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THE IMPACT OF MICROFINANCE ACTIVITIES IN DAR ES SALAAM

A CASE OF DAR ES SALAAM COMMUNITY BANK LIMITED AND PRIDE TANZANIA

A PROJECT REPORT SUBMITTED IN PARTIAL FULFILMENT FOR THE REQUIREMENTS FOR THE MASTERS DEGREE IN COMMUNITY ECONOMIC DEVELOPMENT

BY

EDMUND PANCRAS MKWAWA

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CERTIFICATION

I, the undersigned certify that I have read and hereby recommend for the acceptance by the University of Southern New Hampshire and the Open University of Tanzania a project work entitled "The Impact of Microfinance Activities in Dar es Salaam "a case of Dar es Salaam Community Bank Limited and Pride Tanzania", for partial fulfilment of the requirements for the degree of Masters of Science Community Economic Development of the Southern New Hampshire and the Open University of Tanzania.

....

Dr. William Mgimwa
Supervisor

Date: 7/9/2005

DECLARATION AND COPYRIGHT

I, Edmund Pancras Mkwawa, hereby declare that this project work is my own original work and that it has not yet been presented and will not be presented to any other University for similar or any other degree award.

Signature: ....

Date: ......7/9/2005......................

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DEDICATION

This work is dedicated to my parents and my family.

ABSTRACT

This research has been carried out with a focus to evaluate the performance and impact of two micro finance institutions i.e. Dar es Salaam Community Bank, and Pride Tanzania in Dar es Salaam.

Having regard to the successful stories of micro finance institutions else where in the world, the Grameen Bank in Bangladesh, BRI in Indonesia, Prodem in Bolivia where millions of poor people have changed their lives through these Institutions, the writer became curious to study on the two local micro finance institutions, Pride Tanzania and Dar es Salaam Community Bank.

The issues of evaluation were focused to measure the impact on the following important factors:

- **Job creation**

  To see to what extent the two institutions have financed communities in Dar es Salaam leading to promotion of employment and job creation.

- **Income growth and distribution**

  To investigate how the financial institutions through their deposits and interests payments have influenced income growth and distribution to their clients.

- **Women Empowerment**

  Evaluate to what extent women have benefited from loans given by the two institutions.

- **Problems faced by clients of the two Institutions regarding services.**

  Study from the clients perspective problems they face in accessing to loans interest such as charges and how these problems can be alleviated by the two institutions..

- **Difference between Pride Tanzania as a NGO and Dar es Salaam Community Bank as a regulated Bank.**

  The study has identified the differences between the two Institutions one being an NGO whereby it is not allowed to collect voluntary savings from the public, instead it collects forced savings to act as Insurance for the loans disbursed to its clients. The study has revealed that due to this difference Dar es Salaam Community Bank has been able to collect Tshs. 12.5bn in three years against 10bn collect by Pride Tanzania in 11 years. The other difference is that Pride Tanzania is donor dependant to-date while DCB is not donor funded.

  In summary the study has concluded that the two institutions had significant impact to the four factors tested and that they have played a key role in the poverty alleviation struggle in Dar es Salaam.

CHAPTER 1

1.0. INTRODUCTION

Tanzania is among the countries practising microfinance. Out of a total population of 34 million people, there are almost 16 million poor people mostly depending on small business and small holder agriculture. As such they need financial services to sustain their small farms and microenterprises. Rural savings and credit cooperatives offer one of the best options for organising self help financial services.

The role of SACCOS, Community Banks, and Microfinance institutions have to be discussed in the context of the development of sustainable financial services for 16 million poor people in urban and rural areas in Tanzania. (Chambo, S. A. 2004)

With liberalization of the financial sector in the 1990s, credit facilities for input supply and marketing collapsed as interest rates rose and shut out the subsidised sources of credit on which such schemes depended. Most cooperative unions which were already struggling financially could no longer access loans, and were, in turn, unable to service small and medium scale farmers and entrepreneurs. Private Banks sprung up, but under the more competitive liberalised financial system, they could not profitably fill the gaps left by cooperatives. The sharper focus on profitability and actual financial risks therefore, worked against traditional lending to the rural sector and to agriculture in particular.

These barriers to rural lending in the formal and informal financial sector have become a major concern for policy makers in Tanzania. One outcome of that concern is increased interest in formal and semi formal microfinance Institutions in Tanzania, which are responsible for increasingly large shares of credit in both Urban and rural areas. Two of these Institutions are the Dar es salaam Community Bank that came into operations in 2002 now having two Branches one at Arnautoglu Hall in Ilala District, and another Branch opened in Magomeni Travertine Hotel in Kinondoni District. Pride Tanzania, came into existence ten years ago and has several Branches with four branches in Dar es Salaam.

1.1 Development of microfinance.

Following the well-known success of the Grameen Bank in Bangladesh started by Dr. Mohamed Yunus in 1983 with group savings and lending for the extremely poor, many development agencies have promoted to various forms of Micro Finance Institutions. At present, a variety of new initiatives for savings and credit have sprung up. However, most of these Micro Finance Institutions are not adequately providing credit for the rural poor in remote areas.

It is also true that roles of **government, private sector**, and Non Governmental Organization (NGO) in support of the rural sector have changed tremendously in recent years. The institutional set up for support services has also changed. In the area of Microfinance, a majority of credit was provided by the government sponsored programmes. Surprisingly, these credit programmes benefited business rather than agricultural activities, urban rather than rural locations. In agriculture lack of credit and input delivery are still major constraints for increasing smallholder production. Improvements in agricultural productivity depend on changing crop and livestock husbandry practices and technology uses, and unless credit is directed towards these direction meaningful changes will take long.

1.2 The Grameen model of operations (solidarity group lending)

The Model used by Grameen Bank in Bangladesh has been widely adopted. Many microfinance practitioners have adopted the Grameen bank model, but have modified it to suit the environment they operate in.

Grameen started out as a small personal project in 1976 in a village setting. It struggled through several years to grow into a Bank owned by the poor. 75% of the share are owned by the landless borrowers, while the remaining 25% are owned by the Government of Bangladesh for the poor. By 1989 it had 400,000 borrowers 82% of whom were women.

Grameen Bank lends out more than US$. 2.5 million in tiny loans averaging USD 67. Its recovery rate is 98%. Now it has 500 branches working in 10,000 villages out of 68,000 in Bangladesh. Borrowers have accumulated over USD 7.0 million in their savings funds (Mbika, E.R 1999)

To borrow from the bank, clients must form themselves into groups of five. The process of group formation itself contributes to the strength of Grameen. Usually it takes sometime for the members to identify each other and consult each other before they announce that they will form a group. Many times members screen each other before they arrive at the final five. Each person must guarantee repayment to all members of the group. Initially only two members of the group may borrow, once they have repaid consistently in a timely manner, others in the group are allowed to borrow.

Assets purchased by the loan must also be pledged as collateral. Individuals no matter how poor must save on a weekly basis. A percentage of the loan amount must also be put into savings. Besides money put into a group fund that is intended to serve as insurance policy so.

The formation of small five members groups of the members own choice, and federation of the groups into centres helps the right kind of peer pressure at times when a member tries wilfully to violate Grameen rules, and peer support at times when a member falls into any difficulty in pursuing economic gain.

1.3 Microfinance industry in Tanzania

The poor in Tanzania, like in other developing countries are and have always been on the margins of their national economies. They often operate on a cash only basis, so that transactions go unrecorded by the government.

Through delivering credit and savings services tailored to the needs of micro enterprises, microfinance sends a tangible message to the poor that they do count, they are important and that their hard work can pay off. It offers opportunities for the poor to make choices, plan for the future and create a more secure financial base for their families.

For the majority of Tanzanians, whose incomes are low, access to financial services offers the possibility of managing scarce household and enterprises resources more efficiently, protection against risks, provision for the future and taking advantage of investment opportunities for economic returns.

Savings services are among the most beneficial services for the 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 can have a very broad outreach and value.

1.4 Government effort towards establishment of microfinance services.

Since early 1970s the Government of Tanzania has been concerned with the provision of micro credit to small business enterprises. In 1991 the Government initiated financial sector reforms to create an effective and efficient financial system. The lynchpin of those reforms was the government's commitment to allow banking institutions to operate on a commercial basis, making business and management decisions free from government intervention within the norms of prudential supervision.

To implement this commitment, the principal elements of the financial sector reform included liberalization of interest rate, elimination of administrative credit allocation, strengthening of the Bank of Tanzania role in regulating and supervising financial Institution, restructuring of state-owned financial institutions and allowing entry of private banks both local and foreign – microfinance and community banks inclusive.

1.5. The Dar es salaam Community Bank Limited: - its background

1.5.1 The Bank

Dar es Salaam Community Bank Limited (***DCB***) is a private microfinance bank dedicated to financing poverty alleviation programmes, aimed at uplifting the standard of living of the majority of low-income people in Dar es Salaam. It has been registered and incorporated in Tanzania under the Companies Ordinance, and licensed by the Bank of Tanzania under the Banking and Financial Institutions Act, 1991, as a regional unit commercial bank.

1.5.2 Vision

The vision of DCB is "to be the leading micro-finance bank in Dar es Salaam through delivery of commercial micro-finance banking services to the majority of the low income poor people, and Micro and Small Enterprises."

1.5.3 Mission

The Mission of DCB is "to contribute to the ongoing economic and social development in Dar es Salaam Region for Micro Small and Medium Enterprises (MSE) by developing specialized micro-finance products and services and market these through an efficient and sustainable branch network where the customer is treated with promptness and responsiveness. It aims at building cultures, structures and operating systems that can support sustainable service delivery to a significant and growing number of economically active Micro, Small and Medium Enterprises in Dar es Salaam Region."

1.5.4 Capital Structure

The authorized share capital of the bank is TShs. 5.0 billion, divided into 5,000,000 shares of TShs. 1,000/- each. Paid up share capital as at 31st December 2004 was TShs. 1,795,588,000.00 subscribed by a total of 2637 shareholders. 73.6% of the paid up share capital was subscribed by the Local Authorities.

The Local Authorities have been the initial subscribers and promoters of the bank. The long term objective is to dilute the ownership ratio of the Local Authorities to less than 40%, by selling more shares to the public.

1.5.5 Location

The bank operates from rented premises conveniently located at the Arnautoglu Hall in the Mnazi Mmoja grounds, within the Dar es Salaam city centre in Ilala Municipality. A second Branch was opened on 13/12/2004 at Magomeni Travertine Hotel in Kinondoni District.

1.5.6 Organization Structure

The highest authority is the Board of Directors, charged with formulation of broad policy guidelines. Operations are entrusted in the Managing Director, who is the Chief Executive Officer of the bank. He is assisted by the Chief Operations Manager and through the latter, departmental functional Managers.

1.5.7 Product and services

The bank offers the following products and services:

(i) Transaction accounts in which deposit products are offered.

(ii) Commercial services in which the bank lends to various sectors of the economy, with special preference in micro financing.

(iii) Investment products, mainly Treasury Bills and Inter-Bank Placements.

(iv) Other traditional financial products and services, such as money transfers, chequebook facility, etc.

1.5.8 Performance

(i) Clientele

The bank opened its doors to the public on 15th April 2002. Since then, it has recorded a big success in clientele. As at 31st December 2004, the bank had 32276 and 24391 deposit accounts and borrowing customers respectively

(ii) Deposits

As at 31st December 2004, total deposits reached Tshs. 10 billion broken down as follows:-

Total savings	-	2.9bn
Total Time deposits	-	6.7bn
Total Current A/c	-	.4bn
Total savings clients		31,997
Total females		6,847

(iii) Lending

As at 31st December 2004 total lending portfolio was 7.6 billion given to 24,391 clients broken down as follows:-

Salaried loans	6.7bn

Individuals' loans	.2bn
Solidarity group lending	.7bn

Out of 17,286 customers enjoying facilities the gender balance is as follows:-

	Total	Males	Females
Salaried loans	14,811	11,849	2,962
Solidarity Group Lending	2318	352	1,966
Individuals	94	75	19

1.5.9 The market

Currently the major competitors are Akiba Commercial Bank, National Micro finance Bank, Tanzania Postal Bank, PRIDE Tanzania and SACCOS. These have however been unable to satisfy the market as the demand for these services are huge.

1.5.10 Dar es salaam Community Bank's objectives for the Years 2003-2006

Goal 1: To intensify micro lending activities to at least 65% of total lending by the end of year 2006.

Goal 2: To open branches and agencies in each of the Administrative Districts of Dar es Salaam Region by the end of year 2006.

Goal 3: To increase deposits by four times at end of year 2006 from the actual deposit of 2002

Goal 4: To design and implement innovative new products suitably designed to meet demand and tastes of the target market.

Goal 5: To process all loan applications within seven working days.

Goal 6: To maintain a loan repayment rate of at least 97.5%.

Goal 7: To attain a profit level of T.Shs. 795 million by end of year 2006.

Goal 8: To ensure customers are served with courtesy, promptness and responsiveness.

1.6 PRIDE Tanzania:- Historical background

1.6.1 Mission

To create a sustainable financial and information services network for small and micro entrepreneurs in order to promote business growth, enhance incomes and generate employment in Tanzania.

1.6.2 Background

PRIDE Tanzania was incorporated in Tanzania in 1994 by seven individuals from both private and public sectors, who incorporated the institution. An important role was played by Jonathan Campaign, the executive Director of PRIDE Africa (an American NGO based in Nairobi Kenya) in the establishment and nurturing of PRIDE Tanzania by way of provision of management and technical support. Most of the funding of PRIDE Tanzania for the first seven years of its existence was sourced from NORAD (Norwegian Agency for Development Co-operation) through a bilateral agreement between the Government of Norway and the Government of Tanzania. Components of the donor funding included management and technical support services provided by PRIDE Africa, the engagement of which ended early 2001.

PRIDE Tanzania issued its first loan in May of 1994 and has registered significant growth over the years. It is the leading microfinance institution in Tanzania. PRIDE Tanzania is currently preparing to transform into a regulated financial institution and the process is expected to be completed by end of 2005.

1.6.3 Product and services

PRIDE Tanzania's main loan product offered is the *solidarity group guarantee loan* which is made up of a solidarity group of self selecting members of five called an enterprise group (EG) and ten solidarity groups combined into one large group of 50 called a market enterprise group (MEC). The loan works through peer pressure and a three-tier loan guarantee system to ensure loan repayment. There are also compulsory weekly savings collected as part of loan insurance scheme and are refundable upon exit. Clients are given half yearly bonus payout on compulsory savings .Another loan product is the *Fahari Loan*, given to a Solidarity group of three to five self selecting members from among solidarity group clients. This loan product will eventually be rolled out as an individual loan. A new product in the name of *Ajira* loan – an employer guaranteed consumer loan, is currently being rolled out.

Other products still on the drawing board include education loans, insurance services, health care services, and money transfer services.

1.6.4 Outreach

PRIDE-Tanzania reaches out to its clients through its countrywide network of 28 branches as of 2005.

1.6.5 Product Features

Eligibility	Above age of 18, must own a business, must be in a group of five. Ten groups of five are organised into a Market Enterprise Group(MEG)
Procedures	Loan application followed by 8 weeks training after which 2 group members get 1st loans, followed by 2 members after 4 weeks, followed by the chairperson after another 4 weeks. Clients must make weekly contributions of T.shs 1,000 to the Loan Insurance Fund (LIF) during the waiting period.
Security	• 1st guarantee is the group • 2nd guarantee is the MEG • 3rd guarantee is the Loan Insurance Fund (LIF)
Grace Period	• Nil grace period
Repayment	• 30 % interest flat. Weekly payments include contributions to LIF. Prepayments are accepted
Repeat Loans	• Must follow the prescribed sequence of loan sizes. An interval of 2 weeks between loans.

There are 9 levels for clients loans ranging from level 1 of Tshs. 50,000/= to level 9 of Tshs. 5,000,000/=. Each member has to go through all the 9 level systematically. No one is allowed to jump any level regardless of his/her business economic performance.

1.7 Problem/Assignment statement

The assignment was to assess the impact of the DCB and PRIDE Tanzania microfinance activities in regard to poverty alleviation with emphasis to job creation, women empowerment, income growth and distribution and clients problems.

CHAPTER 2

2.0. LITERATURE REVIEW

Microfinance programmes are expected to serve the purpose and improve the welfare of the poor women and men by impacting the economically active poor and helping to raise social welfare by promoting human capital investment.

Contemporary microfinance programmes originated in the development field as a mechanism to fight poverty and increase access to lending and savings products. By the late 1990s, more than 8 million households had been served by microfinance programs. Microfinance is also a business practice, and as such, it is guided by economic and financial principles and indicators (C. Leigh Anderson et al, 2002).

In the following reviews it is intended to explore what has to date been expounded from experience concerning microfinance impact towards poverty eradication.

(i) Definitions

The term microfinance is derived from the name finance. Microfinance is the provision of financial services, primarily savings and credit to poor households that do not have access to formal financial Institution. The term 'Micro' implies that the size of the financial transaction is small (Andrey Gidaspov, 2002).

Demand for Microfinance services usually comes from Micro entrepreneurs – people who operate tiny businesses (Micro-enterprises) or who because they don't have formal jobs survive by generating income for themselves in very small activities.

Microcredit is the name given to small loans made to very poor people who would normally be regarded as bad financial risks and so be unable to obtain funds through conventional banks, some economists call this the capital gap. Another term for this technique is informal credit and the lenders have been called barefoot banks by analogy to Chinese barefoot doctors. The term has been joined in recent years by others beginning in micro- that relates to aspects of the process: microbusiness, microenterprise, microfinance, microlender, and microbank (Michael Quinion, 2005).

The *distinction* between the two inter related and commonly used terms, i.e. microfinance and micro-credit is that, if an institution offers only credit, it is a microcredit institution. If it offers both credit and savings services it is considered a microfinance institution. An institution providing both credit and savings is considered to be a more important actor in the financial sector because it fills the role of financial intermediary, mobilizing idle resources from savers and transforming them into productive resources by lending them out to people that have a use for them.

ii) Microfinance impact assessment

C. Kirkpatrick D. Hulme (2000) defined impact assessment as the process of identifying the anticipated or actual impacts of a development intervention, on those social, economic and environmental factors which the intervention is designed to affect or may inadvertently affect. It may take place before approval of an intervention (ex ante), after completion (ex post), or at any stage in between. Ex ante assessment forecasts potential impacts as part of the planning, design and approval of an intervention. Ex post assessment identifies actual impacts during and after implementation, to enable corrective action to be taken if necessary, and to provide information for improving the design of future interventions.

A distinction can be made between two separate but interlinked levels:

- Internal monitoring and evaluation for ongoing learning, through for example, the integration of specific impact indicators into existing management information systems, which makes information immediately available to staff;

- External impact assessment, often involving independent investigators. Such assessments produce reports for specific purposes, such as poverty impact assessment, regulatory impact assessment, social impact assessment or health impact assessment. Certain types of ex ante assessment may be part of the approval process for certain types of intervention, including environmental impact assessment and economic impact assessment (cost-benefit analysis).

These may contain their own ex post monitoring activities. Separate ex post assessments may be undertaken or commissioned for any particular intervention or set of interventions, to provide fuller information than may be available from routine monitoring and evaluation.

In the context of sustainable development, the social, economic and environmental impacts of an intervention are all interlinked. The various types of impact assessment may therefore need to be combined in an integrated impact assessment, whose nature will vary according to the type of intervention, and the aims and cost-effectiveness of the overall impact assessment package.

According to R. Simanowiz, (2000), the starting point for any impact assessment understands the context in which an organisation works and the outcomes and impacts that it seeks to achieve (its mission). By understanding the institution's context and goals, it is possible to develop a conceptual framework and hypotheses for the impacts that it expects to achieve with its work. Simply put, an organisation needs to think through how it fits into the lives of its clients and the ways in which its work improves their lives. On the basis of this information, a microfinance institution (MFI) can elaborate a plan for what it seeks to achieve with an impact assessment.

2.1 THEORETICAL REVIEW

Many researchers and writers contributed much on the need and importance of directing effort on assisting micro and small enterprise through provision of loan towards poverty alleviation. Though still a long way from the financial mainstream, many governments now see microcredit as an effective way to build up local enterprise and reduce unemployment; they include not only countries like Bangladesh, where the Grameen Bank has been a pioneer, but also industrialised areas such as North America and Australia, where microcredit meets special needs. It is generally agreed that women should be the prime recipients of loans, as they are better risks than men and the loans have greater impact.

Professor Douglas Snow (2000) observed that the development of microcredit programs provides an opportunity to strengthen local institutions. There is an importance of linkages between microcredit programs and local institutions. These linkages lead to sustainability. In broad sense, sustainability refers to a net positive flow of benefits to the local community. Microcredit programs embedded in local institutions have the best hope of becoming sustainable.

Mohamed Yunus (1984) argued that availability of credit to low-income households and small business can thus greatly enhance their economic strength and eventually break the circle of poverty.

Khadker (1998) noted that a micro-credit programme which is able to pool risk across agro climatic areas can provide credit to the poor at affordable cost and can help them become productively self-employed. The Micro-credit programme has emerged as antipoverty instrument in many low-income countries.

Harper and Finnegar (1998 : 59:69) explained that, the provision of micro-finance appear to be one form of enterprise development assistance that can benefit the poor, particularly rural women as well as having potential to pay for itself. They added that it must always be recognized however, that even if these institutions become self-sustaining in the long term, they come into being as a means of making a significant difference to the lives of a specified target group, normally the urban or rural poor. Consequently the impact that they have on the lives of these people must continue to be evaluated at the same time as the institution own performance and operations are being monitored.

Kuzilwa and Mushi (1997) argued that the need to improve credit access to small business both in rural and urban sector is one of the cornerstone in complementing entrepreneurial efforts in the country. Credit targeted to poor women and youth has greater impact on poverty alleviation. People might improve their living standards by becoming micro entrepreneur (World Bank 1990). Self-employment has become a major income generating strategy for urban poor; the same hold true for rural areas (Louise Dignard (1995: 189).

Susan Johnson (2000) had an argument that the importance on gender issues recognition in microfinance, as in any project intervention means more than targeting a programme towards women. It means recognising the position of women in relation to men as actors in society in the context of husbands and families local community and authority and more broadly their position in society at the national level as governed by laws and custom. Then it is necessary to support women to overcome the obstacles they face in these relationships which prevent them from achieving what they wish for themselves with financial services.

Credit was thus recognized to be an important tool for development. The proponents of the credit approach argued that people who live in developing countries might improve their living standards by becoming micro-entrepreneurs and that financial institutions should support their initiatives with small loans (Chijoriga 1997).

According to Grade, (1984), loans enable the individual member or enterprise to enjoy the benefit of economies of scale and of new high value technologies. Availability of credit to small business and low-income households can thus greatly enhance their economic strength.

UNDP 1998 on poverty alleviation Manual (pg. 30), reported that to have a job or to carry out an income generating activity has a direct positive effect on household standard of living. The risks of losing ones job increase ones vulnerability to poverty. Most of the poor are workers without contact to informal sector. Moreover the poor have more difficulty in creating their own jobs. They generally do not have any assets and usually lack sufficient collateral to have access to bank credit. So enabling environment towards accessibility to financial loan should be created.

Linda Mayoux (2001), argued that existing impact assessments have made an important contribution to understanding some of the complex interactions between microfinance interventions, livelihoods and different dimensions of poverty reduction and empowerment. There remains nevertheless a considerable gap between the potential contribution of impact assessment and the practical usefulness of existing findings. The challenge for impact assessment is now to build on existing impact assessments and move on from merely measuring impact of individual programmes on incomes to developing ongoing and sustainable learning processes within and between programmes, between programmes and donors and also between microfinance users.

2.2 EMPIRICAL LITERATURE REVIEW

Micro financing programmes are expected to raise the welfare of the poor women and men. They would help to raise social welfare by promoting human capital investment. The following empirical review cites the views of various writers in relation to the impact of microfinance activities towards poverty reduction as well as women empowerment.

Towards provision of microfinance services Linda Mayoux (2001), identified the following four main mechanisms:

- **loans:** which allow a lump sum to be enjoyed now in exchange for a series of savings to be made in the future in the form of repayment instalments.
- **savings:** which allow a lump sum to be enjoyed in future in exchange for a series of savings made now.
- **insurance:** which allows a lump sum to be received at some unspecified future time if needed in exchange for a series of savings made both now and in the future. Insurance also involves income pooling in order to spread risk between individuals on the assumption that not all those who contribute will necessarily receive the equivalent of their contribution.
- **pensions:** which allow a lump sum to be enjoyed as a specified and generally distant date in future in exchange for a series of savings made now.

The last decade has seen the evolution of microfinance institutions that have created significant income and employment opportunities for the poor in developing countries. In addition to reaching out to many disadvantaged microentrepreneurs, some programs have made significant strides in moving toward operational and financial self-sufficiency. The superior performance of such programs as ACCION's BancoSol in Bolivia, Bank Rakyat Indonesia's (BRI) Unit Desa program in Indonesia, and the Grameen Bank in Bangladesh are frequently cited as evidence that it is possible for ***microfinance*** institutions to make small loans to large numbers of poor people in a sustainable manner (Nitin Bhatt and Shui-Yan Tang, 2001):Policy Studies Journal,).

The Grameen Bank in Bangladesh is another example of a rural ***microfinance*** operation that has been very successful. Although the bank is not entirely self-sustainable, its development impact reportedly has been remarkable. A recent study pointed out that the bank has helped to increase significantly household incomes, productivity, labor force participation, and rural wages in Bangladesh villages. It is further reported that in Grameen Bank villages the level of absolute poverty is 75% lower than in villages without such a program (Khandker, 1996).

The experiences of these and other prominent microfinance programs have triggered replication efforts in one form or another worldwide--in countries ranging from Bolivia, Peru, Mexico, and Costa Rica to Nigeria, Mali, Malawi, Togo, Chile, Malaysia, Indonesia, Sri Lanka, Nepal, and India. The performance of most such programs, however, has not been encouraging. Many have been plagued with such problems as high default rates, inability to reach sufficient numbers of borrowers, and a seemingly unending dependence on subsidies. Few of them have lived up to their original objective of "including the excluded" (Bhatt, 1997).

Concerning gender and microfinance Susan Johnson (2001) explained that in order to tackle gender in microfinance it is necessary to recognise and approach it from the outset. The matrix below identifies constraints which women face in different areas and which can constrain their ability to utilise microfinance to the ends they might wish. These constraints interact and reinforce each other:

Individual level refers to constraints that operate because of the woman's own endowment of skills, experience, knowledge, confidence.

Household refers to the nexus of social relations within the household which are mostly talked of in relation to husbands and wives but usually the household is a broader unit which acts through sons and daughters, parents and other relatives to constrain the set of choices which a woman faces.

The matrix below combines constraints identified from a wide range of cultural contexts and would need to be systematically worked through for a specific cultural context. Once they have been identified, strategies to address them can be developed.

Gender based obstacles in Microfinance and Microenterprise

Aspect	**Individual**	**Household**	**Wider community/ national context**
Financial	Women lack access to banks/financial services in own right	Men's control over cash is dominant.	Perception of men as controllers of money/loans
Economic	Women undertake activities which produce low returns women have a heavy domestic work load	Gender division of labour unequal access and control of land, labour and inputs unequal control of joint household produce and income	Women underpaid for equal work women locked in low paid jobs stereotypes of appropriate roles for

		stream from this	women in the economy women lack access to markets for inputs and outputs if mobility constrained due to social norms
Social/ cultural	Women not literate or educated; girls education not prioritised	Limited role for women in household decision making polygamy results in conflict/competition and discrimination between wives violence towards women	Banks and financial institutions do not view women as a potential market women's mobility constrained by social norms
Political/ Legal	Women lack confidence to claim political/ legal rights	Women lack legal rights to jointly owned household assets	The land act of 2004 has recognised the rights of women to own land in Tanzania

Source : Susan Johnson (2001) Gender and Microfinance: guidelines for good practice

Broadly speaking, strategies to address these constraints are likely to fall into three categories:

- Strategies which address women directly with awareness, literacy and related skills development.
- Strategies directed to men in the community in which the project is working in order to affect men's behaviour towards women within the household
- Local community strategies aimed at affecting social norms and legal frameworks which might include for example advocacy work through the media and lobby to change, for example, women's rights to property.

Organising a microfinance intervention to be aware of these problems means approaching it with a gender aware mindset. Indeed the difficulties of engendering development programming are many and have been shown to encounter widespread organisational resistance.

Engendering microfinance, as any other intervention requires gender awareness on the part of all staff, managerial commitment to gender issues, and managerial ability to adapt systems and procedures in the course of implementation. In this way it can be thought of very similarly to having a poverty focus to projects. Ensuring poverty focus requires questions to be continually asked about who is being reached, whether they are able to benefit as anticipated and to continually adjust the project's operations in the light of this perspective.

L. Joseph and Rob Wright (2005) found that Microfinance, the provision of essential financial services to low-income entrepreneurs, makes a critical contribution in the fight against poverty by giving borrowers access to the small-scale financing they need to start and maintain income-generating businesses. Although often begun on a nonprofit basis, the impact and staying power of MFIs can increase significantly when managed in a sound commercial manner. IFC has been actively supporting this trend since 1996, having now invested in for-profit microfinance institutions with more than 600,000 borrowers worldwide.

In Africa, the microfinance industry is still in its infancy but growing rapidly with a number of well-performing institutions in Benin, Kenya, Uganda, and other countries. AfriCap, include a for-profit investment facility and a parallel grant-funded technical services facility, which play an important role by investing in and providing technical assistance to leading African MFIs. This helps to build some model institutions, providing an important demonstration effect which attracts additional sustainable private capital into the sector. IFC has committed up to $2 million to the 10-year for-profit investment vehicle, joining a group of investors in the $10 million first closing which includes: Acción International (USA), Argidius Foundation (Switzerland), Calmeadow (Canada), Calvert Social Investment Foundation (USA), Cordaid (Netherlands), DOEN Foundation (Netherlands), European Investment Bank, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. - FMO (Netherlands), Stitching Hivos - Triodos Fund (Netherlands), IFC and AfriCap Sweden AB (Sweden). The technical services facility has a budget of $3 million for the first five years of operation and initial contributors include the U.K. Department for International Development and the United States Agency for International Development.

"Microfinance and Africa are both high priorities for us," said IFC Executive Vice President Peter Woicke. "We are glad to be part of this initiative which brings the two together." Over the next five years the fund hopes to make about 10 investments in leading African MFIs, then bolster them with active governance and institutional development support, partly funded by the technical services facility. It will be incorporated in Mauritius and managed on a commercial basis by AfriCap MicroVentures, a wholly-owned subsidiary of the Canadian nonprofit organization Calmeadow that will be based in Dakar, Senegal. Calmeadow and ACCION International, a leading microfinance organization based in USA, are the two cosponsors of AfriCap. They were also involved along with IFC and others in ProFund, a similar $22.6 million fund for MFIs in Latin America and the Caribbean that has now invested in 11 institutions in that region with approximately 300,000 borrowers. AfriCap has been designed to draw on some of the lessons of ProFund.

In view of improving the impact of microfinance institution, transformation has shown to be among the important process towards effective and efficient provision of microfinance services. For example, transforming from a community-based lending program to a for-profit commercial bank, BancoSol has made loans to over 100,000 clients at repayment rates that have consistently exceeded 99.5%. In 1996, for the first time, it paid out dividends to shareholders (Gonzalez-Vega, Schreiner, Meyer, Rodriguez, & Navajas, 1997). The Unit Desa (or village bank) has transformed itself from a government-run, money-losing bank to a profit-making operation within the same state-owned banking structure. Its subsidy dependence index (SDI) is negative, meaning that it could lower its on-lending interest rate and still be sustainable.

In Tanzania Context

In Tanzania, small businesses ability to create jobs and raise income in environments where economic opportunities are otherwise scarce makes them the lifeblood of most developing countries. However, for all their importance, small businesses face a daunting obstacle whereby far too few have access to regulated banks, savings and loan associations, investment funds, and other formal financial institutions. The level of provision of financial services to the small business sector and other sectors largely depends on the state of the financial system. Existing evidence suggests that despite the financial sector in Tanzania undergoing various development phases, growing small businesses are still constrained in terms of credit accessibility(Tadeo Andrew Satta, 2002).

A study by Temu (1998) on the financing sources to small businesses found that only 36% of them have made attempts for credit application from financial institutions. Out of these only 9.5 % managed to get a loan from financial institutions.

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Microfinance services offered through SACCOs with half of those institutions sampled do not offer credit, and those offering credit condition require that the loan-seeker has some form of fixed assets as collateral. Corruption, and especially embezzlement, is a common problem. Those villages that did not have a SACCOs expressed a need for one though most were wary of corruption. The service that almost all looked for was credit. Which they saw as being helpful to production, and to an extent consumption. (Mike FitzGibbon, 1999)

A study by Mpanju (1999) in the case study of the credit finances in small Business Enterprises a case of PRIDE Tanzania in Dar es Salaam Region; found that even though PRIDE Tanzania has made efforts to finance small business enterprises through provision of loans, these loans are insufficient relative to business capital needs.

A study by Kyaruzi (1996) in a case study of the role of CRDB in financing Women Entrepreneurs in Tanzania, the case of Special Women Groups (SWG) in Dar es Salaam has low impact in its objective of providing credit assistance.

- The credit mechanism is not sustainable.
- Ineffective loan portfolio management.

Shoo (2001), in her study on the role of small-scale enterprises on poverty alleviation found that the majority of low-income earners agreed that the income generated from their participation in micro-financing lending schemes was spent on educating their children, and sometimes, they themselves. Some of the income was used to get access to health services.

Although the loan has improved the living standards of its clients through increased income generating activities, improved job opportunities and enhanced income (J. M. Kironde, 2002), the need to have savings first, the high interest rates, the short grace and repayment periods and the rudimentary repayment schedules may have negative impact on the borrowers. A number have been known to use other sources of income to service their loans. There have been observations for example that PRIDE is "harsh" with its borrowers some of whom opt out of the scheme (Chijoriga, 2000).

PRIDE Tanzania and Dar es salaam Community Bank

According to J.M.L Kironde (2002) PRIDE started in 1994 with the aim of testing the applicability of the Grameen Bank micro-lending model in Tanzania. Despite its name, it operates only in urban or peri-urban environments whose population must exceed 100,000 people. Currently it has a network of 28 branches and 3 sub-branches located in 16 major urban centres in the country.

The initial capital for PRIDE was provided by capital injection of US$ 1.2m from the Norwegian Agency for Development (NORAD), which injected another US 3.4m for the expansion of PRIDE's micro-credit services. However, PRIDE also collects from its clients "loan insurance funds" which are used to augment its lending capacity. In effect PRIDE is mobilising services which is not allowed by law. The fund also acts as collateral for loans and had accumulated to over Tshs 6.5bn/= in 2000. Loan provided range from Tshs 50,000/= to Tshs 5,000,000/= and beneficiaries are those with ongoing businesses only. Over 80% of the borrowers are women. Loans are only provided to individuals in groups. Loans are graduated. The lending rate is around 30%. The accumulative number of loans as of 30th June 2002 was 329, 763 with a cumulative loan distribution of Tshs 39.9bn. This means, the average loan given out has been around Tshs 121,000/=. As per year 2005 PRIDE Tanzania has a network of 28 branches throughout the country.

2.3 POLICY REVIEW

In Tanzania the National Microfinance policy was formulated in the year 2000 in order to guide the establishment and operations of Microfinance Institutions (The National Microfinance Policy in 2000). According to the National Micro-Finance policy among other things the importance of micro-finance in Tanzania has increased due to the following reasons:

- 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 opportunity etc.
- Savings services from the MFIs benefits the low-income people.

- Credit services can perform as the same as savings and can help some enterprises and families to make some important investment.
- To reduce the increasing poverty which is prevalent and in the rural and urban settings.
- Micro-finance addresses the financial needs of major sector of Tanzanian population.

The operation of microfinance in form of SACCOS is made under the Cooperative Societies Act, 2003 which became operational in February, 2004. The Act provides for the formation, making a constitution, registration and operation of cooperative societies and for other matters incidental to or otherwise connected with those purposes.

A credit society means a registered society whose principal objects are to encourage thrift among its members and to create a source of credit to its members at fair and reasonable rate of interest. The Registrar of cooperatives may register financial cooperatives, microfinance institutions, and cooperative banks whose primary activities are to mobilize savings and furnish secured and unsecured loans or credit to households, smallholder producers and market entrepreneur, micro-enterprises in rural and urban areas (Cooperative Societies Act 2003 section 22b).

Another policy which has relevance to microfinance is the *Small and Medium Enterprise Development Policy* of 2003. According to this policy in Tanzania Microenterprises are defined in terms of number of people it employs ranging from 1 to 4 and the capital ranging up to Tshs. 5,000,000/=.

Micro-finance institutions (MFIs) are basically intended to offer loans and other financial services to Micro and Small Enterprises (MSEs). According to the Tanzania Small and Medium Enterprises Development Policy of 2003 (the Ministry of Trade and Industries, 2003), in Tanzania micro enterprises are defined in terms of number of people it employs and the capital invested as shown in the table bellow:-

Small and Medium Enterprises in Tanzania

Category	Employees	Capital Investment in Machinery (Tshs)
Micro Enterprises	4 - 10.	Up to 5 million
Small enterprises	10 - 49.	Above 5 million - 200 million
Medium Enterprises	49 - 99	Above 200 million to 800 million
Large Enterprises	Above 100	Above 800 million

Source: Small and Medium Enterprise Development Policy (2003)

According to J. M. L. Kilonde, (2002), four main categories of institutions that are engaged in the delivery of micro-credit in Tanzania can be identified. It is possible that these categories are echoed in other countries. These are:

1. Non Governmental Organisations Micro-finance institutions(NGO-MFI)
2. Government and Public sector sponsored micro-finance programmes
3. Saving Associations and Credit Co-operative Societies (SACCOS)
4. Formal financial institutions that offer micro-credit services

a) Non-Government Micro-Finance Institutions (NGO-MFI)

This category dominates the micro-finance industry in Tanzania. Most NGO-MFIs started operations during or after 1995 and operate in urban and peri-urban areas. The urban bias is prompted by the high transaction costs in financing rural based undertakings. This means that they do not reach the poor of the poor who are mostly in rural areas. All appear to have received capital injection mostly from foreign sources.

MFIs in Tanzania are not allowed to mobilise savings but many of the NGO-MFIs engage in the mobilisation of "savings" in the guise of "loan insurance funds". All provide loans to ongoing businesses and only very few provide start-up capital. None of them directly provide loans for other purposes such as consumption, education or health. Some provide credit to women only. In any case, some 77% of all the loans from NGO-MFIs are received by women.

Most NGO-MFIs in Tanzania only lend to individuals in groups. Few use both group lending and loans to individuals and very few only lend to individuals. Nearly 90% of the NGO-MFIs require some collateral. This takes the form of compulsory saving (i.e. the loan insurance fund) before the loan is disbursed. Interest rates are generally higher than those charged by FFIs (i.e. between 17-30%).

Most NGO-MFIs offer their clients complementary services including the preparation of business plans. Most of the staff in NGO-MFIs engaged in credit delivery have some form of training, mainly short term training. However, the majority of the staff in NGO-MFIs not involved in credit delivery receive no training mainly as a result of high costs.

Looking at the Tanzania scene, it is realised that over 80 percent of the loan portfolio of all NGO-MFIs is dominated by four institutions namely PRIDE, MEDA, SEDA, and FINCA.

b) Government and Public Sector Institutions and Funds

These are sponsored by the government or other public institutions. They include the Small Industries Development Organisation (SIDO), the Presidential Trust Fund (PTF), the Youth Development Fund (YDF) and the Women Development Fund (WDF). The latter two are of special interest to this forum, since they are anchored within local government authorities.

c) Savings and Credit Cooperative Societies (SACCOS)

These are mainly employer-based. The main source of capital is shareholdings and deposits of members. The use of the loan is at the borrower's discretion and includes financing business, house construction education fees etc. The loan sizes depend on the member's share holdings, which also provide the collateral. Loans are made to groups as well as to individuals. Interest rates range between 1.5-5% in some SACCOs to 29% in others. Loan repayment is enhanced by direct deduction from the employee's salary. Most SACCOs do not provide other services to their members and despite the large funds involved, most lack employees trained in micro-finance services and financial management.

d) Formal Financial Institutions

There are a number of banks that offer micro-finance services. These include the CRDB Bank, Kilimanjaro Co-operative Bank (KCB), the National Micro-finance Bank (NMB), Akiba Commercial Bank (ACB), Dar es salaam Community Bank and the Tanzania Postal Bank TPB). The NMB in particular is wholly government owned and was hived off the

National Bank of Commerce and given the duty of providing micro-finance. It has branches throughout Tanzania but has yet to start rendering this service. TPB, NMB and KCB specifically target small savers, while lending to micro-enterprises is a secondary rather than a primary activity of the CRDB. The Bank has tended to target profitable investments.

CHAPTER 3

3.0. RESEARCH METHODOLOGY

3.1. The Research Objective And Rationale Of The Study

Having regard to the successful stories of microfinance Institutions else where in the world, such as Grameen Bank in Bangladesh, Bank Rakyat Indonesia (which the researcher visited in 1997) Prodem in Bolivia, where millions of poor people have changed their lives through solidarity group lending methodology, the writer became curious to investigate the impact of Dar es Salaam Community Bank where he is the Chief Executive Officer, and Pride Tanzania which is the pioneer of Microfinance in the country.

3.2 The focus of the study

The study on Pride Tanzania and Dar es Salaam Community Bank has focused on the impact of jobs creation, income growth and distribution, women empowerment and problems facing clients regarding services.

3.2.1 Job creation

Too see to what extent the two institutions have financed communities in Dar es Salaam leading to promotion of employment and job creation.

3.2.2 Income growth and distribution

To investigate how the financial institutions through its deposits and interests payments have influenced income growth and distribution to its clients.

3.2.3 **Women Empowerment**

Evaluate to what extent women have benefited from loans given by the two institutions.

3.2.4 **Problems faced by clients of the two Institutions regarding services.**

Study from the clients perspective problems faced in accessing loans and interest charges vis-a-vis facilities from money lenders.

3.3. The sampling design and methodology

The research activities were carried out in Dar es Salaam. The choice of the place of study was influenced by two main reasons. The first reason was costs involved, and the second reason was that of convenience. All the two Institutions Pride Tanzania and Dar es Salaam Community Bank are operating in Dar es Salaam and it was easier to compare their impact in one urban setting than if they were in different districts.

3.4. Units of inquiry

Dar es Salaam Community Bank has about 2000 active solidarity group lending clients, so we used 200 structured questionnaires which are 10%.

For Pride Tanzania we also distributed 200 structured questionnaires to four branches i.e. Kariakoo, Buguruni, Temeke and Magomeni.

3.5 Types of data used

The main data used in this study were primary data. These were obtained through interviews, questionnaire, focused group discussions, and observations with the respective respondents.

3.6 Methods of data collection

The main methods of data collection employed in this study as outlined above were.

(i) Structured Questionnaire.

This method was applied to selected clients of Pride Tanzania and Dar es Salaam Community Bank. 200 structured questionnaires were distributed randomly to selected clients of the two institutions. The questions dealt with the Name of the clients, Business, Age, Education, Experience, Banks used, any problems they had regarding services and if they have any suggestions to make.

(ii) Interview

This type of data collection was applied to selected clients, and officials of Pride Tanzania, the Chief Executive, and the four branch Managers.

(iii) Focused group discussions (FGD)

Focussed Group Discussions (FGD) were held with DCB clients at Temeke, and Mtongani Kunduchi. Their views on services, interest rates and any problem that they faced regarding quality of services from the two institutions were explored.

3.7. Methods of data analysis

The analysis of the collected data involves organising and summarising them in a manner that they answer the research question. In this study, the main methods of data analysis are the tables, pie charts, and SPSS for analyzing data collected. Moreover, both quantitative and qualitative methods of data analysis have been employed for purpose of clear understanding of the research problems under investigations.

3.8. Problems encountered during data collection

The major problems encountered were for some officials not willing to provide some information, or if they do, giving it very late.

The second problem was limitations of time and budget; we would have wished to cover more variables than we have covered. Another problem was that of getting the amount of loans that had not been repaid and the number of defaulters for the period covered by the study.

3.9 Limitations of the study

The initial plan was to cover more variables on impact analysis. Due to limitation of time and budget this study has focused on four variables only. The data collection from the clients of the two institutions has been quite exhaustive to the extent of giving reasonable materials to make the conclusions. The limitations if any are believed to be minimum given the standard of the research methodology which was applied.

CHAPTER 4

4.0 STUDY FINDINGS

4.1. Job creation

This study has revealed that 62,000 clients at Pride Tanzania and 17,286 clients at DCB benefited by way of loans from the two institutions during this period under review. The activities financed include farming, carpentry, salon shops, poultry farms, vendors, retailers and wholesalers. All these clients are either self employed or have employed relatives or other people to work for them ranging from two to ten people.

Pride Tanzania has employed two hundred staff, DCB has employed 70 staff. Assuming every staff has four dependants, the welfare and standard of living of all these households have improved standard of living from the income they received from these two institutions. These findings evidence existence of positive impact on job creation by these institutions.

4.2. Women empowerment

Out of 17,286 clients who benefited from loans issued by DCB only 4,983 were women forming 28.8%. However, for solidarity group lending 1996 were women out of 2,348 clients forming 85%.

As 90% of Pride Tanzania clients are women they form the majority of the 62,000 beneficiaries of Pride loans. It can therefore be said that women have been economically empowered through loans provided by the two institutions. The two institutions need to address the problem of women taking only small loans under solidarity lending leaving business loans to be enjoyed by men.

The loan repayment rate for both institutions is over 97% evidencing that the poor are credit worthy. The study has also revealed that the majority of borrowers (68%) have completed primary education, while (28%) have completed secondary education, while Illiterate and college education form 2% each.

The bulk of the clients of the two institutions are middle age between 31 to 50 years of age (63%) followed by youth age between 18 to 30

4.3 Clients views and perceptions regarding services satisfaction.

The majority of clients interviewed during this study were generally satisfied with the services rendered by the two institutions. Only 5% of clients at pride Tanzania and 7% of clients at DCB were dissatisfied in the following areas:

PRIDE Tanzania clients' views were as follows:

4.3.1. Forced savings as a condition to access credit. They resent this because it is not voluntary and is used as a condition to access loans.

4.3.2. Further, the problem with this is the requirement to have at least 10-30% of credit requirement in savings before one could borrow any money. This requirement delays the ability to access credit.

4.3.3. High interest rates; clients request a reduction of 2.5% to go down to 1.5%.

4.3.4. Short recovery period; clients request to pay loans in 24 month instalment.

4.3.5. Lack of grace period; clients request 1 month grace period after disbursement.

DCB clients' views were as follows:

4.3.6. High interest rates to be reduced from 4% to 2.5% per month.

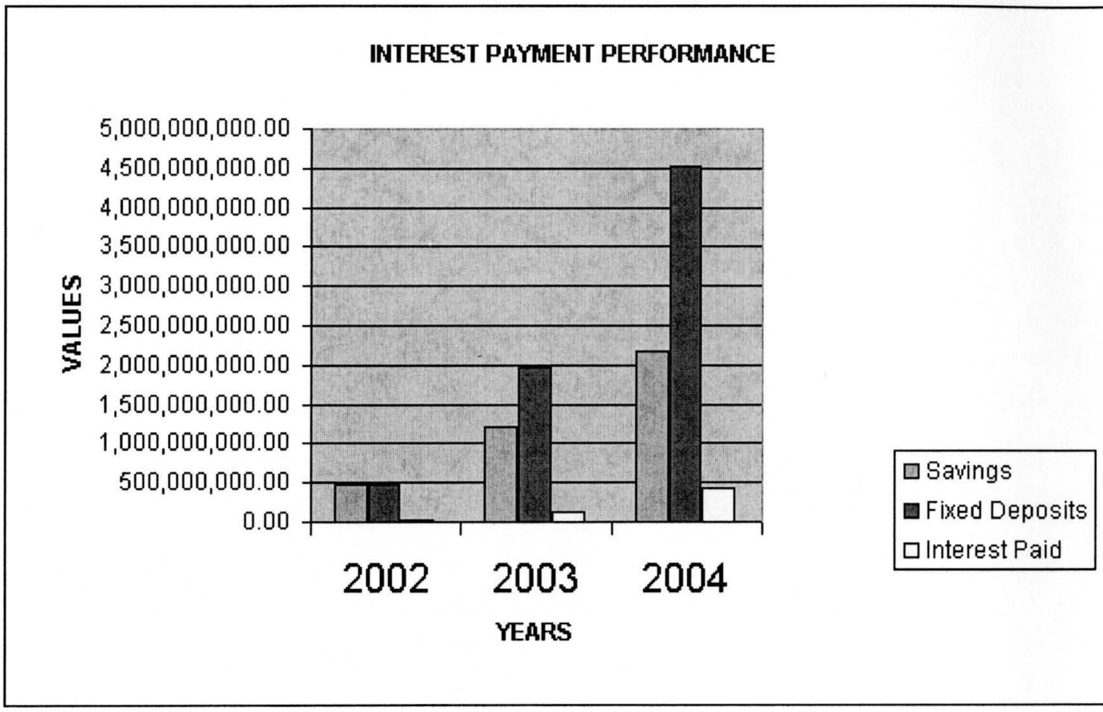
4.3.7. Commitment fees and weekly payments to be removed and introduce monthly repayments.

4.3.8. Lack of grace period; suggested 1 month grace period after disbursement.

4.4. Income growth and distribution

4.4.1. DCB has paid interest on savings and fixed deposits accounts totalling to shs. 581.5m to 60,000 clients from year 2002 to 2005. Thus contributing to income growth to clients with savings / fixed deposits with the Bank. Pride has paid interest amounting to Shs. 698,818,592.00 to its clients in their forced savings portfolio during the same period. The following table analyses the savings and deposits interest rates for DCB

Types of Account	Dec-02	Dec-03	Dec-04	Total
Savings	478,191,942.16	1,200,534,341.54	2,184,097,440.26	3,862,823,723.96
Fixed Deposits	480,297,217.07	1,968,472,986.67	4,511,655,403.79	6,960,425,607.53
Interest Paid	23,655,240.29	132,641,180.25	425,250,166.55	581,546,587.09



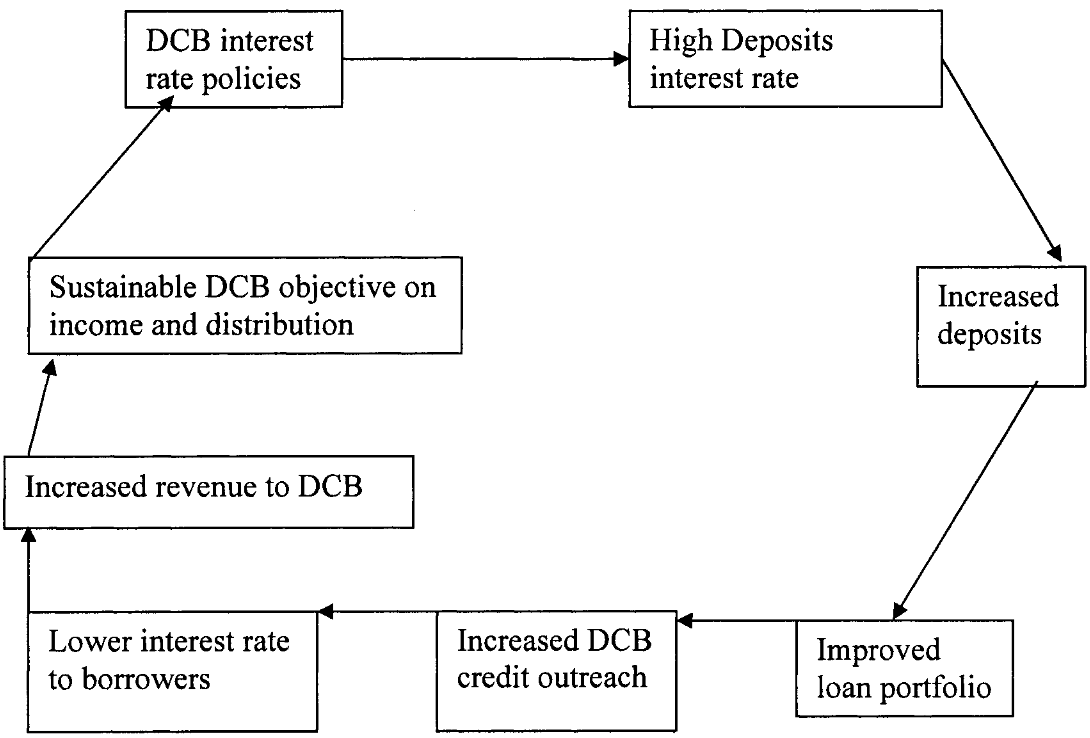
This shows that DCB has been paying more interest for fixed deposit due to two major reasons:-

- Individuals and Pension fund depositors have been attracted to deposit due to high interest rate paid by DCB(5%) compared to low interest rates paid by commercial banks (1-2%).

- DCB have been encouraging deposits in order to finance adequately its loan portfolio for improving credit facilities for the low income earners.

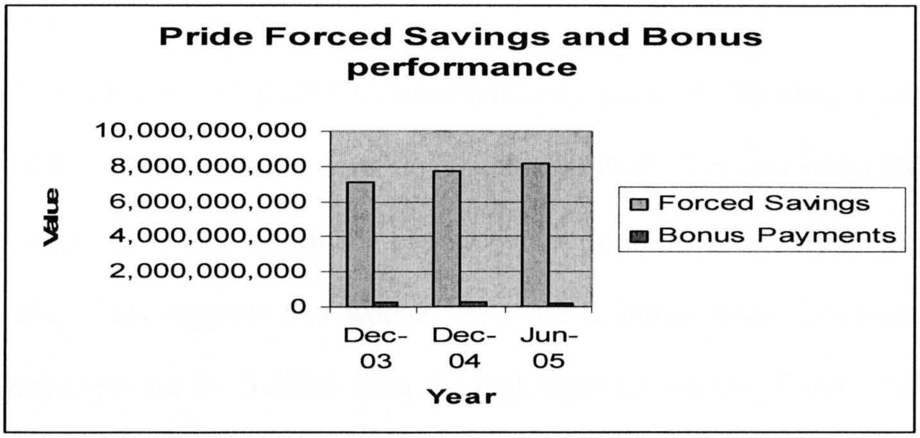
Also interest rate paid for savings and fixed deposits have been increasing from year 2003 to 2004 due to increased number of customers.

Flow diagram for impact of DCB interest rate policies on income growth and distribution



For Pride Tanzania the following table summarises the forced savings deposits and its annual bonus (interest) payments:-

NO	Types of Account	December 2003	December 2004	June 2005	Total
1	Forced Savings	7,075,109,699.00	7,704,400,586.00	8,164,669,738.00	
2	Bonus Payments	251,684,463.00	272,013,146.00	175,120,983.00	698,818,592.00
	%age	3.56%	3.53%	2.14%	



This findings analysis compares the two institutions and show where as DCB pays interest payment at 5% the average interest rate paid by Pride Tanzania is 3.5 despite of its less cost of funds ie. forced savings and donor funds. Also due to limitation of operating out of banking system, their performance for ten (10) years in terms of deposits and loan portfolio is behind DCB which has been operating for only three years.

4.4.2 This study has revealed that out of four hundred (400) clients interviewed at both Pride and DCB, three hundred seventy eight (378) enjoyed credit facilities in the solidarity group lending are low income earning groups. Their income per month range between Tshs 0 to 1,000,000 per annum which accounts for 94.5% .This is in line with the mission and objectives of the two institutions.

Only 17 clients in the middle income earning between Tshs 1,000,000.00 to Tshs. 5,000,000.00 enjoyed credit facilities in the solidarity group lending while only 5 clients in the high level income (between 5-10 million) participated in the solidarity group lending.

4.5. Gender

126 out of 210 borrowing clients under solidarity loans are females, which form 60% and 84, are men who form 40% of the total at Pride Tanzania while DCB had 174 females out of 250 borrowing clients, which form 70% against 76 men who form 30%. This suggests that women are more active in micro businesses than men, (See appendix 2). Judging from the high repayment rates of above 98% this also suggests that women are more credit worthy.

Married people form 86% at Pride against singles who are 14% while at DCB 80% are married against 20% singles. (As shown in appendix 1)

4.6 Level of education

The majority of the borrowing clients interviewed have completed primary education who form 68%, secondary education 28% while illiterate and college education form 2% each (see appendix 3)

4.7 Types of activities financed

Major economic activities financed by both Pride and DCB are almost similar. They include Retailers, Food Vendors, and Small Industries such as shoes repairs, carpentry, poultry farms, dairy farms and the like (as shown in appendix 5)

Activities	**Types of Business**
Selling second hand clothes, charcoal dealers	Retailers
Food sellers,	Food Vendors

Small holder farmers	Farmers
Cow and Piggery	Dairy
Chicken	Poultry
Shoes makers, small industries	Manufacturers
Carpentry	Furniture, art

4.8 Age group

The bulk of clients interviewed enjoying credit facilities at both Pride and DCB are middle aged between 31-50 years who form 51% followed by youth aged between 18 -30 years who form 31% while the old age group of 50 – 70 years old form only 10% of the total (See appendix 6)

4.9 Socio/economic impact

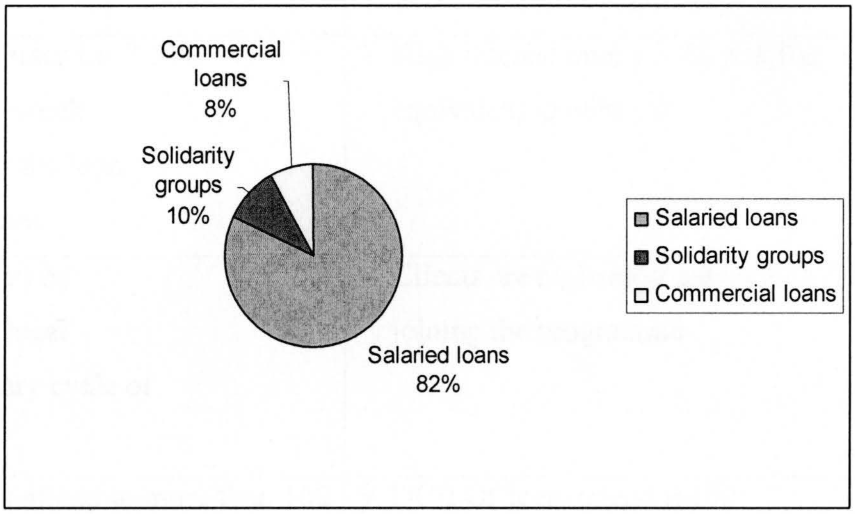
As at the end of September 2004, Pride Tanzania had a total of 26 branches and sub branches in 17 regions both mainland and isles with a client population of 62500 people and loan portfolio of 9.2 billion. This makes it the largest micro finance institution in Tanzania and one of the 10 largest in Africa. It has portfolio quality with an on time repayment rate of 99.55% and a portfolio at a risk rate of 0.45% over the entire period of its existence.

DCB started operations on 15th April 2002. It has deposits valued at 13 billion shillings and portfolio of 11 billion shillings disbursed to 60,000 clients as at July

2005. All these are engaged in various economic activities which improve their living standards. The distribution of clients benefited is as follows:-

Table 1.1

No	Type clients	Amounts (Tshs. Million)	%age
1.	Salaried loans	9,000	82
2.	Solidarity groups	1,100	10
3.	Commercial loans	900	8
		11,000	



The analysis of findings above shows that DCB have disbursed more funds to consumer loans for example loans for school fees, health care and purchase of the building materials, acquisition of housing plots etc. to salaried staff in both government and private sector.

4.10 Difference between Pride Tanzania as an NGO and DCB as a regulated Bank.

PRIDE	DCB
1. Sources of funds NORAD SIDA	1. Source of funds (a) Individuals, Private Companies (b) DSM Municipals Council& City Council
2. Working Experience Over 11 years	2. Working Experience Three years
3. Geographical covering Almost countrywide	3. Geographical covering DSM only.
4. Number of Clients Over 62,000	4. Number of Clients About 60,000 borrowing clients
5. NGO	5. Bank
6. Services provided in the Pride offices	6. Services are provided to the localities near to SGL Clients, residences
7. Low interest rates i.e. 2.5% p.m or 30% which decreases as the loan cycle increases	7. High interest rates of 4% p.m flat equivalent to 48% p.a.
8. Clients have to be registered to local leaders in every cycle of the loan	8. Clients are registered only once when joining the programme
9. Pride officers attend to more than 100 clients per day, because they are attended at the Pride Offices.	9. DCB Officers attend to100 clients per day due to distance to SGL residence
10. Loan repayment – very strict – (locks up defaulters in pride premises until repayment is obtained)	10. Unable to lock defaulters as premises to do so are not available, Hence resolves to debit forced savings When default arises.
11. Disbursed 9 bn in 10 years.	11. Disbursed 540 million in 2 years.

4.11. Interest rates

While the majority of clients in the two institutions understand the rationale behind payment of high interest rates, many are of the view that charging high interest rates to poor is immoral and politically unacceptable. Experience else where in the world has shown that subsidized interest rates are unsustainable and rarely reach the targeted poor. Clients of the two institutions need to be educated on these issues regularly. On the other hand the two Institutions should look at the possibilities to reduce interest rates when the situations allows to do so to benefit more and more clients.

4.12 Weaknesses observed in the analysis of findings

4.12.1. The majority of clients interviewed at both Pride and DCB lack business education and basic accounting knowledge. Most of the clients can not distinguish between their business capital, profits and business earnings from their personal expenditure, which is dangerous for business sustainability.

Although both Pride and DCB spend at least an hour weekly for six weeks to educate them on how to stay in group and adhere to weekly savings and loan repayments, these MFIs do not have policies which insist on training clients business and accounting skills. For example in Kenya, K-REP bank make it a condition to small businessmen and women to undergo a one week full course on business and accounting fundamentals before they qualify for a loan (Kimanthi Mutua; 1996). This can be applied to DCB and Pride Tanzania for better results.

4.12.2. Majority of the vendors complained about local authorities who harass street hawkers and other self employed people from over zealous policing and having their goods confiscated by these City Police.

4.12.3. Tanzania does not have national identity cards (IDs) and this makes it difficult for Microfinance Institutions to identify their borrowers and their locations. The absence of national IDs has made loan recovery difficult and expensive to both Dar es Salaam Community Bank and Pride Tanzania.

4.12.4. PRIDE Tanzania shall be transformed into regulated microfinance institution rather than remaining as NGO-MFI.

4.12.5..The major weakness observed in coordinating microfinance operations targeting particular groups such as MFIs/NGOs, SACCOS, SACAs, Community Banks etc. Although Tanzania Microfinance Association (TAMFI) exists, its broad objectives do not suffice specific problems. Therefore this study of DCB/Pride reveals the gap in coordinating community Banks with respect to their specific issues and problems.

4.13. RECOMMENDATIONS;

The government role

4.13.1. In order to provide employment to graduate of Universities, VETA, Secondary schools, the Government should promote a scheme whereby these drop outs can be organised to form associations, or SACCOS; The Government should provide facilities such as places to do businesses making it easier to access microfinance institutions, to obtain working capital.

4.13.2. The Government should form a special task force to review all informal sector policies. In particular, to review local authority by laws to create healthy regulatory climate for informal sector activities. Put in place regulations to protect street hawkers and other self-employed people from overzealous policing.

4.13.3. The Government should involve a programme that will facilitate the development of both urban and rural financial markets that could encourage establishment of community based intermediaries with savings mobilization, allocation and payment functions, while creating opportunities for banks to extend their services to this sector.

4.13.4. The Government should create incentives that would facilitate/attract a great number of operations in this sector.

4.13.5. There is need to introduce National IDs in Tanzania to facilitate identification of borrowers and their locations.

4.13.6. DCB and Pride should explore the possibility of reducing interest rate so as to accommodate more clients by emulating the examples of other successful Microfinance Institutions (Best Practices)

4.13,7. National Microfinance Policy should be updated and reviewed periodically to reflect current situations. The current microfinance policy of 2000 is already due for review.

4.13.8. The issue of capacity building is crucial. Microfinance is a new area in Tanzania. Capacity building is expensive and is going to cast pressure on the budget of the Institutions both Microfinance Institutions and clients. A curriculum for Microfinance should be introduced at University level to produce better qualified microfinance practitioners.

4.14. The role of PRIDE Tanzania

It is recommended that time has now come for Pride Tanzania to embark into the transformation process to establish a well designed Microfinance Bank so as to make proper use of its present forced savings, obtain more voluntary savings and therefore expand its outreach to the active poor income earners.

4.15. The role of bank of Tanzania

4.15.1. On interest rates, the best way if not the only way to ensure the poor people have access to credit is to charge interest that will cover the full cost of the credit operations enabling the Microfinance Institutions to become financially self-sustaining.

4.15.2 The Bank of Tanzania should continue to create a conducive appropriate regulatory and supervisory framework for Microfinance Institutions to thrive.

4.16 CONCLUSION

Despite the fact that Microfinance Institutions in Tanzania are rather new and operate under difficult environment, they are playing a very important role in the poverty alleviation struggle in Tanzania.

Although microfinance emerged from the poor peoples own self help initiatives to improve their livelihood notably in the mid 1980 much of its subsequent developments has been shaped largely by the ideology and politics of international aid. Regrettably, recent developments in microfinance has become centred almost exclusively around the institutional and financial health of the service providers, markets and infrastructure, thereby sidelining concern about the well being of the poor people in whose name microfinance evolved.

Most of the impact analysis carried out globally shows that neither NGOs nor private commercial banks or state Institutions seem to be reaching those who need it most.

Another observed reason for the limited outreach of microfinance in Africa as compared to Asia or Latin America is that poverty is a multidimensional problem, and therefore not caused by just lack of access to financial services hence microfinance is reaching a handful of the poorest despite years of massive effort.

Some microfinance institutions, starred of capital and desperate for quick results are resorting to some ethically questionable measures just to survive. For instance some of the Institutions are using the clients forced savings to lend them back to them, but frequently make the clients pay dearly for the loans while paying nothing or paltry interest or such savings. Other have closed their outlets in poorer arrears where business tend to be sluggish, thereby trading off greater outreach for their own self preservation. The regulated microfinance institutions are seemingly the most prone to moving up the market switching their service delivery methodologies as well as products even when this translates into more cost to the clients.

Across Africa, including Tanzania, countries are using different instruments or modes of interventions in support of microfinance innovations. So far, the only consensus globally is that governments should avoid any direct involvement that may influence the evolution of microfinance in their respective countries. Yet, before taking this very rigid position, it is important to assess where results has been greatest. Is it when microfinance is integrated as a service in the public sector (as in India or Vietnam) or when it is complementary to state owned enterprises as in (Ethiopia, Burkina Faso, or Indonesia) or when a government runs its microfinance interventions paralled as an alternative to existing public service providers? Clearly there is need for a more open debate about what role the state can assume towards the widening and deepening of financial services to the millions of aspiring clients and improving impact first before taking rigid positions.

CHAPTER 5

5.0. IMPLEMENTATION OF THE RECOMMENDATIONS

ESTABLISHMENT OF VIABLE AND REGULATED MICROFINANCE INSTITUTION IN TANZANIA

5.1 Introduction

The findings from the research study conducted at the two microfinance institutions in Dar es salaam revealed and confirmed that Microfinance activities can create job opportunities and empower marginalized groups in the society especially women. The findings have evidenced that Dar es Salaam Community Bank and PRIDE Tanzania have played a key role in assisting the government efforts to alleviate poverty in Dar es Salaam. However the need for implementation of the project in respect of mitigation of some areas of findings related to establishment of viable regulated Microfinance Institution (MFI) was of the essence. Therefore establishment of transformation process for PRIDE Tanzania from an NGO to a regulated Microfinance Bank was recommended and finally accepted by both institutions to form the implementation part of the project. In this part of the study a detailed implementation plan of the transformation process is presented.

5.2.0 Establishment of Transformation process for PRIDE Tanzania from an NGO to a regulated Microfinance Bank.

5.2.1 Definition

The term transformation is used to mean many different types of change for example it could be a foreign NGO branch office like Save the Children, who formed a local NGO and transferred to this local NGO its microfinance portfolio. Also it could be a foreign NGO branch like FINCA, a participant in the formation of local commercial micro-lending company, and [they] transfer the [microfinance] portfolio to the profit entity in exchange for shares. It could also be a local or a foreign NGO participating in the formation of a commercial company that is licensed as a bank or non-bank financial institution and obviously, one can have many variations on those different schemes depending of what the local law permits. So, in fact the NGO is not what is transforming. It is the nature of its assets. The NGO very often remains an NGO and creates a new entity, which is this new commercial entity, but the asset of the NGO is changing. The NGO has a loan/micro-loan portfolio and it will be replaced by shares in this commercial entity (Xavier Reille 2005).

5.2.2 Current situation

The principal providers of financial services to the poor and low income households in the rural and urban areas of Tanzania consist of licensed commercial banks; regional and rural unit banks; savings and credit cooperative societies and several

NGOs whose micro-credit delivery operations are normally funded and supported with technical assistance by international donors (Bikki Randhawa & Jesolito Gallardo, 2003).

The study from DCB and PRIDE Tanzania has raised a regional concern on the importance of improving the process of micro-finance services growth through transforming an NGO into a regulated microfinance institution (community bank). This has also been evidenced for example in Kenya where after the expected initial teething problems, transformation from an NGO to a microfinance bank yielded very positive results. In just four years, the combined outreach of K-Rep institutions rose to over 90,000 borrowers and savers, most of them poor, compared to slightly over 15,000 before transformation. New products have deepened outreach and provided the active poor with the opportunity to improve their incomes by maintaining and growing their businesses (K-REP 2004).

From this study, statistics show that in three years Dar es Salaam Community Bank has performed much better especially in mobilising voluntary deposits than what PRIDE Tanzania has been able to mobilise through forced servings in ten years. For example Dar es Salaam Community Bank mobilised 12.5 billion after three years whereas PRIDE Tanzania organised only 7 billion through forced savings. Likewise for lending DCB has given loans to 67,000 borrowers totalling 10 billion whereas PRIDE Tanzania has disbursed 9 billion to 62,000 clients in 10 years.

These are among the factors which show the advantages of being transformed into regulated bank institution.

By converting into a microbank, FINCA Uganda found it as a way of catalysing a microeconomic revolution that has the power to transform the economy and the informal financial sector of this country.

Our findings have revealed that in both institutions the majority of clients are women and by engaging themselves in these enterprises they have been able to run their business successfully thus able to determine their own future (empowerment). We have also studied at the problems being faced by clients such as forced savings at PRIDE Tanzania, and perceived high rates of interest at both institutions PRIDE Tanzania and DCB.

5.2.3 Experience of Transformation of NGOs into Banks world wide

According to Xavier Reille (2005), Microfinance transformation started in the nineties. So, the first very well known transformation was the transformation of PRODEM into Bancosol in 1992, an affiliate of the ACCION network. According to the statistics, since then thirty-nine NGOs in the world have transformed into for profit companies in fifteen countries. In the East/North Africa region only one K-REP, an NGO transformed into K-REP Bank in Kenya.

According to Elisabeth Rhyne (2002) ACCION International, whose Latin American Network included 12 regulated microfinance institutions, had a great interest in promoting mutual understanding between regulators and the regulated.

In order to contribute to greater understanding, a survey was conducted with detailed interviews of seven microfinance institutions, five from the Network and two outside it: BancoSol (Bolivia), Banco Solidario (Ecuador), Caja Los Andes (Bolivia), Calpia (El Salvador), Compartamos (Mexico), Finsol (Honduras), and Mibanco (Peru). These institutions represent six countries (as shown in the Table below). Three are commercial banks while four are financiers. All, with the exception of Banco Solidario, underwent *transformation from NGO into regulated institution*, and thus they are in a position to compare the experiences of operating in an unregulated versus a regulated environment.

This study had the purpose to examine the views of the institutions on the experience of being supervised, including perceived costs and benefits, and to get some recommendations on changes the practitioners would suggest to the content and implementation of supervision.

PRIDE Tanzania can share this experience through the following analysis for the purpose of comparison.

Background on examples of transformed MFIs

Institution	BancoSol	Banco Solidario	Caja los Andes	Calpia	Compar-tamos	FINSOL	Mibanco
Country	Bolivia	Ecuador	Bolivia	El Salvador	Mexico	Honduras	Peru
Founded	1986	1995	1991	N/A	1990	1985	1969
Original Form	NGO	Commercial Bank	NGO	NGO	NGO	NGO	NGO
License Date	1992	1995	1995	1995	2001	1999	1998
New Form	Commercial Bank	Commercial Bank	FFP	Financier	SOFOL	Financier	Commercial Bank
Active borrowers	60,976	14,645	41,665	34,390	62,797	15,026	58,088
Portfolio (US$ million)	$ 77.8	$6.3	$46.8	$26.5	$10.9	$6.3	$36.9

Note: Data as of end 2001 with exception of Calpia, which is end 2000.

5.2.4 Benefits of Regulation

From this study by Elisabeth Rhyne (2002), the institutions involved are overwhelmingly pleased to be regulated. All reported that the benefits of being regulated outweigh the costs. None would even begin to contemplate reverting to their NGO status. This message is highly significant. It means that even when debates over specifics of regulation become heated, the underlying fundamentals are there. Therefore the process of becoming regulated has brought microfinance institutions the following benefits:-

a) Greater access to sources of funds for both equity and debt, especially commercial sources.
b) Ability to achieve growth and quantitative outreach goals: to serve more people
c) Improved, more professional operations through meeting higher standards of control and reporting.
d) Greater ability to offer products beyond micro-credit, especially savings and transfers.
e) Enhanced legitimacy in the financial sector and with clients

5.2.5 Procedures for transformation of NGOs into a bank in Tanzania

a) Licensing Procedures

According to the TIC investors guide to Tanzania (2004), banking and financial institutions are regulated under The Banking and Financial Institutions Act, 1991, Bank of Tanzania Act, 1995 and Foreign Exchange Act, 1995. Regulations in place are Banking and Financial Institutions Regulations, 1997, the Management of Risk Assets Regulations, 2001, the Capital Adequacy Regulations, 2001, the Liquid Assets Ratio Regulations, 2000, the Publication of Financial Statements Regulations, 2000, the Independent Auditors Regulations, 2000 and the Credit Concentration and Other

Exposure Limits Regulations, 2001. Requirements for registration of a bank or financial institution include: -

- Letter of Application in prescribed format.
- Proposed Memorandum of Association and Articles of Association (unregistered with the Registrar of Companies);
- Proof of availability of funds for investment as capital of the proposed institution
- List and information sheet of incorporators/subscribers and proposed members of board of directors and other senior officers;
- Proof of citizenship of every incorporator/subscriber and every proposed director and senior officer. This includes detailed curriculum vitae (CV), photocopy of the first five pages of a passport, a passport size photograph and historical background;
- Audited balance sheet and income statement of every incorporator/subscriber and every proposed member of the board of directors and senior officers;
- Certified copies of annual returns of every incorporator/subscriber and every proposed member of the board of directors and senior officers (together with accompanying schedules/financial statements) filled during the last five years with income tax office for income taxation purposes;
- Tax clearance from the income tax office;
- Statement from two persons (not relatives) vouching for the good moral character and financial responsibility of the incorporators/subscribers and the proposed directors and senior officers;
- Business plans for the first four years of operations including the strategy for growth, branch expansion plans, and dividend payout policy and career

development programme for the staff. Budgets for the first year must also be included;

- Projected annual balance sheets, cash flow and income statements for the first four years of operations;
- Discussion of economic benefits to be derived by the country and the community from the proposed bank/financial institution;
- A bankers cheque for TShs 2,000,000/=.

Transformation of PRIDE Tanzania from NGO to regulated Microfinance Bank

5.2.6. Transformation objectives

PRIDE Tanzania has 28 Branches scattered all over the country. With deposit base (forced savings of shs. 7bn) and a lending portfolio of Tshs. 11bn) it is now ripe to be transformed into a strong Microfinance Bank to make proper use of its present forced savings, obtain more voluntary savings and direct these resources to the rural areas.

PRIDE Tanzania has started the process of transforming PRIDE Tanzania from an NGO to MFI with effect from this year 2005 with the following aims:-

- Achieve institutional and financial sustainability
- Balance management of time between profitable microfinance activities and complementary services that usually require some degree of subsidization.
- Increase access to additional sources of capital, particularly from the client savings, so as to reduce dependence on donor funds, expand its market outreach, and recycle

client savings to microentreprises rather than channelling them through traditional banks to finance wealthier sectors of the economy.

- Offer additional services to microentrepreneurs and other low income population.

5.2.7 Process involved

The following are the designed process involved in implementation of transformation of PRIDE Tanzania into Microfinance Bank:-

- Changing her name from PRIDE Tanzania into Pride Bank/Company Ltd
- Splitting and separating non-banking roles.
- Processing registration and establishing a company/Bank
- Receiving a Banking License.
- Securing share Capital in PRIDE Bank Ltd.
- Staffing

5.2.8. Important challenges to be observed

The determination by PRIDE Tanzania to transform into microfinance has three critical issues to be taken into account:-

a) How will PRIDE Bank mobilise voluntary savings, and what will be the relationship between voluntary and forced (mandatory) savings.

b) How will PRIDE Bank improve the efficiency while maintaining the quality of its lending operations.

c) How will PRIDE Bank ensure sustainability.

These three critical issues were very important part of the project implementation to be addressed by a researcher and form part recommended to PRIDE before embarking into bank operation.

5.2.9 Mobilise voluntary savings

PRIDE Tanzania's main loan product offered is the *solidarity group guarantee loan* which is made up of a solidarity group of self selecting members of five called an enterprise group (EG) and ten solidarity groups combined into one large group of 50 called a market enterprise group (MEC). The loan works through peer pressure and a three-tier loan guarantee system to ensure loan repayment. Another loan product is the *Fahari Loan,* given to a Solidarity group of three to five self selecting members from among solidarity group clients. This loan product will eventually be rolled out as an individual loan. A new product in the name of *Ajira* loan – an employer guaranteed consumer loan, is currently being rolled out. Compulsory weekly savings collected as part of loan insurance scheme and which is refundable upon exit is the only saving product used. Although clients are given half yearly bonus payout on compulsory savings but it calls to re-organise for voluntary saving in this transformation.

According to Jay K. Rosengart et al (2000), mobilization of savings in successful microfinance institution depends on easier access to ones deposits, the perceived safety of these deposits, and a fair return on funds deposited in micro bank. In marketing savings product not tied to borrowing, the bank's license and concomitant deposit insurance might satisfy consumer demands for safety, and a market interest might meet consumer requirements for a fair return.

However there is still a danger that PRIDE Tanzania is well known for her policy of requiring forced savings as a condition of borrowing. This might lead to potential savers to doubt the accessibility of their voluntary savings, despite bank's assurance. To solve this problem PRIDE Tanzania need to explicitly implement a promotion program for each product to be offered while distinguishing the change in methods so as to attract more voluntary savings.

5.2.10 Improving quality of service and cost effectiveness in credit operations

PRIDE Tanzania has successful methodology to ensure that credits are delivered to those who previously did not have access to formal credit institutions and ensure that most of these loans are paid back in time and in full. In order to achieve economies of scale PRIDE Bank must increase the amount lent per credit officer by either increasing value through making larger loans or volume through making more loans. In achieving the economies of scale it must be made in a manner that balances greater credit risk of larger loans with higher transaction costs of smaller loans. This will entail a review of current credit operations, to determine which attributes are intrinsic to PRIDE success to date, and which characteristic should be modified for increased cost effectiveness.

5.2.11 Ensuring Sustainability

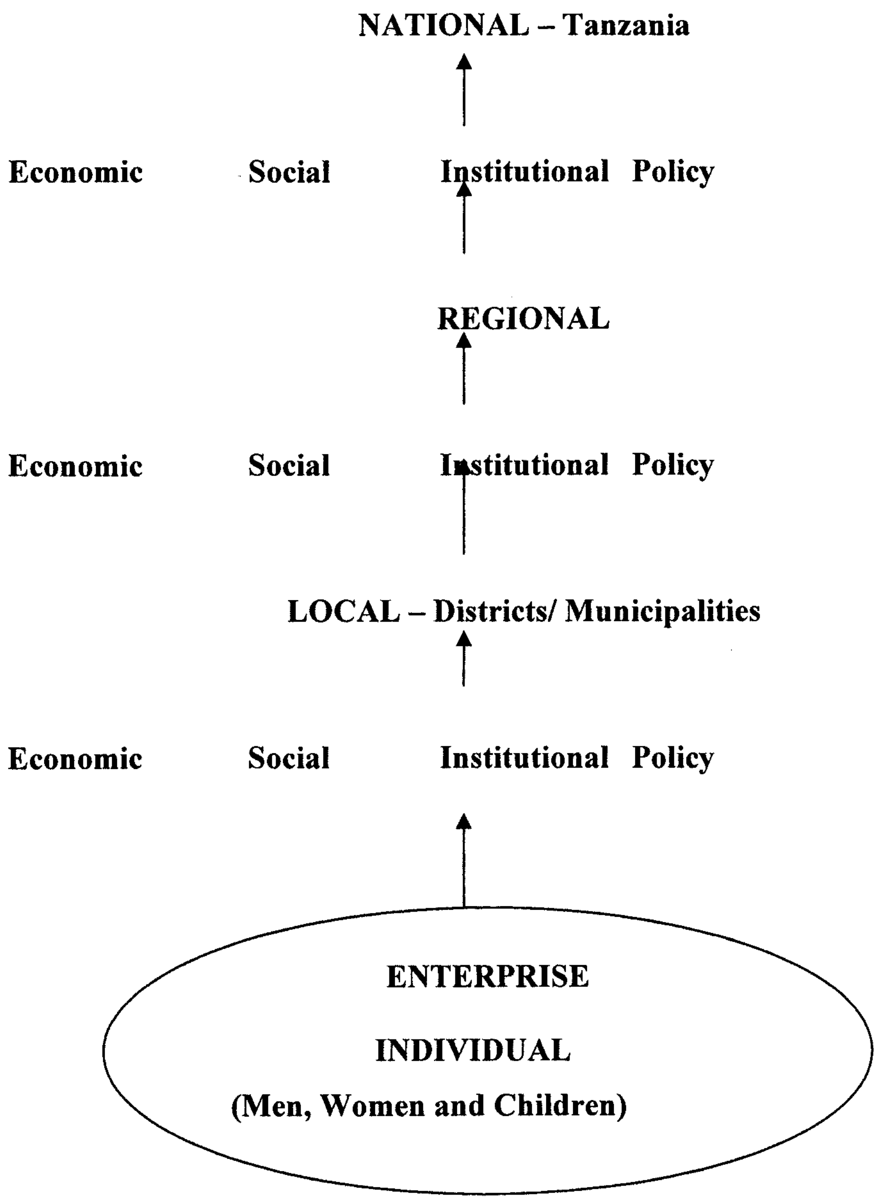
Discussion held in July 2005 with the top management of PRIDE Tanzania confirmed that they are aware that some clients are complaining about the high interest rates charged by PRIDE Tanzania and that this issue will be considered in the process of transformation from NGO to a regulated MFI. It is important therefore to note that for more voluntary savings deposits to be mobilised from the public, the issue of revisiting the interest charges must receive the due consideration. However PRIDE Tanzania Bank must continue to charge interest from its borrowers enough to cover its operational costs and generate profit for its owners to ensure sustainability. In this area, its main concerns will be to see that product pricing still covers lender transaction costs, the cost of funds available for loan provision and provision for bad debts, while at the same time trying to keep these costs at minimum.

Although the transformation process for PRIDE Tanzania is being put in the process, it should be considered that the most fundamental distinction between microfinance and all other forms of conventional banking is that the core clients of microfinance institutions are the self-employed and informal enterprises, clients that conventional banking has traditionally excluded. The magic of microfinance is therefore to develop techniques for lending to these households and enterprises without formal employment. Those techniques are built around several key principles known as core best practices in microfinance which are:

- Focus on motivating the borrower to repay through promise of continued access to credit, peer pressure, loss or personal assets, and other collateral substitutes.
- Conservative approach to loan approval and loan size determination based on analysis of existing repayment capacity, or stepped lending.
- Strong delinquency management systems, including immediate, personal follow-up, staff incentives, and management information systems.

Therefore in transformation process PRIDE Tanzania has to strike balance so that it holds most of former customers who were brought about through the aforementioned principles and outreach more new customers for wider impact of microfinance. The levels of impact to be attained under PRIDE Tanzania bank shall be from individual to National level as for sustainability assurance shown in the model shown below. The impact referred ere will include job creation, women empowerment, income growth and distribution at all levels – district, regional and National level.

Levels of improved models expected to be effective:



Source: McGregor (2000) how can impact assessment take into account wider Impacts?

5.2.12. Development of action Transformation Plan

The Implementation plan for transformation of PRIDE Tanzania into PRIDE Tanzania Bank is as shown in the table below:-

No	Period	Activity	Responsible	Comments
1.	July –December 2004	Establishment of Transformation Team and employment of external consultant namely Mr, Rashid Malima.	• PRIDE Tanzania management	A Task Force have been established for implementation of transformation process
2.	January-June 2005	Development of transformation plan which details the process including resources (timing, personnel, financial) for transforming process and approvals by management.	• Management • Transformation task force • External consultant	The Transformation plan have already been prepared.
3.	July-December 2005	Development of strategies and methodology for Bank operations towards improvement in performance	• Management • Transformation task force • External	Preparation is in progress.

		in lending and voluntary savings.	consultant • Stakeholders	
4.	January-June, 2006	Preparation of respective documents for licensing for regulated microfinance bank, including required Memorandum of Association and Articles of Association and other important requirements and approvals by management.	• Management • Transformation task force • External consultant	Available documents shall be improved for use in bank establishment and operation.
5.	July-October, 2006	Processing Licensing to transform from NGO to Microfinance bank by assuring the availability of all requirements for registration of a bank and financial institution as mentioned early.	• Management • Transformation task force • External consultant	
6.	November - December, 2006	Receive a Banking License and finalise all other preparations including any necessary staffing.	• Management • Transformation task force • External consultant.	

7.	January, 2007	Beginning of Banking operations, abolishing “Transformation Task Force” and deployment of external consultant.	• Management • Transformation task force • External consultant	

5.2.13 Implementation status to date

5.2.13.1. Establishment of Transformation Team and employment of external consultant namely Mr Rashid Malima have been done and the responsibility for the team members have been identified.

5.2.13.2. Development of transformation plan which details the process including resources (including personnel and financial resources) for transforming process and approvals by management have been completed.

5.2.13.3. Development of strategies and methodology for Bank operations towards improvement in performance in lending and voluntary savings have been done.

5.2.13.4. Preparation of respective documents for licensing of regulated microfinance bank, including required Memorandum of Association and Articles of Association and other important requirements and approvals by management have already been completed.

5.2.13.5. Processing Licensing to transform from NGO to Microfinance bank by assuring the availability of all requirements for registration of a bank and financial institution it is in progress.

5.2.13.6. According to the Consultant Mr. Rashid Malima, completion of the transformation process shall be due in June 2006. This shall include the following:-

- Receiving a Banking License
- Finalise preparations for opening ceremony
- Recruitment and staffing.

5.2.13.7.Beginning of Banking operations and abolishing "Transformation Task Force" and disengaging the external consultant from the transformation contract.

5.2.14 Conclusion

Microfinance services makes a critical contribution to fight against poverty by providing to low income entrepreneurs with the small scale financing they need to start and grow income-generating businesses. Through transformation from an NGO into regulated MFI bank PRIDE Tanzania shall be able to raise the funds required to finance growth and ensure their long-term sustainability.

The transformation of PRIDE Tanzania into a regulated financial institution will greatly strengthen microfinance activities in Tanzania and create a great step forward in the outreach to a greater number of poor people in Tanzania.

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