credit schemes initiated in the 1980s and 1990s have remained small and unsustainable, reaching only the few people with minimum impact. Many were politicized, heavily subsidized and were not designed to achieve sustainability.

Available records show high prevalence of rising poverty among majority of the Tanzanians, particularly women, youth and the aged. The poor have little access to financial services mainly through Microfinance Institutions (MFIs).

Despite this progress in the mainstream banking system, microfinance services have been slow to develop. Although microfinance institutions (including Donor and Government programs and schemes) have been in existence even before the reforms, they have remained weak due to the following factors:

- Interest rates are not set by the organizations/programs/schemes themselves and as such, in most cases they are set at levels that are too low to cover operational costs;
- Organizations providing microfinance services are depending on donor funds for their operations instead of building their own internal capacity; and
- Microfinance schemes operate under different laws which render it difficult to monitor them and develop common standards.

Furthermore, the impact of some of the reforms, such as the closure of branches during restructuring programs and the abandonment of directed credit, have actually reduced the services available to low income people. The Government realized that while the financial market principles enshrined in the 1991 reforms retained their guiding force as the basis for sound financial sector development, additional focus ought to be placed on the expansion of financial services to micro-level clients. The restructuring of National Bank of Commerce (NBC) and the resulting to the establishment of the National Microfinance Bank (NMB) illustrates the Government's vision in this area. Microfinance systems are, and will increasingly become, integral parts of the country's financial sector.

2.1.3 The Role of Microfinance in the Economy

Microfinance offers a promising alternative for broadening the reach of financial services to the poor, especially in developing countries. Microfinance institutions seek to provide small-scale loans and other financial services to low income individuals and informal businesses. The size and scope of the microfinance industry has been expanding quickly, and is expected to grow further as the demand for financial services by the poor remains largely unmet. Some estimates indicate that the potential market for microfinance services worldwide may range from 400 to 500 million people, with less than one-tenth of them served by MFIs at end of 2003 (Daley-Harris, 2003).

The institutions that provide microfinance services are the real driving force behind the achievement of the ultimate goal stated in the policy statement. The Government's goodwill accomplishes little without the effort and commitment of financial institutions and other service providers. Such institutions are free to develop microfinance services on the basis of their own internal objectives, whether profit, poverty alleviation, or other motivations. They are not required to support the sector, but are encouraged to learn about such services, to make informed choices about the fit between their organizational objectives and services to micro enterprises. The Government expects institutions that decide to become microfinance service providers to fulfill their responsibility to learn best practices and to apply sound financial principles in the delivery of their services.

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

The Government considers microfinance system as an integral part of the financial sector that fall within the general framework of its Financial Sector Reform Policy Statement of 1991. The cverall objective of the microfinance policy (May, 2000) is therefore to establish a basis for the evolution of an efficient and effective micro financial system in the country that serves the low income segment of the society, and thereby contribute to economic growth and reduction of poverty by:

i) Establishing a framework within which micro-finance operations will develop;
ii) Laying out the principles that will guide operations of the system;
iii) Serving as a guide for coordinated intervention by the respective participants in the system; and
iv) Describing the roles of the implementing agencies and the tools to be applied

The policy covers the provision of financial service to households, small holder farmers, small and micro enterprises in rural areas as well as in the urban sector. It covers a range of financial services, including savings, credit, payments, and other services. Clients use these services to support their enterprises and economic activities as well as their household financial management and consumption needs. Financing for all types of legal economic activity is included, e.g. commerce, trade, manufacturing and agriculture. The policy is directed at services for low income families and their enterprises that have lacked access to financial services from mainstream financial institutions.

Savings services are among the most beneficial financial services for low income people. Nearly all households need to save to protect themselves against periods of low income or specific emergencies and to cover large anticipated expenses. Enterprises also need to store the value they accumulate from their profits until they can invest them to earn a higher return. Moreover, savings in financial form provide funds for investment by others. Thus, savings services can have a very broad outreach and value.

Credit services can perform some of the same services as savings and can allow enterprises and families to make some important investments sooner. Enterprises use credit as a source of short-term working capital and long-term investment capital. Households use it to meet consumption needs, particularly during the off season before crops are harvested, and to make investments, such as housing improvements.

In short, microfinance addresses the financial needs of major sector in Tanzania population. They are primarily facilitators rather than creators of the underlying economic opportunities that lead to widespread economic prosperity. Microfinance services are financial in nature. They differ materially from social welfare and resource transfer policies, although they can contribute to the reduction of poverty and improvement of income distribution.

Tanzanian microfinance industry has become increasingly vibrant, with many more players entering the field. The key players in Tanzania include: National Microfinance

Bank (NMB), CRDB, FINCA, PRIDE and SEDA. Besides these, other banks such as the Tanzania Postal Bank, have recently introduced microfinance products or plan to do so in the near future. Even the mainstream banks are beginning to take keen interest in this sector. CRDB Bank has incorporated a dedicated subsidiary for microfinance while Standard Chartered and Barclays are showing a strong interest in the SMEs sector. A large number of medium sized and smaller local microfinance institutions, such as community banks (Dar es Salaam Community Bank, Mufindi Community Bank) are two well known examples), religious groups, and NGOs, as well as several SACCOS and SACAs are operating with limited local outreach. Nearly all the commercial banks are now aggressively offering consumer lending to salaried employees with a number of them targeting lower-end employees. There is evidence that in a number of cases, these loans are used as start-up capital for small businesses to supplement the family income.

2.2 Empirical Review

A case study conducted by Mutesasira (1999) in one of PRIDE Tanzania clients for Kijenge Branch-Arusha indicated a client namely Joel who was a member of a 4 member Rotating Savings and Credit Association (ROSCA) where each member contributes Tsh. 50,000 per month. All of the members are in the timber businesses. Each usually uses the Tsh. 150,000 pay-out to restock logs. "Using the ROSCA saving for working capital is very common among small business people although some use it for other things," said Joe. "I know PRIDE clients that have used the money to build a house, for shopping, paying laborers, buy more stock for the business and sometimes to make loan repayments". All this is possible if the credit is invested into a business rather than if it is consumed, hence shows importance of credits in boosting household incomes.

These findings are similar to those of Bagachwa (1995) who reports that, "These more liquid forms of savings that are mobilized by savings and credit schemes are being used to finance education of children, to meet such irregular needs as funerals and weddings; and to invest or expand investments (for example buy or build a home, purchase inputs or equipment and improve or enlarge farms)".

Another good example of micro credit in promoting businesses in Tanzania is the Small Enterprise Development Agency (SEDA) which is one of the leading MFIs in northern Tanzania. Based in Arusha, SEDA makes loans through a network of three primary branches (Arusha, Moshi and Mwanza) and four field offices (Shinyanga, Dodoma, Babati, Kahama). It was initiated by World Vision Tanzania in 1995 with the objective of improving the social-economic and health status of households in poor communities through the development of micro-enterprises owned primarily by women.

SEDAs services are targeted to the economically active urban poor, by making group loans to 8-15 individual members; women comprise 70% of the client base. SEDA provide financial services and business advice. By the year 2001, SEDA increased their clients from 2,200 to 11,000 plus by expanding its network to a total of six offices in northern Tanzania.

Through the businesses that were financed by SEDA, the targets achieved included; 75% of clients increased expenditure on key consumption items such as food, clothing, education, medicine, and healthy services; 50% of clients experienced improved health and education status; 50% of clients reported an increased sense of empowerment; etc.

Other empirical studies conducted have also revealed that increased income earned by a low-income mother translates into a chain of positive improvements for her family. This chain starts with her capacity to purchase more food. A better diet and improved nutrition stimulate better health. Improved health results in greater resistance to disease, higher energy, greater capacity for work and learning and thus enhanced productivity. As family nutrition and health are stabilized, incremental investments in the education of children are almost certain to follow. Close behind education expenditures comes investments in home improvements. Finally, these outcomes are paralleled by a near-total transformation of the borrower's self-respect.

The following are examples of instances where increased income, owing to access to micro-credit, has had a positive impact on the situation of poor women. A survey of female participants in the Foundation for International Community Assistance (FINCA) programme found that 60 per cent of those interviewed felt that they received greater respect at home after enrolling in the programme and contributed more significantly to household income and decision-making.

Micro-finance has become an important instrument of poverty alleviation, especially for women. According to the Micro-credit Summit Declaration and Plan of Action, programmes reach an estimated 8 million of the very poor, particularly women. Micro-finance programmes and institutions have been targeting women, a reflection of their role in food production and small-scale, or micro, enterprise, and women as a group have consistently demonstrated superior repayment records and credit-worthiness. A United Nations Development Programme (UNDP) and Women's World Banking survey in 17 countries identified 98 institutions which had 85 per cent loan repayment rates, an average loan size of US$ 280, and 62 per cent female borrowers. A micro-credit pilot project, funded by the French Development Fund in Burkina Faso and Guinea, had a 98 per cent repayment rate. Evidence is also from the Small Entrepreneurs Loan Facility Project co-financed by the Government of Tanzania and a loan from African Development Bank (ADB) which has 95% repayment rate. The key to success has been identified as collective responsibility for repayment, peer pressure and social cohesion.

Micro-finance programmes have other benefits, including that of providing women with valuable exposure to legal literacy and commercial know-how, and participation in and interaction with the decision-making processes in their local communities. Micro-finance programmes, however, are no panacea for women's development and empowerment. They should be implemented as part of a mix of policies, including equitable property rights and the development of infrastructure.

A study conducted by Fernando Aportele has revealed that, access to formal savings and credit instruments is commonly assumed in the economics literature. Nevertheless, in developing countries, availability of these instruments for low-income people is not universal. Usually in these countries, opening a bank account has relatively high transaction costs relatively high fees and commissions for this segment of the population. These constraints must have some impact on the individual's behaviors. In spite of that, little is known about this issue.

Actually, it is widely believed that low-income people do not save, neither are they credit-worthy. However, empirical evidence has proven that this to be wrong. Once suitable financial instruments are available to this group of people, they become eager and regular servers (Mansell, 1995).

Given that borrowing constraints are more stringent for low-income people, a clear way to relax them is by mobilizing their savings into the formal financial sector (Deaton, 1990). Mobilization is highly dependent on the responsiveness of this group to financial developments. International institutions are interested in increasing financial access to low-income people. Empirical evidence shows that success or long term viability of these programs depends on the responsiveness of people's total savings to this increment in access.

Linda Mayoux (1997) makes the assertion that micro-credit programs are currently being promoted as a key strategy for both poverty alleviation and women's empowerment on the basis that these programs have the impact of increasing women's income levels and control over income which ultimately results in greater economic independence.

Another factor is that micro-credit programs provide women in Africa with the access to networks and markets which equips them with a wider experience of the world outside the home. In this process, access to information and possibilities of other social and political roles are enhanced.

Mayoux (1997) recognizes that the establishment of micro-credit programs enhances the perception of women's contribution to household income and family welfare and this increases women's participation in household decision-making about expenditure and invariably creates a greater expenditure on women's welfare. Finally, these programs tend to help greatly in changing the attitudes of men to the role of women in the household and the community in general.

The programs and services offered are usually established for the purposes of creating and developing self-employment opportunities. Thus a micro-enterprise based on the application of these terms, would refer to a sole proprietorship that has fewer than five employees, does not have access to the commercial banking sector and can initially utilize a loan of under $15,000. These "small" loans are utilized through micro-enterprise development programs, which are usually run by non-profit organization that provides a combination of credit, technical assistance, training and other business and personal assistance services to micro-enterprises.

Clark and Kays (1995) give the characteristics of micro-credit loans as "facilities with an average size of $5,640, with terms ranging from one year to 4.75 years. The programs charge a market rate of interest that is between eight to 16 percent, and these loans are generally secured by non-traditional collateral, flexible collateral requirements or group guarantees".

The Characteristics of Micro-credit Programs in Africa and Tanzania in particular, in the business of micro-credit financing, there is a premise that borrowers are the best judges of their own circumstances and as a result, they know best how to utilize credit facilities when it is available. The thrust of this premise is that each individual has the opportunity to choose the income- generating activity appropriate to her own peculiar situation.

Based on this notion of peculiarity of situation, if a borrower is involved in group lending, she enjoys the benefit of constructive criticism from the members of her lending group. In this situation, the programs have the benefit of both individual creativity and participatory planning initiatives by a group of peers.

The concepts of individual creativity and group planning are just two of the many important characteristics of micro-credit programs. Other essential characteristics include:

- The targeting of poor people in the society;
- Tailoring program operations to reach women considered as key recipients of micro-credit;
- Establish simple procedures for reviewing and approving loan applications;
- Delivering of credit and other related services to the community level in a convenient and user-friendly way;
- Facilitate the quick disbursement of small, short -term loans usually for a three to one year duration;
- Designing clear loan recovery procedures and strategies;
- Establish an incentive program which grants access to larger loans based on a successful repayment of first loans;
- Maintain interest rates that are adequate to cover the cost of operations;
- Encourage and accept savings in tandem with lending programs;

- Institute a commitment to, and training for democratic participation in decision-making by all those involved as clients;
- Develop a culture, structure, capacity and operating system that can support sustained delivery to a significant and growing number of poor clients;
- Provide accurate and transparent management and information systems which can be utilized to take decisions, motivate performance, and provide accountability of management performance and the use of funds, and clearly demonstrate program performance to commercial financial institutions and
- Provide access to business information, expertise, and advice to micro-entrepreneurs.

In addition to these characteristics, micro-credit programs must offer loan menus that meet the needs of their clients. For example, the granting of consumer loans can contribute to the productivity of the poor entrepreneur as well as providing security and reducing vulnerability.

This factor is very important due to the fact that the cost of living for many poor people is at a precarious level, and this forces people to become vulnerable to a multiplicity of personal and financial disasters: illness generates medical expenses; death creates funeral expenditure; crop failure requires additional expense on food as well as seeds for the next planting season.

The variety of loan menus, therefore assist poor clients in managing these events without forcing families to sell their assets to raise cash or risk the traditional money lenders crippling rates of interest.

The Case for Micro-credit for Women in Africa

It is important in stating the case for the institution of micro-credit programs for African women, to attempt to discuss the underlying reasons why the focus is on women. The women of Africa's savings, production, marketing and mutual help groups are not new to African societies. Traditionally, women in Africa, have constituted the social, moral, and economic backbone of their respective communities and have proven over time, that, they are effective, skilled creative and highly reliable when launching economic projects.

These qualities and attributes are more important when analyzed in terms of their impact on the quality of life, elimination of hunger and poverty, education, health and economic independence. Regardless of the benefits that are to be gained from the empowerment and emancipation of African women, experience shows that economic development that is promoted at the macro level in many African economies, often marginalizes women.

The value of micro-credit and its high potential to help the poor people is reflected in the work of Otero and Rhyne (1994) which reflects seven studies based on practical experience and evaluative research. Otero and Rhyne (1994) study shows that in developing countries, late payment and bad loan ratios are comparable to or below that of conventional banking houses. In this study in which the operations of Banco Sol, a micro-credit institution was analyzed, it was revealed that only .04 percent of the loan portfolio was in arrears beyond thirty days compared with a 4.42 percent figure at the conventional banking institutions.

Even though the creditworthiness of poor people has no basis in terms of gender, there is evidence to support the fact that though women have often been denied access to credit by legal and traditional barriers, experience has shown that women as a group are consistently better in promptness and reliability of repayment. As a result, focusing on women as clients of micro-credit programs has been a very effective method of ensuring that the benefits of increased income accrue to the general welfare of the family, and particularly children. At the same time, women themselves benefit from the higher status they achieve when they are able to provide new income.

Another important factor that supports the establishment of micro-credit institutions to address the developmental need of women is that micro-credit programs in the developing world have been found to be sustainable. Christen, Rhyne and Vogel (1994) in a paper concluded after a study of eleven leading micro-enterprise financial institutions note that while some of the eleven institutions continued to be dependent on grants and subsidized loans, a number of the these institutions also achieved a state in which they continued to function without the need for these loans.

The case for micro-credit institutions is made with reference to the fact that the model of micro-credit institutions has a high level of replicability. In spite of ethnic and cultural differences, micro-credit programs, using different methodologies, have spread rapidly around the world, in many cases implementing innovations and adaptations that are necessary in different context. For instance, the Grameen Trust has funded project start-ups in nineteen countries in Asia, Africa, and Latin America.

A good example is Development International Desjardins (DID), one of Canada's savings and credit cooperative movements, which has invested a total loan portfolio of $161 million in fourteen developing countries with majority of them in Africa, and Tanzania also has such programmes.

Drawing on empirical evidence from other developing countries of the world, there is ample evidence to suggest that micro-credit programs help borrowers work their way out of poverty. The Catholic Relief Services reports that 97 percent of the members of two established village banks in Thailand found their income had increased by between $40 and $200 per year. Susan Hahn and Mario Ganuzza conducted interviews with 380 FINCA village banks in El Salvador, and revealed that weekly income increases averaged nearly 145 percent (USAID/El Salvador Report).

Another factor that presents a case for the establishment of micro-credit programs for women is that, the programs stimulates savings and asset accumulation among poor people. One of the most important services that many micro-credit programs offer their clients is a safe place to deposit their savings.

Empirical and anecdotal evaluations of many micro-credit programs report conclusively that, from the client's perspective, learning to save and having a safe place to keep those savings, are principal benefits of the program. The ability to save offers advantages to both the borrower and the micro-credit institution. Borrowers invariably see savings as way of enhancing family security. In addition, savings also give borrowers a yardstick for measuring their economic progress, and this is often a great pride for women who have never had their own working capital. By providing borrowers with a growing stake in their peer- lending group, savings accumulation provides an incentive for insisting on an efficient and transparent management of funds.

In some micro-credit systems, savings generated by the members of a peer-lending group are re-lent among the group's members which then creates a second loan portfolio, whose interest income becomes an additional source of income to the borrower. For the micro-credit lending institution, savings provides an important source of additional collateral for meeting risk of non-payment, and for increasing the supply of available loan capital. Savings as a percentage of total loan portfolio also provides a convenient measurement of the program's rates of internal capitalization and financial self-sufficiency.

In making a case for the institution of micro-credit programs, an argument is made to the effect that many micro-credit programs are the vehicles for a variety of desirable social development. The essential argument in this assertion rest on the fact that micro-credit can play an important role in increasing access to basic social services and thereby enhancing the well being of the very poor people.

A poor woman for instance, who is able to have access to micro-credit, can also gain increased access to primary health care, safe water and sanitation for her family, and family planning information and services. She is also more likely to enroll her children, particularly girls in school. The common social development characteristic of many micro-credit programs for poor people especially women, is the regular meetings of solidarity groups either on weekly, biweekly, or monthly basis.

McKNelly and Dunford (1996) reiterate that these meetings not only facilitate regular payments on the loans, but also play a crucial role in forging the solidarity of the borrower group. From a program design standpoint, these regular meetings provide an excellent opportunity for learning and discussions about issues such as healthcare, sanitation, family planning, solving marriage troubles, and running a business among other issues.

According to Ela Bhatt, secretary-general of the Self Employed Women's Association (SEWA) micro-credit program based at Gujarat, India, "the regular meetings of SEWA clients invariably brings them together to think through their common problems, agree on common issues, decide on common action, and forge common ideologies". These community initiatives result in the establishment of daycare services, schools, playgrounds, clinics, reforestation, potable water, fuel-efficient stoves, electrification, literacy classes, social security systems and insurance schemes. These projects grow out of the leadership skills and solidarity spawned by peer-lending groups. By this process, micro-credit programs make significant contributions toward building civil society institutions; this provides an important synergy between improving the economic well-being of poor women and fosters the growth of institutions that give them a greater opportunity for participating in their society.

The Impact of Micro-credit Programs on Women: Case Studies from Selected Countries in Africa

The International Co-operative Alliance (ICA) micro-credit program in the Northern region of Kilimanjaro, Tanzania, provides an example of the impact of micro-credit on the women in Tanzania. In Tanzania, women are the backbone of the rural communities and constitute half of the country's population. These women found that the first hurdle they encountered in setting up businesses was access to credit facilities. To the women of Kilimanjaro region, getting a loan from the bank was a nightmare, which involved form-filling processes that never produced the financial resources that they required.

To overcome this hurdle, 30,000 women in this region have set up a savings and credit association with the help of ICA, to raise capital for their business activities. The total amount realized from the contributions of each woman in the region yielded 200,000 Tanzanian shillings which is the equivalent of $400. This money formed the seed capital of the Masasa Women's Credit Association.

From this seed capital, each member of the association is allowed to borrow half of what she contributed and pay back this amount with an interest of two percent compared to the commercial rate of 30 percent charge by commercial banks in the country. In addition to having access to a regular source of finance, the women of this credit association have been trained in book-keeping, savings and credit management in the areas of co-operative development.

In view of these developments, the current signals that stress on an intensification and support for poverty alleviation efforts must be sustained. Specifically, the enormous potential can be exploited by providing greater opportunities for the poor in the societies through micro-credit programs, which adopts a "bottom-up" approach instead of the often used "top-to bottom" measures.

In addition to these efforts, it is important to assert that the path to poverty reduction must include the empowerment of communities, households, and individuals, which allows them to seek their own solutions and welfare enhancing opportunities. To state this in a very candid manner, the greatest potential is women and therefore it must be accepted that, investment in women's education and promotion of their access to productive resources, will promote economic growth, redress the imbalances produced by the discriminatory and marginalization policies, and achieve higher standards of living for the country as a whole.

In view of the overwhelming empirical evidence that women in general, and Tanzanian women in particular account for a substantial proportion on the poorest people in the world, there has been a rethinking of aid policy and practices within the donor community and agencies, with a view of redirecting aid resources for the benefit of women.

2.3 Evolution of Savings and Credit Cooperative Societies

Savings and credit Co-operatives in Tanzania are the oldest in Africa; they have existed in Tanzania since 1930s. They are found both in urban (employees co-operatives at work places) and in rural areas where they are closely linked with primary co-operative crop marketing societies. They have, nevertheless, suffered the legacy of Co-operatives in Tanzania: policy and political disruptions, dissolution and reformation, top-down initiatives in their formation and management appointments particularly during the socialist and strongly centralized Tanzania. For the political economy and transformations of co-operatives see for example Mporogomy, 1988, Schyberger 1988, Mushininga 1991, Mwangamila 1992 and Scwettman 1993. An interesting observation here should be that despite the interruptions, co-operatives have overtime gained strength.

Currently operating SACCOS are structured based on the 1991 Co-operative Act of Tanzania. They are voluntary associations to which members contribute their savings and from which they may obtain loans. SACCOS are urban or rural based. In general SACCOS normally have between 100 to 700 members with an average of about 400 members per society. They have simple one room office, basic facilities such as a safe, a members' register, a ledger book and correspondence file. With very minor variations a Manager, Treasurer and a Secretary. Operations are very simplified; deposits and loans both require minimal paper work. SACCOS offices in the villages are found at convenient places; close to the bus stations, shopping centres and also within a close reach to the Coffee Marketing Co-operative office. Mainly retired civil servants, former primary school and secondary school teachers, or former commercial bank workers, who come with varied administrative experience, manage SACCOS.

2.4 Policy Analysis

2.4.1 National Microfinance Policy

The National Microfinance Policy articulates a clear vision and strategy for the development of a sustainable microfinance industry, specifying the respective roles of the key stakeholders, the Government and its principal agencies in policy formulation and implementation, the different institutional providers of microfinance services, and the donor community. In its statement of the overall microfinance policy, the Government recognizes the microfinance sector as an integral part of the financial sector, which falls within the general framework of its Financial Sector Reform Policy Statement of 1991.7

Lead Government Agencies

Insofar as the Government agencies are concerned, the policy identifies the Ministry of Finance as the agency having the overall responsibility for government finances, the development of the financial system and oversight for all official donor assistance. Because the Bank of Tanzania (BOT) has responsibility for oversight of the entire financial sector, the policy places on the BOT the overall responsibility to coordinate the implementation of the national microfinance policy. As microfinance appears in various policy and strategy documents issued by government ministries as an element in their programs, these other government agencies and entities are required to coordinate and consult with the Bank of Tanzania to ensure that the design and implementation of their programs are consistent with best practices and the principles laid out in the policy statement.

Coverage of the Policy

The policy covers the provision of financial services to households, small holder farmers, small and micro enterprises in rural areas as well as in the urban sector. It covers a range of financial services including savings, credit, payments, and other services which clients use to support their enterprises and economic activities as well as their household financial management and consumption needs. For purposes of policy, financing for all types of legal economic activity is included, e.g., commerce, trade, manufacturing and agriculture, and the definitions of small and micro enterprise are not tied to arbitrary limits or bases such as the number of employees, or the value of assets or sales. Thus the policy focuses on financial services for low-income families and their enterprises that have lacked access to financial services from mainstream financial institutions.

2.4.2 The Small and Medium Enterprise Development Policy

In Tanzania the Small and Medium Enterprise Sector has been recognized as a significant sector in employment creation, income generation, and poverty alleviation and as a base for industrial development. The sector is estimated to generate about a third of GDP, employs about 20% of the Tanzanian labor force and has greatest potential for further employment generation.

Based on the importance of this sector and its potential, the SME Development Policy was designed to revitalize the sector to enable it to contribute to the objective of the National Development Vision 2025. Furthermore, it aims at creating a mechanism to put in place an effective institutional framework for its implementation, coordination, monitoring and evaluation. Central to all these strategies is the ultimate objective of attaining rural industrialization in line with the Poverty Reduction Strategy and the Vision 2025. The policy aims at revolutionizing the SME sector to make it vibrant and sustainable agent of growth of the economy.

The overall objective of this policy is to foster job creation and income generation through promoting the creation of SMEs and improving the performance and competitiveness of the existing ones to increase their participation and contribution to the Tanzanian economy.

Scope of the Policy

The Policy covers the following key areas:

i) Reviewing and reconsidering public policies and regulations that discriminate against or hinder the start-up, survival, formalization and growth of SMEs.
ii) Enhancing the growth of the sector.
iii) Identifying and assigning clear roles of key sectors
iv) Developing strategies that will facilitate provision of financial and non-financial services to SMEs.

v) Developing and institutionalizing public-private partnership for SMEs sector development.

Access to Finance

The SME sector in Tanzania has limited access to finance due to the following factors: the sector is perceived as a high risk one; inability off the SMEs operators to fulfill the collateral requirements; most banks do not operate an SMEs financing window; some of the banks operate in limited geographical areas; inexperience of Bank staff in issue related to microfinance; lack of guarantee scheme to back up banks financing SMEs; high cost of screening and administering small loans spread over big areas and inabilities of borrowers to prepare and present applications that meet bank's requirements.

The current reforms have resulted in liberalization of the financial sector to a great extent. This has led to establishment of a number of banks including the Microfinance Bank, liberalization of the financial rates and establishment of a stock exchange market. In spite of all these, the SME sector is facing a major constraint in accessing finance. This limits their capacity to survive, increase capacity, upgrade its technologies and even in many cases, expand their markets and improve management or raise productivity and eventually increase incomes.

Policy Statement

The Government will enhance financial reforms aimed at further liberalization of the financial sector and creation of financial intermediaries to cater for SMEs.

Strategies to achieve this include:

i) Promote transferring lessons and good practices from traditional financing mechanisms into suitable financial products for financing SMEs

ii) Facilitate opening up of SME windows in financial institutions

iii) Promote innovative financial products for SMEs such as hire purchase scheme, leasing, inventory financing, venture capital SMEs and, Savings and Credit Schemes

iv) Promote improving access of SMEs to bank financing through simplification of procedure

v) Mobilize resources and promote development of new financial institutions financing SMEs.

Gender and the Disadvantaged Groups

The policy recognizes that women are a significant part of the Tanzanian labor force and as such any meaningful development effort must mainstream women. Unfortunately, they have less access to productive resources such as land, credit and education due to cultural barriers. As such, it is clear that men and women stand on uneven ground and thus the need for specific measures for promoting women entrepreneurship. The same applies to youth and people with disabilities. Due to these facts there is a need to rectify the situation by facilitating their involvement in the economic activities through participation in the SME sector.

The Government has stated to ensure that gender mainstreaming is enhanced in all initiatives pertaining to SME development through focus of the policy at encouraging women and other disadvantage groups' participation in SMEs activities through the following strategies:

i) Facilitate SME service providers to design special programmes for women and disadvantaged groups.

ii) Identify factors inhibiting women and other disadvantaged groups from going into business and design programmes which will address those factors.

In conclusion, the SME Development Policy seeks to further the objectives of Tanzania Development Vision 2025. The implementation of the SME Development Policy is based on the following principles: consensus-building through dialogue; active participation of all key stakeholders; capacity building to ensure effective utilization of all factors of production and periodic review to identify bottlenecks in the implementation process with a view to finding their solution. Best practices of implementation are applied and provide inputs to further refine the strategies outlined.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Approach

In order to identify various features of the CBO and its members' socio-economic characteristics, a survey was carried out in the community where Upendo & Amani Group operates. The questionnaire was the main tool used to gather information of interest. Focus group discussions and informal oral interviews were also used.

This research was therefore both qualitative and quantitative approach. The survey tool was structured to provide convenience for data entry and processing. The questionnaire was pre-tested in order to ascertain the quality of the tool and its efficiency and effectiveness.

By survey research method the study was able to gather as much detail as possible on many aspects of the sample characteristics that helped to formulate impressions about group and membership. The purpose of these interviews was to generate information on loan and savings use strategies over the period of time the person has been a member of the CBO. They focused on the use of savings and loans to protect against risk ahead of time and cope with losses resulting from risk events. They also considered the use of loans and savings from sources including, but not limited to the CBO.

The research also involved meetings with CBO members to identify priority risks, as well as strategies that members use to deal with risks. Particular emphasis was given to informal and formal financial services as well as the use of assets to mitigate risks and cope with shocks. The meetings further explored life cycle risks. These included follow up discussions on strategies women used to deal with these risks. Other issues discussed included seasonality of income, expenditure, savings and credit use.

3.2 Sample Design and Sampling Techniques

The survey covered Mbezi Luis in Dar es Salaam and involved 25 respondents (70% of total members). The study focused only women as the objective of the CBO is to empower women in various socio-economic activities. The sample involved only CBO women members. From the sampling frame, a simple random sampling technique was used to obtain the 25 members to include in the study as sampling units.

3.3 Research Data Collection Techniques

The survey questionnaire and the focus group discussion were the research techniques for the collection of primary data. However, in order to gather adequate experiences and information that will facilitate the project, several methodologies of data collection were adopted as outlined below:

- Meetings and discussion with *Amani* and *Upendo* Women Group Leadership to asses their managerial capabilities, adherence to the CBO mission and vision,
- Meetings with the Ward Executives to assess the acceptance of the CBO in the community,
- In-depth discussion with *Amani* and *Upendo* Women both individually and in groups,
- Field Observations of the women's economic activities ,

- Administered questionnaire which aimed at collecting supporting information regarding the group, leadership, activities, their perceptions and expectations, etc.

The Focus Group Discussions were used to support the questionnaire survey and were also used to clarify issues mentioned in the questionnaire. They helped to amplify the rationalization as well as being a confirmatory method to research findings.

3.4 Data Analysis Techniques

Coding of the selected questions in the questionnaire is very important as an enabling environment for data processing. Most of the questions were pre-coded. Only qualitative questions and Identification parts required coding at the stage of data processing. The answered questionnaires were entered into the computer using an appropriate data capture and a rigorous statistical analysis was done through Statistical Package for Social Scientists (SPSS). Using SPSS computation of various descriptive statistics such as mean, median, mode, frequencies and percentages was done.

CHAPTER FOUR: RESEARCH FINDINGS

4.0 Introduction

The central role of the Community Development Department in Tanzania has been to mobilize the poor to pool together the meager resources and organize them in a responsible fashion towards promoting socio-economic advancement of individuals and their local communities. This is in order to eradicate poverty in their midst. The study had examined the extent to which socio-economic groupings are capable of becoming practical, dynamic and potential players championing the role they prescribe themselves, both currently and in future.

4.1 Main Features of the CBO Members

4.1.1 Household Size

Of the members respondents under this study, just below half (44%) of them were from households which have a number of family members ranging from one to four. The remaining half (52%) had family members of five to seven members. There was a small fraction (4%` that had family members of more than eight members. However, the mean household size was 5 members, which is slightly lower than the average mean of national statistics with 6 people. Family members are as indicated in the Table 1:

Table 1: Number of Household members in Households

Range of Family Members	No. of Households	%
1-4	11	44
5-7	13	52
8 or more	01	04
	25	**100**
Mean = 5, Min = 2, Max. = 8		

Source: The Survey Data

4.1.2 Distribution by Age & Education Background

Most respondents 13(52%) were of ages ranging from 36-50. Those of ages ranging from 20-35 were 24% and those above 50 years were also 24% (see Table 2 below). Those who had primary education were 16%; whereas those of secondary education (form four and six) were 50% and 24% had been to colleges and above as indicated in Table 3.

Table 2: Age of the respondent

Age Categories	Number of Respondents	%
20-35	6	24.0
36-50	13	52.0
>50	6	24.0
Total	**25**	**100.0**

Table 3: Education level attained

Education	Number of Respondents	Percent
Primary	4	16.0
Form Four	12	48.0
Form Six	3	12.0
Vocational Training	1	4.0
Higher Education	5	20.0
Total	**25**	**100.0**

4.1.3 Income of CBO Members

About 40% of the interviewed women admitted to be the main bread earners in their households whereas 56% said it's their spouses who are main contributors of households' income. 4% depends on contribution from their children. Likewise, 40% had self employment, 56% are salaried, mainly working in public and private sector etc; and the remaining 4% are salaried at the same time, had side businesses.

The monthly household incomes ranged from below Tsh. 50,000.00 to above Tsh. 200,000.00. However, the majority (32%) were of the income bracket of 50,000.00 – 100,000.00 as summarized in the Table below:

Table 4: Monthly Household Incomes Generated from various Occupations

Income Ranges	No. of Households	%
Below Tsh. 50,000	3	12
Tsh. 51,000 – 100,000	8	32
Tsh. 101,000 – 150,000	3	12
Tsh. 151,000 – 200,000	4	16
Above Tsh. 200,000	7	28
Total	**25**	**100**

Source: The Survey Data

4.1.4 Motivation for Joining the CBO

The respondents indicated various motives of forming the solidarity groups. Majority (52%) indicated that they joined the group in order to curb scarcity of capital and generate income, while 16% wanted to curb labor shortage. 24% indicated that they joined the group to obtain credit as well as various services/advices. 80% of the interviewed sample perform both agriculture/livestock related activities and various small scale businesses as supported by the Table 5:.

Table 5: Motives for Joining the CBO

Motives	No. of Members	%
To curb labor shortage	4	16
To curb scarcity of capital	6	24
To generate income	7	28
To obtain credit	2	8
To obtain services/advices	4	16
Other reasons	2	8
Total	**25**	**100**

Source: The Survey Data

While 76% acknowledged that forming a group was their own initiative, the remaining 24% mentioned other sources where the idea of forming a group originated from. These included Community Development Officers (8%), Mass media (8%), Non Governmental Organizations (4%) and others such as friends (4%).

4.1.5 Training on Members' Skills

For a group to advance and benefit, training on group operations and business skills is very important. While the majority of members have not yet attended any training on these aspects, 40% have attended training programmes organized by various stakeholders covering topics such as Group Dynamics (50%), Record Keeping (70%), Group Leadership (50%), Savings Mobilization (80%), Loan Repayment (60%) and Women Development (60%).

Table 6: Topics Covered During Training

Topic	No. of Members	%
Group Dynamics	5	50
To curb scarcity of capital	7	70
To generate income	5	50
To obtain credit	8	80
To obtain servires/advices	6	60
	6	60
Total	**25**	**370***

Source: The Survey Data

Note: The sum is >100% because some members were trained on more than one topic

4.1.6 Perception of CBO Members on Leadership

Strong and committed leadership is necessary for bringing about changes in any community. Table 7 shows that, while 8% of the interviewed population showed their dissatisfaction on the current leadership of the CBO, 52% are satisfied and the remaining

40% rated it as exceptional. On the other hand, 64% observed that election modalities are satisfactory and 36% rated the modalities as exceptional as confirmed by the data below:

Table 7: Leadership and Election Modalities (%)

Members' Views	Leadership	Election Modalities
Exceptional	40	36
Satisfactory	52	64
Not Satisfactory	8	0
Total	**100**	**100**

4.1.6 Factors Affecting Attraction of members

While most women (76%) could not mention any reasons for some women inability to join the economic groups, a good number of the respondents cited some of the reasons that deter other women from joining the solidarity and other socio-economic groups. Major reason among others was lack of information and sensitization. Most women indicated that they have been searching for such groups but not aware on existence of any such groups because there are no people who can avail such information. Others indicated that, although they knew existence of such groups, they are not aware of advantages that one could obtain by joining such groups. Those mentioned to dislike groups were of the opinion that it consumes a lot of time on meetings, and putting down strategies which never materialize due to lack of resources. Others were as indicated in Table 8 below:

Table 8: Factors contributing to failure of Women to join Socio-economic Groups

Reasons for not Joining	%
Not eligible	17
Not Informed	67
Personal dislike	16
Total	**100**

4.1.8 Savings and Credit Activities

Access to financial services is among the motivating factor for members to join such schemes. While 44% of members have managed to access loans; more than half (56%) have not yet accessed loans.

Table 9: % of Members Accessed Loans

	Number of Respondents	%
Accessed Loan	11	44
Not Accessed Loans	14	56

Those who managed to secure loans pointed out reasons which compelled them to do so. Of the reasons cited, to curb shortage of the capital was the most important factor where 67% mentioned it. However, the 33% took loans for meeting unforeseen contingencies such as medical expenses, school fees and other household expenses.

A borrower should be able to generate returns sufficient to interest and repay the loan. 83% of the members who took loans managed to repay their loans although few failed to do so due to factors such as weaknesses in managing their own enterprises and failure to invest the credits where the expected. The repayment status is indicated below:

Table 10: Members who managed to repay Loans

	Number of Respondents	%
Yes (Repaid)	10	83.3
No (Failed to Repay)	2	16.7

The study looked at the demand for loans by assessing members' readiness to obtain credits. 71% were competent that they still need to access more credits to improve their micro projects as illustrated in the Table 11:

Table 11: Readiness of Members to take up loans

Responses	Number of Members	%
Ready to Take up loans	10	71.4
Not ready to take up loans	4	28.6
	14	**100**

Of those willing to take up loans, only 33% had an experience of borrowing from other sources and were aware of existence of other groups like NGOs which give loans to women in their area, while the majority (67%) had never accessed loans from any source.

4.1.9 Willingness to Borrow

In order to establish the real financing requirements, members indicated the amount that they will be willing to borrow whenever funds are available and it ranged from Tsh. 50,000.00 to more than Tsh. 1,000,000.00 per individual as indicated in Table 12:

Table 12: Amount of Credit that Members are willing to Borrow

Loan Ranges	Number of Members	%
Tsh. 50,000 – 100,000	7	28
Tsh. 101,000 – 500,000	7	28
Tsh. 501,000 – 1,000,000	8	32
> Tsh. 1,000,000	3	12
Total	**25**	**100**

4.1.10 Priority of Investment Activities

Respondents were also asked on where they would invest the funds that they obtain through credit and various income generating activities were mentioned in preference order as broilers, dairy milk, hair salons, layers, tailoring, retail shops, mama lishe (food vendors), and lastly crop vending.

Chart 1: Income Generating Activities to be performed to repay the Loans

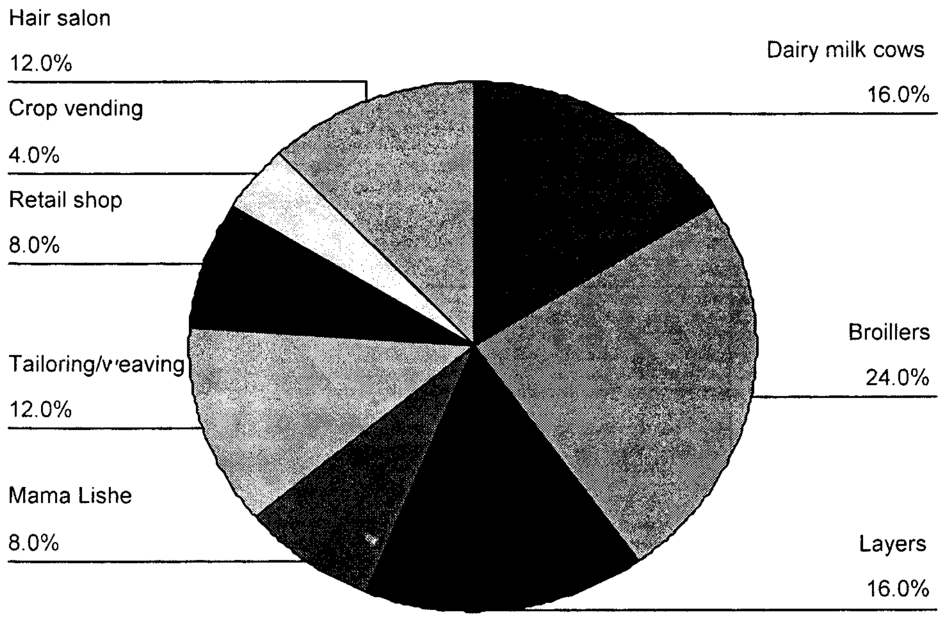

Chart 1 shows that most borrowed funds will be invested in broiler project. However, there will be a range of activities indicating a less likelihood of falling into a self-destructive competition among members' activities.

4.2 Summary of Findings

From the discussions above, it can be noted that the CBO is making steady progress and its activities are well stipulated. The CBO is willing to access the credit fund for members to be able to borrow for improving their micro enterprises. There is sufficient information that will facilitate business plan to enable the CBO to approach service providers, particularly those providing loans.

As regard capacity building in terms of training, the CBO will continue receiving training from various players to enable them manage their loans properly to avoid delinquency. This should include training on micro project selection that will enable members to properly select their businesses in line with operating environment and market.

4.3 Conclusion and Recommendations

The study has it that micro-credits are for poor peoples' development. The credit facility potential is immense to posit small scale entrepreneurs to be more practical and most dynamic in delivering socio-economic development activities, if they are not clouded with problems and if they are in conducive environment. The role of CBOs is centered on mobilizing the resources and converting the same towards delivery of socio-economic activities in communities, both rural and urban. That is, they are essentially responsible for development for they are also socially responsible local self-organizations of the poor and which are managed by the poor themselves.

From the study findings, it is imperative that the small entrepreneurs should be supported in their initiatives by provision of capital to run their enterprises. The study thus recommends the following:

- Deliberate efforts should be made to assist the women in their economic development initiatives as they contribute to national economy.
- Strengthen Savings and Credit Schemes especially the grassroots to deepen microfinance services in poor communities.

- Strengthen capacity building to CBO members.
- A proposal to be prepared to enable application for funding from various service providers.
- To encourage CBO to form and register a Savings and Credit Cooperative Society (SACCOS)

In line with such recommendations and set objectives, Chapter Five of this report comprises of a project proposal to assist the CBO in order to outsource their funding potential.

CHAPTER FIVE: IMPLEMENTATION

5.1 Proposal Writing

Through engaging with this community we have discussed various issues pertaining to their needs especially on the area of financial services. Due to limited financial resources that the group has, we have considered appropriate to seek sources of funds from outside the group in order to enhance their capital base. Through this effect, the group has suggested to have a capacity in preparing documents that might be needed by the financiers that are approached for funding. Among the documents is the constitution that needs to be translated from Kiswahili to English to be readable by different groups of people. After translation of the constitution, the group is currently in the process of being registered, a step which will make the group to be legally identified and activities expanded.

Another important document which has been prepared is the proposal that might help them to access financial resources to enable them implement their activities smoothly. This is a tool that will define their business, identify their goals, and serves as their resume.

5.2 Amani & Upendo Proposal

5.2.1 Executive Summary

PROJECT TITLE:	AMANI AND UPENDO GROUP MICRO CREDIT SCHEME DEVELOPMENT
CONTACT PERSON:	MRS. BETTY BOHELLAH, THE CHAIRPERSON
PROPOSAL SUBMITTED BY:	AMANI AND UPENDO
PROBLEM STATEMENT:	LIMITED ACCESS TO CREDIT FUND FOR MEMBERS TO BE ABLE TO BORROW FOR IMPROVING THEIR MICRO ENTERPRISES
MISSION STATEMENT:	ENHANCE ECONOMIC ACTIVITIES TO RAISE INCOMES, CATALYZE THE FORMATION OF OTHER GROUPS AND RENDER BETTER SERVICES TO GROUP MEMBERS
TARGET GROUP:	WOMEN MICRO ENTERPRENEURS
ACTIVITIES:	INCOME GENERATING ACTIVITIES FOR POVERTY ALLEVIATION

OUTCOMES:	ECONOMIC STRENGTH OF LOW INCOME HOUSEHOLDS TO BREAK THE VICIOUS CYCLE OF LOW INCOME–LOW SAVINGS–LOW INVESTMENT
REQUEST FOR FUNDING: TSH.	3,000,000/= (SAY THREE MILLION ONLY)
OUR CONTRIBUTION: TSH.	3,000,000/= (SAY THREE MILLION ONLY)

1. BACKGROUND INFORMATION

This proposal has been prepared with a view to seek loan fund to finance shortfalls in loan fund to Amani & Upendo CBO Members who are expected to expand their microenterprises. The need for fund follows management decision to diversify sources of funds in order to strengthen the group financial position and also progressively reduce the problem of capital that has been facing the women group for quite long.

The *"Amani na Upendo"* Women Group is a CBO with 33 members, all residents of Mbezi-Luis in Dar es Salaam. The group was formed in 1999. The group has its constitution which explains clearly the mission of the group and what the group wants to achieve. The micro-credit scheme started in 2002 after members mobilizing a seed capital for lending to members. This has been through members' contributions and other fundraising activities such as organizing dinners and charity walks.

Amani & Upendo mission is **"to strive to maintain Peace and Love among women particularly in Mbezi-Luis Ward by way of helping each other in social and economic activities; maintain good relations among themselves, formulate strategies to enhance economic activities to raise incomes, catalyze the formation of other groups and render better services to group members".**

In fulfillment of its mission, Amani & Upendo has grown to become an active economic group with very committed members. The vision of Amani & Upendo is to become a microfinance programme in terms of service delivery and outreach. Amani & Upendo will, upon receiving the loan fund, provide microfinance services and products.

2. MARKETING PLAN

2.1 Services

2.1.1 Education and Training

Education and training forms an integral part in the promotion of the micro credit and microenterprises services and relevant issues in the management of community based organizations. Amani & Upendo renders various services such as the promotion of savings and credit services and member education.

2.1.2 Risk Management Program

This program will be introduced by Amani & Upendo. It is a mutual fund for members by members. As the world facing AIDS epidemic, Amani & Upendo has to ensure members' money trustful protection. Risk management becomes a number one reliable program. It's a mutual program where members share both costs and benefits. Amani & Upendo risk management program will start in order to provide members with fund that will give them mutual protection against loan losses. Its objective is:

- To provide members with fund that will give them mutual protection against loan losses.

- To provide a forum for members to co-operate horizontally and for the surrounding communities to derive horizontal co-operation by spreading their risks among communities.
- To educate members about benefits of risk management program.

This will be implemented after a thorough education to members. Risk management will cover the following;

- Savings
- Loans

Benefits:

- Settlement of loan balance when any tragedy occurs
- Reimbursement of saving balance when any tragedy occurs
- Payment of loan balance in case of total disability
- Payment of funeral expenses.
- Bonus/rebate will be given when total claims by each member do not exceed 50% of the total contributions made during the year under consideration.

2.2 Target Members

A typical Amani & Upendo member who will access the loan fund will be of majority age, with or without secondary education and having up to 8 dependants. She will have been in business for a period of at least one year, operating alone or with a maximum of two employees normally relatives. The business wise distribution is predominantly trading whereby, broilers, dairy milk, hair salons, layers, tailoring, retail shops, mama lishe (food vendors), and lastly crop vending are priorities.

2.3 Basic Features of Amani & Upendo Credit Operations

The Amani & Upendo model, in use since 2002, successfully utilizes group solidarity principles to reinforce the probability of loan repayment, in particular:

- The use of group for cross-guarantees taps on the advantages of role models and peer pressure and its influence on individual attitudes and behaviour to substitute conventional collateral.
- Client involvement in loan appraisals reinforces the sense of responsibility as guarantors.
- Market interest rates establish a commercial relationship with the clients which is key to ensure sustainable operations.
- Standardized, simple and efficient mechanisms for credit administration, based on the empowerment of clients to handle many of the operations credit tasks themselves establishes a client controlled methodology as a basis for satisfying client's credit needs on a wider scale.

2.4 Management Summary

Amani & Upendo is organized and managed in a creative and innovative fashion to generate very high levels of members' satisfaction, and to create a working climate conducive and economic satisfaction for members.

Members training to help improve knowledge and skills will be conducted on a regular basis. As the business grows, the management will consider offering more services to its members.

3. COST ANALYSIS

3.1 Credit Operations and Financial Performance

Amani and Upendo CBO is currently operating a micro credit scheme in Mbezi Ward, Dar es Salaam. Overall, the CBO has 33 members and a loan portfolio of Tsh. 3,000,000.The scheme has maintained an excellent performance and quality portfolio with repayment rate of 99% and an overall portfolio at risk of 0.5%. Financially, the CBO has not attained its operational sustainability and require some seed capital to expand its activities, and be able to meet its operational costs using internally generated income.

The goal is to be a profitable business beginning in the second month of loan issuing by giving a grace period of one month. The business will not have to wait long for members to learn about it since it already has an existing client base.

The financials that are enclosed have a number of assumptions:

Revenues will grow at an annual rate of 15%. This increase is anticipated to stay steady throughout the following year to account for the normal flow of new members joining the CBO. To assure the lender that the owners of the CBO are financially stable, a personal financial statements will be enclosed illustrating other sources of income.

4.0 FINANCIAL PLAN

4.1 Funding Requirement

Amani and Upendo CBO is requesting funds to finance shortfall in credit funds for its members. Projections show that amount of credit to be issued amounts to Tsh. 6,000,000.

- The proposed micro credits are estimated to cost Tsh. 6,000,000/= (Six Million)
- Sources of Funds include:

▪ Owners' Equity -	Tsh. 3,000,000/=
▪ Loan from bank -	Tsh. 3,000,000/=
Total -	**Tsh. 6,000,000/=**

5.0 FINANCIAL ANALYSIS

The CBO will be analyzing its costs for operational and financial sustainability. This will be done by a hired accountant to investigate on the financial sustainability and nature of business compared to other investments. Techniques such as payback period, net present value etc. will be employed to give a thorough analysis.

The leaders particularly the treasurer who is an accountant by profession will apply their expertise to prepare cash flow statements, profit and loss account and balance sheet. A hired Auditor will then examine these statements to advice on the health of the business and movement of cash.

6.0 CONCLUSION

After spending several months in preparing the required requisites for the CBO to apply for a capital, finally this proposal was prepared. The loan will be used for the improvements and credit for members. The expected income earnings from loans after the completion will be used to expand the business to cater for all the services outlined and repay the loan.

This proposal has been prepared by CBO members in consultation of expertise from a trainee who is pursuing studies on community economic development. The loan facility solicited is for purposes of financing loans to members. Due to the good objectives of the

CBO, it is recommended that the funding request of Tsh. 3,000,000 be positively considered.

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