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&

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(2005)

IMPACT ASSESSMENT OF VILLAGE COMMUNITY BANK (VICOBA), A MICROFINANCE PROJECT UKONGA MAZIZINI

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CERTIFICATION

I, Mr Felician L. Mutasa, certify that I have thoroughly read this project report and found it to be in an acceptable form for submission.

Signature: Mutasa

Date: 21/07/05

DECLARATION

I, Renatus Michael Kihongo do hereby declare to the SENATE of the Open University of Tanzania that this Project Paper is the result of my original work, and that it has not been submitted for the similar degree award in any other University.

Signature: ....

Date: ....27 June, 2005..........

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DEDICATION

This work is dedicated to my daughter Renick Renatus Kihongo (14) who, throughout my Master's program encouraged, supported and understood the importance of my pursuing and completing the program at the same time allowing less time and resource for her. I also dedicate to my young brother Viscal Michael Kihongo for encouraging me to join the program and other support I enjoyed from him. I thank you very much!

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LIST OF ABBREVIATIONS

1.	AIDS	Acquired Immunodeficiency Syndrome
2.	CBO	Community Based Organization
3.	DCB	Dar es Salaam Community Bank
4.	FGD	Focus Group Discussion
5.	FINCA	Foundation for International Community Assistance
6.	HIV	High Immunodeficiency Virus
7.	MMD	Mata Masa Dubara (Hausa language of Niger).
8.	MFI	Microfinance Institution
9.	MFO	Microfinance Organization
10.	NGO	Non Governmental Organisation
11.	PTF	Presidential Trust Fund
12.	PRIDE	Promotion of Rural Initiatives and Development Enterprises
13.	SACCOS	Savings Association and Credit Cooperative Societies
14.	SEDA	Small Enterprise Development Agency
15.	SIDO	Small Industries Development Organisation
16.	UYACODE	Ukonga Youth and AIDs Control and Community Development
17.	UNCDF	United Nations Capital Development Fund Association
18.	VICOBA	Village Community Bank
19.	WCRP	World Conference Religious and Peace
20.	WDF	Women Development Fund
21.	WYDF	Women and Youth Development Fund
22.	YDF	Youth Development Fund

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ABSTRACT

Generally it is accepted that Impact Assessment (IA) is a critical element in further improving micro-finance services and promoting innovation. Also 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 (Linda Mayoux 2001).

The impact assessment of VICOBA Project has mainstreamed the research process and resulted into findings which shows the importance of this model in reducing poverty to vulnerable and economically active poor especially women. The strength of VICOBA project model has been revealed in various areas including:-

- Favourable joining and loan acquisition procedures and acceptable interest rates.
- Gender inclusiveness and gender roles in the groups
- Capacity building to empower the participant to adequately meet the economic challenges of the business sector.
- Low level of dropout from the project.
- Increases the members' income levels, wider impact in case of availability of matching loan in time and spillovers/externalities.
- Easier to manage and achieve sustainability in credit provision and the participants' income generating activities.

However VICOBA project has been operating and expanding in terms of capital and activities and also the number of members interested to join the project. However the environment it operates lacks direct inclusiveness of the Tanzania Microfinance Policy

and legal framework to allow and accommodate these expansions. Neither the promoter UYACODE nor the financing WCRP organizations are registered as MFI or MFO. WCRP is registered as an NGO for maintenance of peace among the members of societies and UYACODE is registered as a CBO for fighting HIV/AIDS to youth groups. Therefore VICOBA project is not a viable microfinance scheme when operating under these two organizations. This has been a major limiting factor for VICOBA to handle large sums of money.

Findings from the impact assessment necessitated the need for establishment of a viable credit scheme which had to be registered under the National Microfinance Policy framework as the implementation part of the project and improving the project positive impacts.

To that effect VICOBA Project had to be registered under the Cooperative Societies Act 2003 as a saving and credit society (SACCOS) namely Ukonga Savings and Credit Cooperative Society (USACA).

This improvement of microfinance impacts will help to maintain the VICOBA model, create a room for more external funding, sustainability of credit services, have a legal status and operate with wider impact using a model which is in favour of poor active especially women.

CHAPTER ONE

1.0 INTRODUCTION

The microfinance impact assessment is based on project research findings of the activities under a community based microfinance promoting organization namely Ukonga Youth AIDS Control and Community Development (UYACODE). This organization is based at Mazizini Sub-ward, Ukonga Ward, Ilala District in Dar es Salaam Region. The organization has promoted the establishment of four savings and credit groups with 120 members. Its promotional activities include group formation, organizing training, searching for funds from microfinance institutions (MFI), negotiation and organizing the advisory role. Currently UYACODE members benefit from Village Community Bank (VICOBA) project which was introduced and financed by a non government organization (NGO) namely World Conference on Religion and Peace (WCRP).

1.1 Background of UYACODE

The Organization was founded in April 2001 and was registered with the Registrar of Societies, Ministry of Home Affairs as a CBO in 31st January 2002. The organization was founded as a response to the prevailing social scourges in their community. These problems are mainly in the domains of poverty, HIV/AIDS, environment, gender and youth development. The organizational membership rose from 20 in 2001 to over 200 to 2004. UYACODE has a viable constitution, bank account and permanent offices in a leased building.

1.1.1 UYACODE vision

Community members live in friendlier environment in which abject poverty and pandemic diseases have been eliminated or contained and their effects is sustainably minimized and women and youth are economically and socially empowered.

1.1.2 UYACODE mission statement

To improve the socio-economic status of underprivileged classes from peri-urban and rural communities with special emphasis to youth, women and other poverty vulnerable groups of the society through innovative interventions with sustainable results.

1.1.3 UYACODE objectives

In order to implement the mission and arrive at the set vision, the organization has the following objectives:-

- Establishment and implementation of interventions for poverty alleviation in accordance with the environment of Ukonga community.
- Fight the spread of HIV/AIDS and extend social assistance to people living with AIDS (PLWA's), widows and orphans in Ukonga community.
- To eliminate communicable diseases related to mismanagement of waste and beautifying the town landscape.
- Create employment for youths and poor people to fight alcoholic and drugs abuse
- Eliminate all forms of gender oppression in Ukonga community.

1.1.4 UYACODE strategies

In order to achieve its objectives UYACODE deploys the following strategies:-

- Promotion of microfinance activities in the form of small community savings and credit organizations
- Lobbying, advocacy and community gender education
- Guidance and counseling
- Fundraising

1.1.5 Programs and activities

For the past 3 years the organization has pursued the following programs:-

1. Ukonga Poverty Alleviation Program which started in 2002.
2. Youth Guidance and Counseling Program which started in 2001
3. Ukonga Orphan and Widow Program which started in 2004
4. Ukonga Gender Program, this begun since 2002
5. Ukonga Waste Management Program which begun in 2004
6. Ukonga Youth employment creation program which started in 2004.

The above programs are composed of the following activities:-

(i) Skills training in vocational, arts and crafts (eg. making batik, carpentry and tailoring).

ii) Entrepreneurship and the management of small businesses.

iii) Formation of credit groups.

iv) Sensitization seminars, workshops, and advocacy activities.

v) Distribution of food, clothes uniforms and other school material to schooling orphans.

vi) Provision of technical vocational skills and provision of loan capital to widows.

vii) Solid waste collection and disposal towards informal employment creation.

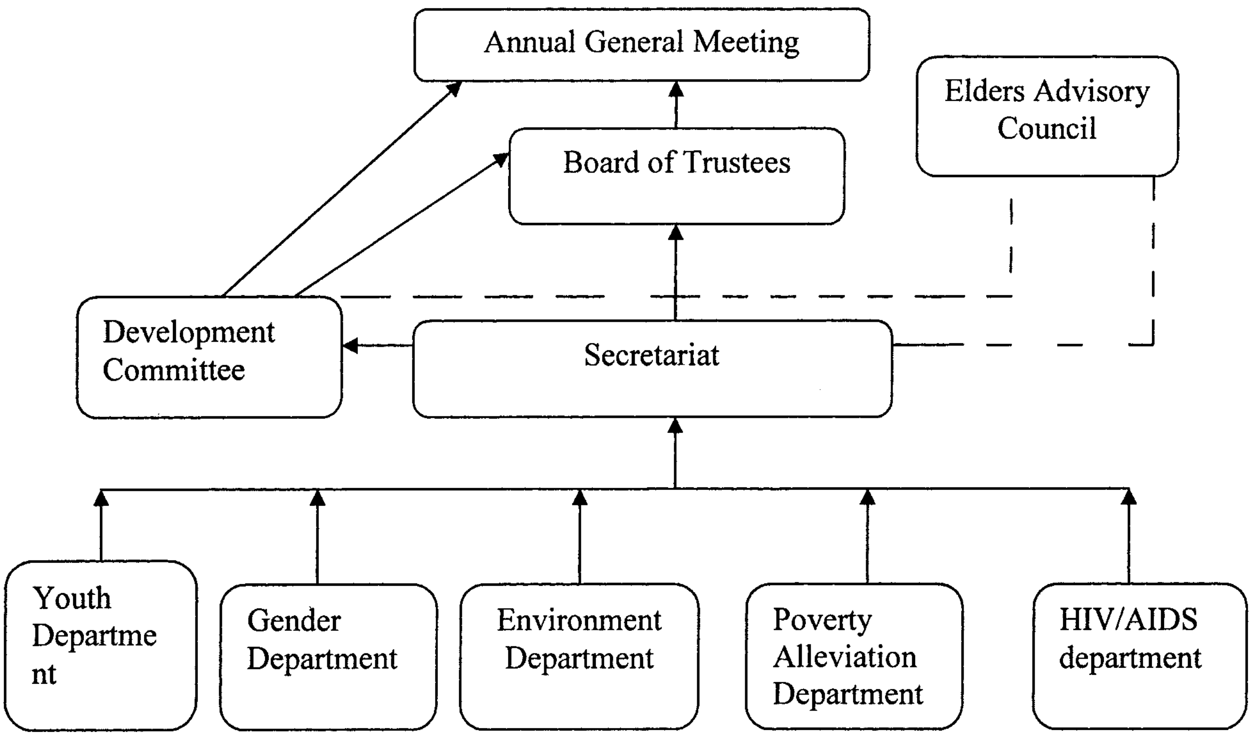
viii) Formation and training of a commercial theater arts group

ix) Training and formation of a carpentry workshop.

1.1.6 Organization structure

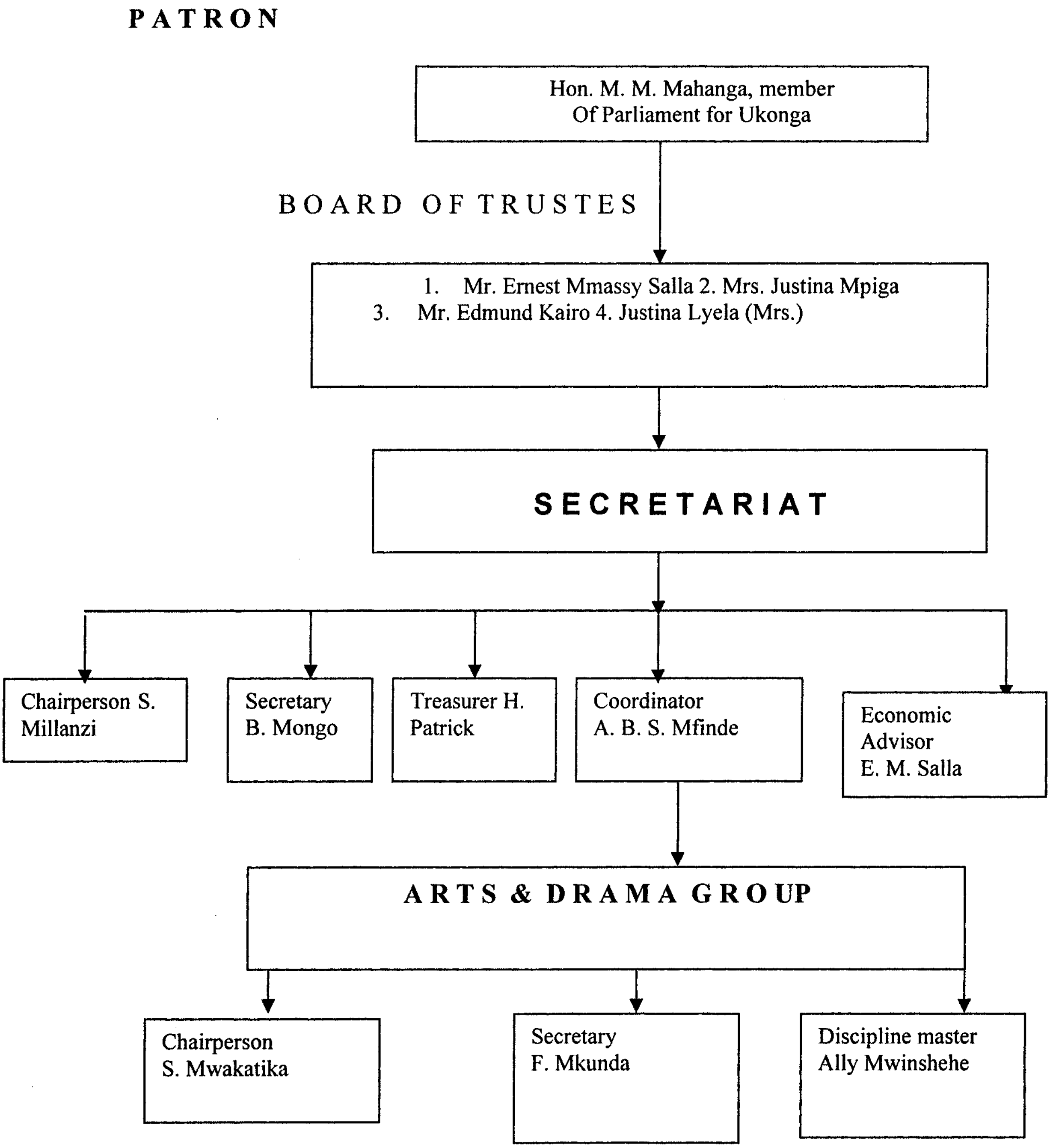
In accordance with UYACODE constitution the organization structure is defined by the organization set up and the organization chart shown below.

i) Organization set-up



Source : UYACODE profile

ii) Organization chart



Source: UYACODE profile

1.2 About the financing organization -World Conference Religion and Peace (WCRP)

The project financier is The World Conference Religion and Peace (WCRP) which is a multi-religious organization with a coalition of representatives from the world's religions who are dedicated to achieving peace and respecting cultural differences while celebrating common humanity. WCRP/Tanzania as it is properly addressed also has microfinance objectives as one of their tools in achieving organizational objectives. WCRP/Tanzania introduced the Village Community Bank (VICOBA) approach so as to address economic empowerment initiatives to the peri-urban communities through provision of saving and credit services. WCRP believes that one of the sources of conflict among social groups is poverty. The credit conditions are very 'soft' such that the interest rate charged in each month is used to re-capitalize their service while only 10% is charged by the financier per annum. WCRP is itself financed by the Melinda and Bill Gates Foundation of America.

1.3 The link between WCRP and UYACODE

The linkage between the two is that UYACODE acts as a promoter of microfinance development towards achieving her first program of poverty alleviation. It links various microfinance organizations (MFO) including WCRP in a participatory manner with the community. The community decides the type of financing depending on the conditions. After the community accepts the program and starts implementing it, UYACODE continues to monitor the process and method without too much interference in order to make sure the attainment of intended goal and also to mainstream other programs (eg. HIV/AIDS) operations with the microfinance.

In this case, WCRP and UYACODE agreed to implement the VICOBA Project which was highly accepted by the members. WCRP is now a project financier which provides matching loans and various training to VICOBA project.

Apart from WCRP, UYACODE tried to promote other MFIs' models like those of Dar es salaam Community Bank (DCB), Pride Tanzania and FINCA. However VICOBA model was the only one which was accepted by UYACODE members, rejecting other models.

1.4 VICOBA microfinance project

The acronyms VICOBA stands for Village Community Bank which in part reflects its rural origin and financial nature. The word 'bank' is actually a misnomer because a VICOBA group is essentially a Savings and Credit Association incorporating indigenous financial institutional format/structures with modern financial institutional. VICOBA utilizes a model originally introduced by CARE in Niger namely Mata Masa Dubara (MMD), which translates from local dialect (Hausa) of Niger to mean literally a 'women on the move' probably because of high participation of women. Through MMD project, CARE-Niger has shown that living standard can be improved in a sustainable way with relatively small investment. (Marking Wentling, 2001).

In this model, the members of the group are the shareholders of their 'bank' and also the sole customers. Throughout the financial year each member invests share capital in the bank, periodic but regular agreed sums of money which also constitute their savings.
The total contribution of all members plus an equivalent contribution (matching loan) from a micro financing institution is then utilized as a revolving fund which all members can borrow and use for income generating economic activities for an agreed period.

The basic and fundamental difference between the Grameen model and the VICOBA model is in terms of who benefits from the interest (returns on investment or capital booster). In the Grameen model as in all profit motivated financial institutions the interest is derived from the borrower and flows to the lender to meet operation costs such as salaries, cost of utilities and also investment returns. In this view it reduces the capacity of the MFO/MFI to meet social objective of poverty alleviation because it extracts resources from the poor which would best be utilized to improve their welfare. The VICOBA model however recycles this investment returns to enable participants to take bigger loans in the future. At the end of each business year the total returns in investments of all the members is distributed to each member as dividends according to each person's current share capital investment.

1.5 Problem statement

i) Motivation of the assignment

Credit provides fund for implementing various socio- economic development activities. It is clear that with socio- economic development, income rises, employment is created and activities of informal sector are intensified.

Urban and rural poor women and youth have been unable to access financial institutions to secure credit (*Jackson J. M. 1998*), also there have been too high collateral requirements in banks for micro and small enterprises to secure loans (*Kuzilwa 1997*).

J.M.L Kilonde (2002) identified various initiatives being taken by the government since 1980's to improve women and youth accessibility to credit with soft conditions including establishing Women and Youth Development Fund (WYDF) in 1998 in all local government authorities; others include the Small Industries Development Organisation (SIDO), the Presidential Trust Fund (PTF), the Youth Development Fund (YDF) and the Women Development Fund (WDF).

According to *Kuzilwa J.A. and Kuzilwa Ms (1999:169),* so far support to micro enterprises has concentrated on credit or providing some form of finance even though it is not clear how such microenterprises benefit from microfinance. What is clear is that credit is important as far as it enhances the ability of entrepreneurs to take advantage of economic opportunities. They suggested that, in order to realize a meaningful effect from the support to the microenterprises, particularly in trying to turn the poor from low to high return ventures, a holistic approach of addressing their growth barriers, including marketing and training in small business management should be taken. J.M.L Kilonde

(2002) concluded that Most MFIs have tended to use commercial criteria to establish branches mostly in urban and peri-urban areas because of ease in communication and other support services, and hence it is clear that the very poor are not served.

ii) Rationale of the assignment

The establishment of VICOBA project was aimed to favour the poor in terms of microfinance services for their income generating activities in a sustainable manner. Therefore it was important to determine the level of performance of the intended goals. Two stakeholder organizations, UYACODE and WCRP were eager to assess the impact of VICOBA project and see whether the expected impacts are met. WCRP needs it for justifying the need for investment of funds and/or improving the project, while UYACODE needs to see whether the project is useful to attain her first program objective by improving the understanding of the program impacts on clients. WCRP would like to know whether it is worthwhile investing more resources in the project in order to up scale country wide and secondly to provide a viable alternative project to communities.

iii) Problem/Assignment statement

The assignment was to assess the impact of the VICOBA microfinance project in regard to poverty alleviation with emphasis on income poverty focusing on benefits, problems and sustainability of the project.

CHAPTER TWO

2.0 LITERATURE REVIEW

Microfinance programmes are expected to improve the welfare of the poor women and men by impacting the economically active poor. They would be helped to raise social welfare by promoting human capital investment. Different scholars have discussed microfinance as a tool for the poor and low income earners towards poverty reduction and development strategy at various levels. However many of them have a common consensus about various problems facing the field of microfinance in the process of impacting the poor community. Professor David Hulme (1997) argued on the increasing importance of microfinance programs and institutions in development strategies however he noted that knowledge about their impacts is partial and contested.

2.1. Definitions

Microfinance is generally defined as the provision of a broad range of financial services such as – deposits, loans, payment services, money transfers and insurance products – to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards. (Bangko Sentral et al 2002).

Microfinance Institutions (MFIs) can be described as those institutions that offer loans and other financial services to Micro and Small Enterprises (MSEs). Loans are usually small, and the conditions to access credit are usually not as stringent as those demanded by formal financial institutions (FFIs) (J.M. Lusugga Kironde; 2002).

An impact assessment (IA) for microfinance is a research study that measures how the services of a microfinance institution (MFI) impact the lives of its clients in such areas as job creation, income, nutrition, education, health, and gender equity. It is the primary tool used to determine the effectiveness of microfinance as a development intervention (Anton Simanowitz, 2000).

A more useful approach is to distinguish impact assessment, which is concerned with welfare effects on clients, from market research, which aims primarily at improving business profitability (James Copestake, 2001).

2.2 Theoretical Review

Strategies for poverty alleviation have been using microfinance services as one of the important tool for intervention. Anton Simanowitz (2002) argued that microfinance programs are one of the most important interventions to reduce poverty in developing countries. This has lead in recent years, huge growth in the number and size of microfinance organizations, the volume of microfinance clients, and the provision of subsidized donor funding.

Nitin Bhatt and Shui-Yan Tang, (2001) argued the good performance of programs like ACCION's BancoSol in Bolivia, Bank Rakyat Indonesia's (BRI) Unit Desa program in

Indonesia and the Grameen Bank in Bangladesh is evidence that it is possible for microfinance institutions to make small loans to large numbers of poor people in a sustainable manner. They continue to argue that the significant income and employment opportunities for the poor have been created through the evolution of micro-finance services created in developing countries. Poverty reduction is part of the mission of a large proportion of microfinance providers, and donor funding is allocated to microfinance on this basis.

However, the impact assessments of microfinance programs have shown limited performance to target and track the changes of the poor. Anton Simanowitz (2002) argued that some MFIs suggest that financial performance indicators are sufficient to indicate whether or not they are doing a good job. They believe that, if clients are willing to pay for a service (i.e., repayment rates are good), it can be assumed that they are happy to pay for the MFI's services because they perform well. But financial performance does not measure change in people's lives. Indebted clients may repay loans even when their businesses fail and much hardship results. Therefore the Impact Assessment for a microfinance intervention is important to be taken into account with appropriate methodological approach.

Linda Mayoux (2001) noted that existing impact assessments have made an important contribution to understanding some of the complex interactions between microfinance interventions and different dimensions of poverty reduction and empowerment.

David Hulme (1997) pointed that the central issue in IA design is how to combine different methodological approaches so that a 'fit' is achieved between IA objectives, program context and the constraints of IA costs, human resources and timing. In the microfinance literature on impact assessment, the consensus seems to be that multiple methods as opposed to a single method must be used tapping the breadth of quantitative approach and the depth of the qualitative approach. The methodological menu must be multi-method or pluralist. Techniques vary with the nature of the intervention and purpose of the IA but the basic methodology is similar (as shown below).

General impact assessment methodology

define the scope of the assessment
↓
Define impact targets
↓
Define indicators
↓
Identify unplanned impacts
↓
Identify stakeholders
↓
Involve stakeholders
↓
Assess impacts
↓
Quantify impacts
↓
Identify corrective actions
↓
Identify policy lessons
↓
Report
↓
Dissemination of findings

Source : Colin Kirkpatrick and David Hulme (2001);

David Hulme (1997) provided three main elements to a conceptual framework related to microfinance impact assessment:

(i) A model of the impact chain that the study is to examine; this has two main schools of thought with regard to microfinance, are useful to distinguish which link(s) in the chain to focus on, these are termed the 'intended beneficiary' and the 'intermediary'. The intermediary school of thought focuses purely on the beginning of the chain and particularly on changes in the MFI and its operations. Two key variables focused on are institutional outreach and institutional sustainability. If both outreach and sustainability have been enhanced then the intervention is judged to have a beneficial impact as it has widened the financial market in a sustainable fashion basing on the assumption that such institutional impacts extend the choices of people looking for credit and savings services and that this extension of choice ultimately leads to improved microenterprise performance and household economic security.

(ii) Specification of the unit(s), or levels, at which impacts are assessed; After completion of the design of a model of the impact path, the choice of the unit(s) or levels of assessment is necessary. Through a household economic portfolio model (HEPM) the latter seeks to assess impacts at household, enterprise, individual and community levels and thus produce a fuller picture of overall impacts.

(iii) Specification of the types of impact that are to be assessed;

Many variables can be identified to assess impacts on different units which must be able to be defined with precision and must be measurable so as to be used. Economic indicators can be used to assess microfinance IAs especially in measuring changes in income. Other popular variables have been levels and patterns of expenditure, consumption and assets.

A study by Barnes (1996) showed that assets are a particularly useful indicator of impact because their level does not fluctuate as greatly as other economic indicators and is not simply based on an annual estimate. Among the social indicators include educational status, access to health services and nutritional levels. Others are the socio-political arena in an attempt to assess whether microfinance can promote empowerment measurement of individual control over resources, involvement in household and community decision-making, levels of participation in community activities, social networks and electoral participation.

Professor Paul Mosley (1998) advocated the use of a control group which compares a population that had benefited from a micro-credit scheme to another which had not. However the method faces various challenges three of them being sample selection bias, misspecification of casual relationships and motivational problems.

There are various methods for undertaking impact assessment, however not all are best fit for IA of microfinance intervention. The summarized methods in the table below demonstrates common methods for conducting impact assessment followed by methods which best fit for IA of microfinance intervention:-

Common Impact Assessment Methods

Method	Key Features
Sample Surveys	Collect quantifiable data through questionnaires. Usually a random sample and a matched control group are used to measure predetermined indicators before and after intervention
Rapid Appraisal	A range of tools and techniques developed originally as rapid rural appraisal (RRA), involving the use of focus groups, semi-structured interview with key informants, case studies, participant observation and secondary sources
Participant Observation	Extended residence in a program community by field researchers using qualitative techniques and mini-scale sample surveys
Case Studies	Detailed studies of a specific unit (a group, locality, organisation) involving open-ended questioning and the preparation of 'histories'.
Participatory Learning and Action	The preparation by the intended beneficiaries of a program of timelines, impact flow charts, village and resource maps, well-being and wealth ranking, seasonal diagrams, problem ranking and institutional assessments through group processes assisted by a facilitator.

Source : Colin Kirkpatrick and David Hulme (2001);

Colin Kirkpatrick & David Hulme (2001) explained the three broad categories of impact assessment methods suitable for microfinance as follows:-

- **Quantitative statistical methods;** these involve baseline studies, the precise identification of baseline conditions, definition of objectives, target setting, rigorous performance evaluation and outcome measurement. Such methods can be costly, limited in the types of impacts which can be accurately measured, and may pose difficulties for inference of cause and effect. Some degree of quantification may be necessary in all impact assessments, for evaluation of the success of the intervention and the magnitude of any adverse effects.

- **Qualitative methods** suitable for investigating more complex and/or sensitive types of social impacts, e.g. intra-household processes, policy issues and investigation of reasons for statistical relationships and policy implications. These methods generally require high levels of skill, and may be relatively costly. The validity of specific impact assessments adopting this approach has to be judged by the reader on the basis of:-

(i) The logical consistency of the arguments and materials presented;

(ii) Strength and quality of the evidence provided;

(iii) Degree of triangulation used to cross-check evidence;

(iv) Quality of the methodology; and

(v) Reputation of the researcher(s).

- **Participatory approaches** suitable for initial definition or refinement of the actual or potential impacts which are of concern to stakeholders, questions to be asked, and appropriate frameworks and indicators to be used. Such approaches can contribute to all types of assessment, and are particularly suited to exploratory low budget assessments and initial investigation of possible reasons for observed statistical relationships. They offer a means of involving stakeholders in the research, learning and decision-making processes. These methodologies also require a certain level of skill, depending on the issues to be addressed and ways in which they are integrated with other methods. Some degree of stakeholder participation is likely to be necessary in all impact assessments, in order to achieve a good understanding of stakeholder perceptions of impacts.

Whatever mix of techniques is used, consideration should be given to:

- Transparency and public accountability
- Stakeholder involvement
- Reliability of the information obtained
- Reliability of inference for policy improvement
- Cost and skill requirements

Concerning the assessment tools, according to the study conducted by AIMS (Assessing the Impact in Microenterprise Services) and Small Enterprise Education and Promotion (SEEP) Network (2000), it was agreed that the field needed a mid range approach to impact assessment which is cost-effective, useful and credible. AIMS/SEEP (2000) study designed five tools for impact assessment which offer many possibilities to the users, three of them are qualitative and two quantitative. These include the following:-

a. Impact Survey is a principle quantitative tool administered to a sample group of clients and a comparison group.

b. Client Exit Survey is a quantitative tool administered to the clients who recently have left the program so that to identify when and why clients left the program and what they think its impact as well as its strength and weaknesses has been.

c. Loan use strategies over time is a qualitative which is an in depth individual interview focusing on how the client has used his or her loan and business profits overtime. Its purposes include determining how loan use and allocation decisions change overtime as well as documenting changes in the individuals borrower, enterprise, family household and community that are associated with participation in the program.

d. Client empowerment is qualitative which focuses on women clients and uses an in-depth interview to determine if and how women have been empowered by participating in the program.

e. Client satisfaction is a qualitative tool is using a focus group discussion that explores clients opinions', what they like and dislike of specific features of the program, as well as their recommendations for empowerment.

Although each tool complements the others, and although all tools are tested as a set, they can be used individually or in any combination.

The ESG Consulting, LLC (2004) reports on Participatory Impact Assessment (PIA) for UNCDF assessed successfully the client impact (poverty reduction) using the SEEP/AIMS five tools. The four key areas of impact assessed are poverty reduction (Client impact), institutional sustainability, policy and replication and strategic positioning. Using various evaluation questions other tools used were primary and secondary, notably semi structured interviews, ratio analysis and benchmarking. All these tools add value in the microfinance IA methodologies.

2.3 Empirical literature review

Linda Mayoux (2001) in her research observed that Impact assessment in microfinance has received more attention than in any other area of enterprise development. It is now generally accepted that IA is a critical element in further improving micro-finance services and promoting innovation. Also she noted 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.

However the research by Maximambali, Florence et al (1999) in three MFIs namely PRIDE –Tanzania, PTF and SEDA in Dar es salaam, Arusha and Kilimanjaro found that all have very rigid products, in which the responsibility of ensuring repayment and dealing with defaulters has been entirely shifted to the clients. In this way, the products are easily managed with modest administrative costs - making life comfortable to the MFIs, but a burden to the clients, and thus prompting dropout.

Impact assessment study done by Susan Johnson and James Copestake (2002) for FINCA-Malawi found that out of 26 clients interviewed, 7 (27%) judged that membership of FINCA has improved their material situation but only 4 were still clients. Other 5 (19%) were not certain on whether they had positive or negative effect on their situation. 14 (54%) reported that their material situation became worse when they were members. Also they concluded that apart from the repayment rate being high, many clients were stopping borrowing. The detailed comparison of continuing and departing clients showed that those who were able to remain with the program had a longer experience of business, more formal skills, and operated a more diversified set of businesses which were also better capitalized. Continuing clients also had a higher number of adults in their households and husbands who were more likely to be in professional employment or business.

FINCA started working in Tanzania in 1998 with a capital of US$ 1 million injected from USAID Tanzania (J.M. L Kironde, 2002) with their Village Bank model; FINCA loans are only available to women with ongoing business. The five year implementation Report of Ilala Municipal Council (2004) revealed that, between year 2000 and 2004, FINCA Tanzania provided loans and trainings to 65 groups with total amount of TZS 46,844,827 in the municipality. Although the actual number have not yet been tracked it showed that many borrowers exited from the program due to high interest rates which is 4% per month (48% per annum) for group lending regardless of the balance in the subsequent months. Therefore it is obvious that the repayment may not always mean that the clients benefit from the project model as others may decide to pay from other sources to get away from problems. Also the FINCA village bank model is not poor friendly it just help to promote the clients who already operate businesses and with adequate skills and support.

The independent Participatory Impact Assessment (PIA) conducted by Enterprising Solutions Global Consulting, LLC (2003) for the impact of funds provided by UNCDF to PRIDE Malawi which uses the modified Grameen Model revealed that clients were dissatisfied with services. The qualitative survey found that clients were dissatisfied with or neutral towards PRIDE Malawi. The qualitative research also sheds very little satisfaction. The level of dissatisfaction is higher among the ex-clients in comparison to current clients. Both groups appeared not satisfied with savings policies and loan products policies. The impact assessment concluded that PRIDE Malawi is not doing a good job in meeting clients' needs. The low satisfaction level no doubt contributes to PRIDE's high dropout rate. In this PIA, the main reasons for dropout are related to products including unfair loan policies and procedures, followed by problem with group lending and finally problems with saving policies or procedures. Other reasons include loan lengths being too short, individual loan rather than group lending, group guarantee and vulnerability of losing savings due to defaults. The PIA concluded that PRIDE Malawi reached the targeted poor in Malawi but there was little evidence to support that participation in PRIDE Malawi is associated with increased contributions to household incomes and enterprise profits and assets, although it was clear that clients were not satisfied with the service.

A study by *Mpanju (1999)* found that even though PRIDE Tanzania has made efforts to finance small business enterprises through provision of loans, clients faced high interest rates and also loans were insufficient relative to business capital needs.

The study by Mike FitzGibbon (1999) in microfinance services offered through SACCOS found that half of the institutions sampled, do not offer credits and those offering credits, 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 SACCO 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 extent consumption.

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 region found that SWG had low impact in its objective of providing credit assistance. The broad reasons for insufficient impact outlined by the above study include:-

- The credit mechanism is not sustainable
- Institutional capital of CRDB to administer loan portfolio is extremely limited at least in the short-term
- 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 themselves. Some of the income was used to get access to health services. Thomas (2001) concluded that one of the benefits of microfinance is that, lending increases more investment in housing and sanitation as a result of increased income to some borrowers.

Few studies in Tanzania have been carried out to gauge the impact of Micro-finance on poverty alleviation. However, a number of impact studies carried out on the activities of PRIDE for 1997, 1998, 1999 and 2000, showed that although the loan had improved the living standards of its clients through increased income generating activities, improved job opportunities and enhanced income, the need to have savings first, the high interest rates, the short grace and repayment periods and the rudimentary repayment schedules may had negative impact on the borrowers. A number have been known to use other sources of income to service their loans (J.M. Kilonde, 2002). There have been observations for example that PRIDE is "harsh" with its borrowers some of whom opt out of the scheme (Chijoriga, 2000).

The study by Edwin Makamba (2002) in Ilala district addressing the constrains of Women and Youth Development Fund (WYDF), found that because of certain dynamic element in its characteristics, WYDF has contributed significantly to the development through employment creation and resource utilization as well as income generation and distribution. However effective development of WYDF has encountered constraints which limit its sustainability. The major constraint which hinders the impact of WYDF is inadequate funding, lack of knowledge of loan management to WYDF staff, late repayment rate and insufficient technical assistance to beneficiaries, political interference and lack wide impact.

2.4 The review on VICOBA project

VICOBA approach with its origin from Niger under the name MMD (MATA MASU DUBARA) began in 2002 as a pilot project at Ukonga Mazizini and Kisarawe. For decades, governments and donor agencies have been trying to establish viable financial systems to meet the productive needs of the populations in the rural and peri-urban across Africa. Ndemanyiswa A. Mbise (2003) introducing VICOBA project, observed that in Tanzania (and Africa) many poor communities have since time immemorial been using a variety of indigenous micro financing facilities in order to meet the economic pressures of their lives. Traditional African models had long realized the power of economic unity. Traditional models have the advantage of easiness to apply to communities, as it is already acceptable and practiced though not to modern economic standards. Bank models have difficulty in being accepted as in most cases are complicated to the uneducated poor. Some of these natural and indigenous micro finance facilities include burial associations, rotational saving and credit, UPATU and lotteries in all its various forms. In the face of this poor track record for creating viable financial services, CARE Niger developed and implemented the Muta Masu Dubara (MMD) program, a self managed system of the purest form of financial intermediation (William J. Grant & , 2002).

The MMD model is the one which resembles VICOBA model. The MMD is one of the best examples of completely decentralized financial organization which is really a movement rather than a single organization as it moves ahead with each group member. It provides them with desired savings and credit services and because it is self funded, managed by members, no leakage/outflow of funds, all benefits accrue to the group, then it enhance the members to respect the rules of the group which in turn make the repayment to some groups up to 100%. (W Grant,.J & Allen C. Hugh, 2002).

Gabriëlle Athmer (2003), through CGAP study on the alternative institutional approach in rural Africa using the MMD (CARE-Niger) and Ophavela (CARE-Mozambique) approach found that the two have proved successful in rural areas, with wide and deep outreach and considerable impact. The approach which is accepted by the target group, responds to poor clients' demand for savings and credit services that enables them to manage risk. They also, besides the financial needs, also address the social components of poverty and strengthen the social capital of the client groups. The approach is inherently bottom-up, the savings and credit groups are owned by its members and gain independence after a period of training. In Niger, an associative movement consisting of savings and credit groups is emerging that addresses broader developmental issues. Most importantly in Niger, the approach contributes to women's empowerment.

2.5 Policy review

Legally, 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 (J.M.L Kilonde, 2002).

In order to put into operation microfinance the need for having guiding framework is essential. To this effect, in Tanzania the National Microfinance policy was established in the year 2000 in order to guide the establishment and operations of Micro finance institutions (The National Microfinance Policy in 2000).

The national microfinance policy provided for commercial basis operations of microfinance institutions. The document further made it clear that those social based microfinance institutions such as SACCOS, NGO's and other service providers were 'free to develop microfinance services on the basis of their own internal objectives, whether profit, poverty alleviation, self help or other motivations'. This broad framework for operating microfinance gives a positive approach in providing innovation in best practices and learning from the experience of other countries or institutions. It also provides the beneficiaries with a wide range of choice of microfinance products.

Microfinance operations need registration, supervision and regulation. However according to the study by B. Randhawa & J. Gallardo (2003), in Tanzania microfinance operations fall in one of the following three categories of Microfinance providers:-

- Regulated and Licensed which includes Commercial banks, regional cooperatives banks and rural banks (community banks).
- Registered and Regulated providers which includes SACCOS.
- Registered but unregulated and unsupervised providers of microfinance including financial NGOs, Savings and Credit Associations (SACAs).

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 Enterprise Development Policy of 2003 (the Ministry of Trade and industries, 2003), in Tanzania microenterprises 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 enterprise	1-4	Up to 5 million
Small enterprise	5-49	Above 5 million -200 million
Medium enterprise	50-99	Above 200 mil. to 800 mil.
Large enterprise	Above 100	Above 800 mil.

Source: Small and Medium Enterprise Development Policy (2003)

It is in the interest of this presentation to point out that many evaluations in and out of Tanzania, have been done on the Grameen model with focus on MFIs performance rather than MSEs. Therefore this Impact assessment on VICOBA model shall also focus on the performance of MSEs through microfinance polices applied by the project.

According to the National Micro-Finance policy among other things the importance of microfinance 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 in the rural and urban settings.
- It 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).

2.6 Summary from the literature review

From the discussion in theoretical, empirical and policy literature reviews, most of the writers and researchers insisted on the significant need of microfinance as a key tool to those employed in informal sector for poverty reduction. However access to credit by itself is not enough to solve the problem of poverty through informal sector rather create a relief towards poverty alleviation. Now due to the fact that establishment of VICOBA project envisaged the same goals and objectives it is important to assess the impact on whether there is significance change to the assisted groups and individuals towards income poverty eradication at the grassroots level. Also find out whether through this model the VICOBA project and project financed business may both operate sustainably. It has been found that credit can enhance undertaking of informal sector activities but credit itself is not sufficient to create success of life to micro-business operators. This leads to the other impacts of microfinance through this project, which may contribute to sustainable development of business for poverty reduction.

Also the literature provides the empirical evidence of inadequate impact assessment conducted to microfinance models and accepted by the community to be the means for income poverty reduction in Tanzania, rather it has been clear that models like Grameen for PRIDE and FINCA are not poor friendly in terms of policies, methodologies, interest rates, types of training and products offered and assumption that repayment and access to credit service is the indication for success of the model. But the high exit rate due to difficult credit conditions from these program models evidence the weakness of that belief. Therefore the impact assessment for VICOBA project shall recommend whether it can be an alternative for the poor to solve the problems of high dropout rate and the unfavourable credit conditions experienced in Grameen model.

The Policy review also found that the Microfinance Policy Framework in Tanzania provides enough ground for microfinance actors to play. However both UYACODE a promoter and WCRP a financier organization operate microfinance as one of their many programs and this creates a problem in case of expansion in future. This leads to the need to assess the impact of increasing share capital and recommend whether it is important to establish viable and independent project which may operate under the Mirofinance Policy framework more sustainably as a Microfinance Institution or organization and or as Saving and Credit cooperative Society (SACCOS).

This research study also intends to contribute to the impact assessment on microfinance by comparing different models which has not been done adequately in Tanzania.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This chapter intends to give a brief description on how the research was conducted. It describes area of study, population, sampling techniques of data collected and method of collection, the unit of inquiry investigated, research design and research procedures used. The methods of data analysis applied in data collection are also discussed in this chapter. The large part of the impact assessment methodology is Participatory impact Assessment (PIA).

3.1 The Impact Assessment (IA) Objectives and Questions

a) The objectives for IA

The objectives of the impact assessment are:-

i) To provide findings on VICOBA project general guiding procedures,

ii) Assess inclusiveness /exclusivity in relation to gender and gender roles in groups.

iii) Type of the economic activities in which the VICOBA project credit funds are invested more.

iv) To establish whether there was any capacity building to empower the participant to adequately meet the economic challenges of the business sector.

v) To assess whether the loan acquisition procedures were long, difficult or cumbersome and the level of satisfaction by the participants on the interest rates.

vi) Establish the level of dropout from the project and reasons/problems, if any.

vii) Assess the impact of the VICOBA credits in terms of spillovers/externalities.

viii) To establish the economic impact of the VICOBA project and assess the impact on increase of income levels to the project participants towards poverty alleviation in the long run.

ix) Assess the impact of VICOBA project in terms of sustainability of operation and the participants' businesses.

b) Impact assessment questions:

The ten questions derived from the objectives for the impact assessment research were defined through the inception report. These are as follows:-

i) What are the general process and guiding principles of VICOBA project?

ii) Which groups in relation to age, gender (men, women and youth) dominate more in project? And why?

iii) In what type of economic activities did the participant invest? How the project helped businesses to grow?

iv) Did the project provide adequate training? In what areas/types? Did the training meet the expectations and did it provide the alternative means for entrepreneur development?

v) How were clients affected by the interest rate? Did it reduce income significantly? How efficient are loan acquisition procedures?

vi) What is the dropout rate from the project, if any? and what are the reasons/problems?

vii) What are the spillovers/externalities of VICOBA credits?.

viii) Was there any significant improvement in income through VICOBA project and possibility of income poverty reduction to the participant's in the long run?

ix) What are the factors of assurance for VICOBA project in terms of sustainability of operation of microfinance services and the participants' businesses?

The above nine questions make the basis for data collection methods and instruments to be used.

3.2 Research design.

The study area was stationed at Mazizini, Ukonga ward, Ilala district, in Dar es Salaam Region region. This is only one sub-ward which operates the project. Due to resource constraints it was not possible to study another pilot project at Kisarawe district.

The main reason for the VICOBA project Impact Assessment research design was based on the strength of the methodology that allowed for intensive investigation using multiple method of data collection. This included surveys, focus group discussion, observations, case study, participatory impact assessment (PIA), documentation and interviews. The action plan for the field work is attached as Annex II.

The control group

This was used to show the impact differences to the target variables between borrowers and non borrowers from the same area, the same type of business, close related age and close related size of initial capital.

Before		**After**
Treatment group (Borrowers)		**Treatment (e.g. Project)**
Target Variable	--------- ⟶	Target Variables
Control group (Non Borrowers)		
Target Variable	------------ ⟶	Target Variable

Source:Guideline for microfinance impact assessment (Barnes, C & Sebstad, J; 2000)

3.3 Units of Inquiry

The unit of inquiry is the VICOBA groups members founded by the CBO namely UYACODE which is located at Mazizini sub-ward, Ukonga ward at Ilala Municipality in Dar es Salaam. It is co-financed by WCRP which provides a matching loan. The units of assessment shall be the individual, household, community groups and institutions.

3.4 Sampling Techniques

The sampling techniques were employed because it was not necessary and expensive to study each character. Sample selection was made through random and purposeful sampling. For the first case a random of 40 VICOBA clients and 40 non borrowers as a control group were made for assessment of qualitative impacts, while a sample of 40 clients were randomly selected for quantitative research for assessment of the impact in changes of income level. In selection of 40 non borrowers the purposeful sampling also was employed by selecting those who were ready to respond to the interviews.

A purposeful sampling approach was adopted in selecting a group for a focus group discussion in which group number one was selected for the purpose forming ten (10) members per discussion. This group is the one with many characteristics which are not available to other three groups. Some characters are six (6) dropouts, 3 men and 3 female; the group includes the clients who were trained to facilitate others, it also constitutes men while other groups are merely formed by women.

3.5 Sources of information

The following were the sources of information and data collection:-

- **Existing information** that is checking to see if the information is already available before starting to collect data eg. Census data, maps, demographic data etc.
- **People :** are the most common source of information for impact assessment ie. Use of participant, non-participants, Key informants, people with special expertise, local leaders, project staff, financiers etc.
- **Pictorial records and observations** this is through visual accounts- pictures, photographs and video tapes, direct observation of the situation, project activities and outcomes.

3.6 Data Collection Methods for VICOBA Project Impact Assessment

The following methods had been employed to collect IA information for the Project:-

NO.	METHOD	TYPE OF DATA COLLECTED	DATA COLLECTION TOOLS
1.	Sample Surveys	-Beneficiaries income before and after the project	Structured Questionnaires
2.	Interviews	-Obtain information on the Project financing organization and history of VICOBA.	People Key informants, Guiding interviews.
3.	Observation	-VICOBA process and methodology -Tailoring training	Qualitative, techniques And Mini-scale Sample
4.	Focus Group Discussion	General information on problems	Open ended discussion
5.	Case studies	-Risk factors -Male power to make decisions.	Open-ended questioning and use of histories.
6.	Participatory Learning and Action	Participation to Generate information on resources and institutions contribution, Key problems causing dropout from VICOBA	-Matrix ranking -Seasonal diagram
7	Secondary data	- Information on the organization, Project and other programs.	Books, papers, Pictorial representation and any other reading materials.

3.7 Data analysis methods

In order to establish credibility, systematic data analysis were employed for the purpose of summarizing the collected data and organizing these in such away that they answer research questions. Processing operations such as editing, coding, classification and tabulation were used. Some descriptive statistical methods and tests including median, mean, standard deviations were used as a measure of central tendency to interpret and improve primary and secondary data.

3.8 Findings and recommendation

Field findings have been used as the basis to the recommendation and policy implication. The findings and the recommendations in the Impact Assessment research findings shall be used by UYACODE and WCRP to identify various impacts of the VICOBA project for the use in the promotion, financing and other stakeholders' needs.

CHAPTER FOUR

4.0 FINDINGS AND RECOMMENTATIONS

4.1 Findings

The data collection was focused on the research questions in order to come up with field findings which achieve the ten objectives set in the methodology.

4.1.1 VICOBA project general principles

From the open ended interview with the training facilitator who also is a member of VICOBA project Mrs Violet Mbele, and through reading various available reference the researcher was in position to obtain various information concerning the general principles.

4.1.1.1 Structure:

- The *composition* of a VICOBA group must range between 20 and 30 members. The reason behind is to allow the poor with small share contribution to participate.
- Each VICOBA group has *smaller subgroups or cells* composed of 5 people who know each other very well and who will act as surety for each other during loan acquisition.
- Administrative structure is based on principles of empowerment, participatory democracy, truth, transparency and good governance.
- Elections take consideration of *gender roles* so as to increase efficiency and security of funds.
- Special consideration is put to *groups that are more vulnerable* to poverty, example disabled, orphans and widows.

- No religious, color, political, ethnical or ideological *affiliations*.
- Each VICOBA beneficiary must undergo preliminary *training* before qualifying for a loan, which involve knowledge in VICOBA methodology, administrative structures, general rules, by-laws, regulations, entrepreneurship, records keeping etc.
- During his/her tenure of membership the VICOBA member will also benefit from numerous life skills courses for example agriculture, animal husbandry, beekeeping, food processing, simple skills on production, HIV/AIDS education, gender issues, and many other social issues affecting them.

4.1.1.2 Process for credit

After joining the project each member is supposed to attend 12 week training on various skills including bookkeeping, business skills, life skills and VICOBA guiding principles.

- During that period each member is supposed to start contributing shares in each week. One share price is Tsh. 1,000.00 each member can buy one (1) up to three (3) shares per week this means the minimum cost of share saved during the training period is Tzs12,000.00 and the maximum is Tzs 36,000.00.
- The member can borrow up to three times the amount saved therefore the one who saved Tzs 12,000.00 can borrow up to Tzs36,000.00 while the one who saved 36,000.00 can borrow Tzs 108,000.00 but not necessarily as it depends on amount in the business plan which must be discussed and agreed with the group members. The additional sum of the amount is provided by financing organization (WCRP) which charges 10% flat rate interest per annum.

- Also a borrower is supposed to repay with 10% interest per annum which add the value of members' savings to the group. At the end of each business year the total returns in investments of all the members is distributed to each member as dividends according to each person's current share capital investment.

Apart from repayment and purchase of shares each member has to contribute fixed sum which is agreed democratically by the group for health and education fund or any acceptable social fund. Any member can borrow from such fund in case it is needed for related problems and refund the loan without interest. A loan insurance of fixed pre-agreed percentage is also a pre-requisite for loan eligibility. Most of the groups agreed to contribute the following amount per month:-

Table 1.1: VICOBA Social services contributions

	Type of fund	**Contribution (per month)**	
		Tzs	**Tzs**
1	Health fund	200	500
2	Education fund	200	500
3	Burial fund	200	500
4	Loan insurance 5% of share size		

Other programs use different models for example SEDA makes group loans to between 8-15 individual members; most groups are women only. Loan terms are typically for six months, carry a 30% flat interest rate and 3% one-time commission. All loans need to be guaranteed with a 20% cash deposit before loan disbursement, and repayment is on a weekly basis (Caroline Pinder, 2001). The model used by FINCA Tanzania demand an interest rate of 2.5% per month which is equal to 40% per annum.

From this process it shows that VICOBA model is in favour of the poor client in terms of conditions and interest rate compared to SEDA and FINCA.

4.1.1.3 VICOBA Project Basic Principles

VICOBA project under WCRP at UYACODE basically has three principles, these are: -

- Empowerment of the community members;

  In this project the community members are the sole and complete owners of their micro- finance group on cooperative principles, and are not responsible to any outside authority in all administrative matters. This is one of the major advantages over microfinance project run by formal financial institutions who maintain administrative authority over the microfinance groups as in the '*Grameen*' model.
- Participatory democracy; Democratic principals decide all matters pertaining to their group and every member is under obligation to participate.
- Truth, Transparency and Good governance; For proper administration of financial matters it is necessary that all members in the group be of good moral integrity, recommended for being truthful and transparent. No room for community members with doubtful moral integrity in such groups, as they are likely to disrupt financial and economic resources through dishonest activities.

The VICOBA project has major advantage over the models offered by the few facilities which provide microfinance facilities in the sense that the short term interest rate paid by members acquiring loans remain to the group member part of their savings and increase the size of capital. VICOBA is actually not a new or foreign model fashioned, it is a natural and indigenous financial facility, but modified and adapted to meet modern economic demands to the active poor of Ukonga.

4.1.2 Inclusiveness /exclusiveness of VICOBA project in relation to gender.

The random sample of 40 out of 120 VICOBA project members showed that 85% of members are women. 52.5% of members are above 40 years old followed by 32.5% of those whose age ranges between 31-40 years. The duration of which each member was in the project was constructed and showed 21 members equal to 52.% stayed in the group for 2 years, while 19 members equivalent to 47.5% stayed 3 years as group members. The General VICOBA project participant's characteristics of the sample of 40 interviewed participants are summarized in Table 1.1 and 1.2.

Table 1.2: Age and Sex distribution in VICOBA Project

No	Age Group (Years)	Number	Percentage (%)
1	18-20	0	0
2	21-25	3	7.5
3	26-30	2	5
4	31-35	5	12.5
5	36-40	8	20
6	41-45	10	25
7	46-50	9	22.5
8	51-Above	2	5

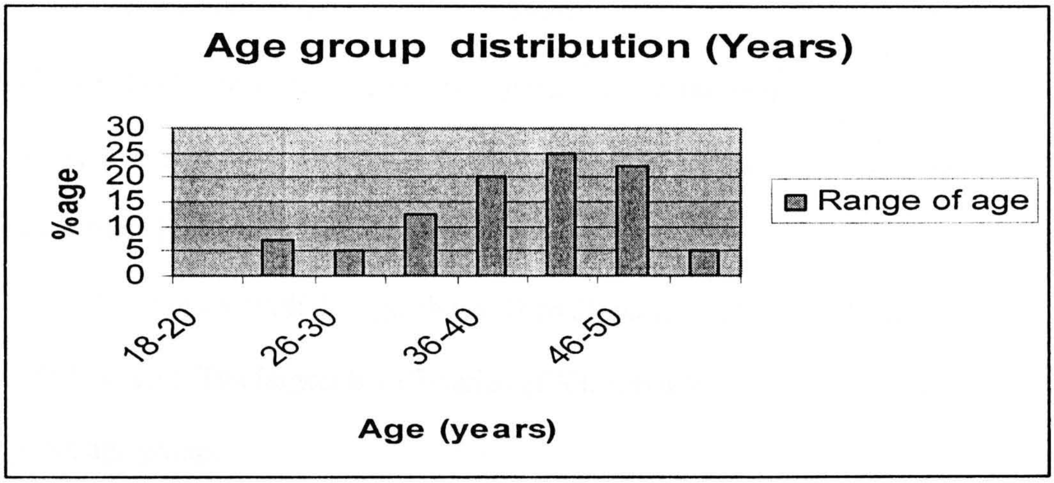
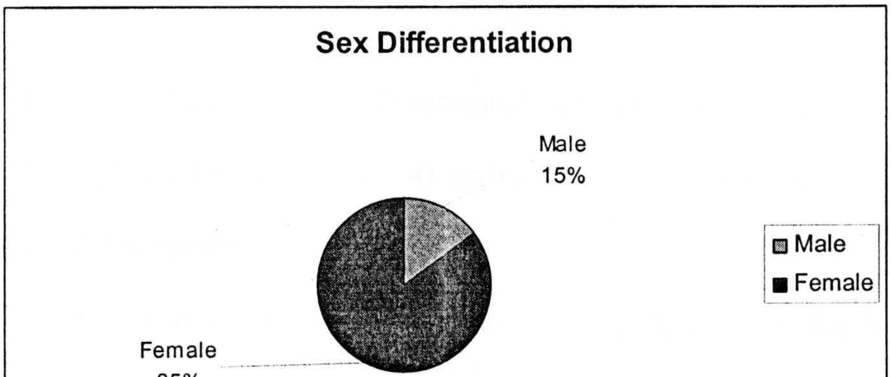


Table 1.3: Sex groups distribution

SEX GROUP	Number	PERCENTAGE
Male	6	15%
Female	34	85%



The percentages, pie and bar charts above evidence that in VICOBA project, the gender characteristics of VICOBA project is as follows:-

- There are more women than men who participate in the project.
- Age-group above 30 participate more than that below 30 years. Also age above 40 years participate more than the two categories.

Therefore the women with the age above 35 to 50 years are the most beneficiaries of the VICOBA project. The largest beneficiaries of VICOBA Project are the adult women not the youth age group.

Table 1.4: Opinions on Gender biasness of VICOBA project

Who Think	**Number of respondents**	**Percentage (%)**
Men are favoured	0	0
Women are favoured	4	10
All have equal favoured	36	90
Total	40	100%

In the survey only 4 people out of 40 indicated that VICOBA project needs some improvement on gender balance (Table1.4) saying that it is in favour of women than men, 90% said that it equally favours both.

The same type of data were drawn from the Focus Group Discussion (FGD) whereby they all agreed that the project is not affiliated with gender biasness and it does not favour women but men do not like to join at early stage because of type of leadership which is dominated by women in the group. In group one for example the chairperson, secretary and treasurer are all women. Although there were only two men they were not given any leadership position because it is believed by women that men are not trustful. *"Hatuwezi kuwapa uongozi wanaume ni wepesi kutoroka na pesa zetu"* One of the respondent Dorotea Rwegasira responded meaning that they cannot allow men to be leader in the project as it is easy for men to escape with money while women can not escape and live families alone. Dorah Mwakipesile said that most men are not afraid to disappear with money while women are afraid to be harassed. Hence women are better off than men in controlling group funds. One of the two men in the group said that apart from the reasons given by the group members but also men dislike to join the groups because of small amounts which are offered as a loan at early stage. In addition most men have superiority complex, they are not ready to mix up with women in order to access small loans, although in real sense they need it.

On the other hand, the survey conducted to the control group revealed that most men didn't want to join the project because it takes a long time to start acquiring loans, small size of the loan and others said that is a women based project. They argued that, women can tolerate during the grace period of three month for training and saving because they can get support from others including their husbands. 18 respondents (90%) out of 20 had the opinion that men can neither form a group by themselves nor with women and control funds faithfully while it is possible for women.

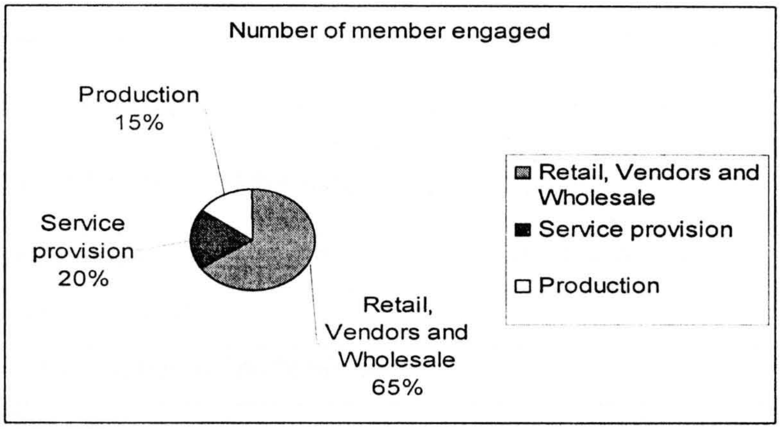
Therefore although the VICOBA project is not gender biased but according to these field findings it shows that women benefit more than men and men are automatically discriminated to take some leadership positions. Apart from the reasons given, going by democracy principles the minority cannot rule the majority. There is a sense of strength among the women than men in managing funds of VICOBA like projects.

4.1.3 Types of Income Generating Activities

The data also show that members pursued retail/whole sale, vendor and trade economic activities than services and production sector. The retail, merchandise and other small business operators account for 65% while service provision 20% and production 15% mainly for carpentry and dyes and making batik. Table 1.5 and the underneath pie chart below shows the distribution of the impact of credit services to the economic activities.

Table 1.5: Type of Income Generating Activities for which loans are used

No	Nature of Business	Type of business	Members engaged	%Age
1	Retail, Vendors and sub-wholesale	Sale of used clothes, Baba/ mama lishe, stationery,	26	65
2	Service provision	Catering services, Photocopy, Teaching	8	20
3	Simple Production /Processing	Batik dyes, Carpentry, Meat processing, Animal Keeping etc.	6	15
	Total		40	100



4.1.3.1 Opinion on the growth of Business

As to business growth, 57.5% of participants agreed that there has been business growth, while 37.5% were of the opinion that their business does not grow but they meet the operation costs. Only 5% found themselves incurring losses. In the open ended interview with the participants, most members indicated to have made profits. However some of them could still not separate between the business expenditure and other social needs and therefore they were not able to account for these expenditure out of business as part of profit. One member namely Amina Kapinga when asked if her business grew after using the loan, she argued that *"Hatupati faida kwani ukishalipa ada na nauli za watoto kwenda shule na kugharamia matibabu unajikuta biashara inabaki pale pale*"; meaning that we don't get profit since the earnings after being spent to meet education and health costs the business remain stagnant.

Generally, apart from having spent only two years in the project, the findings revealed that there was a significant growth in business because of the credit project. The following table is a summary of the trend of business growth:-

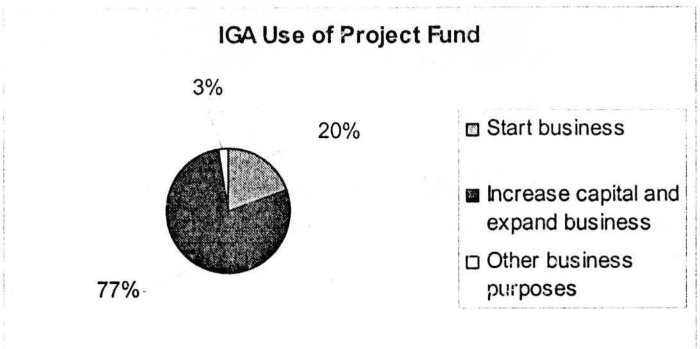
Table 1.6: State of business

State of Business growth	Effect of Business	Percentage (%)
Business growth	23	57.5
Remain as before but break even	15	37.5
Give loss	2	5
Total	40	100

The data revealed that 77.5% of the project participants used the loan to increase the size of capital and expand their existing businesses while a small percentage 2.5% used it for other business purposes while the rest 20% were business beginners.

Table 1.7: Purposeful use of credit

Intention for credit use	Number of business	% age
Start business	8	20
Increase capital and expand business	31	77.5
Other business purposes	1	2.5
TOTAL	40	100

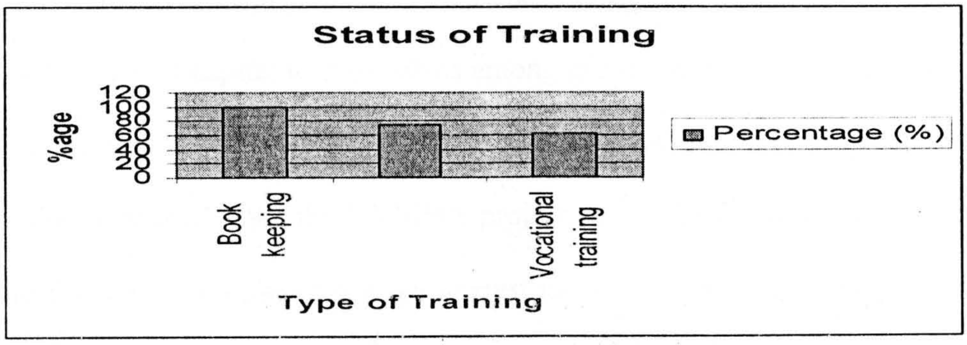


4.1.4 Capacity building through adequate training from the project, types and adequacy to meet expectations of the VICOBA members

All participants cited benefits which are unique to VICOBA as part of their lending process that they benefit from trainings. Participants revealed that all of them (100%) received training in bookkeeping and some 75% received training on entrepreneurial skills and small business management and 62.5 received training on vocational and technical training in the simple production of goods and services. There is an intersectional relationship whereby some got trainings in all three areas while some got in two areas and few in only one. The following table summarizes the findings.

Table 1.8: Training received by borrower's data for a sample space of 40

Type of training	Number of beneficiaries	Percentage (%)
Book keeping	40	100
Entrepreneurial skills and small business management	30	75
Vocational training in simple production of goods and services	25	62.5



The findings from the interviews also revealed that the participants were satisfied with the training offered. They stated that it is a key tool for the sustainability of the income generating activities they introduced. In the FGD, Amina Kalafya from group one said that they were now in the position to know the trend of their business but also to innovate other types of income generating activities which is the result of the training they acquired from VICOBA training. On the other side the Secretary of UYACODE (Mr. Bernad Mongo) argued that they are working out with WCRP in order to continue on providing adequate trainings so as to meet the members demand.

4.1.5 Opinions on the impact of interest rates on credit acquired, size of capital for credit from WCRP and the conditions/procedures to qualify for loan acquisition

4.1.5.1 Clients opinion

During the interview with the WCRP officer, it was learned that, only 10% interest rate is charged to the matching funds per annum. This is because the organization does not incur much management cost in the operation in accordance with the VICOBA philosophy. However each member pay 10% interest rate monthly which is used to increases the size of capital to themselves among group members. Generally the interest rate charged per month motivate the members because they sense ownership of the interest they pay and hence the VICOBA project. In the FGD with group number one most members had the opinion that the interest rate of 10% which is charged per annum by WCRP is paid through with repayment of the loan for matching fund. It is paid direct from the bank so they do not even fill it to affect their income. *"Hatuoni tatizo lolote, kwanza tunalipa kiwango kidogo tu cha riba na pia hulipwa kutoka katika akiba yetu iliyoko benki tunapolipa deni la kikundi kwa mwaka" said Marietha E.Mlimira* meaning that they don't feel any effect on the interest rate charged by WCRP when she was responding to whether the interest rate charged impact them negatively. She added that the monthly interest rate charged is part of their saving for re-capitalization.

In the survey it was learned that interest rate is less limiting factor as compared to availability of capital for credit and the procedure for credit acquisition. 77% of participants had the opinion that the most limiting factor is capital for credit; only 3% were not satisfied with interest rate while 20% were not satisfied with bureaucratic procedures for credit as shown in table No.9 below.

Table 1.9: The limitations of credits in VICOBA Project

Limiting factor	No of respondents	%age
High interest rates	1	3%
availability of capital for credit	31	77%
Procedures for credit acquisition	8	20%

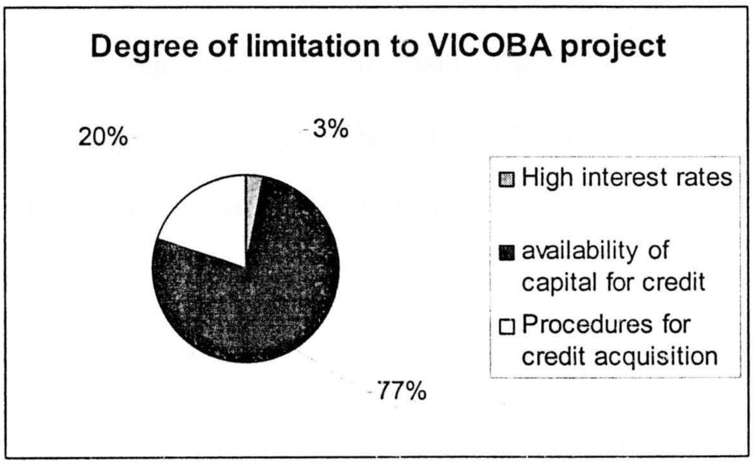


Table 10: Credit acquisition Procedures

Comments	Number of respondents	Percentage (%)
Good	22	55%
Bad	18	45%
Don't know	0	0
	40	100%

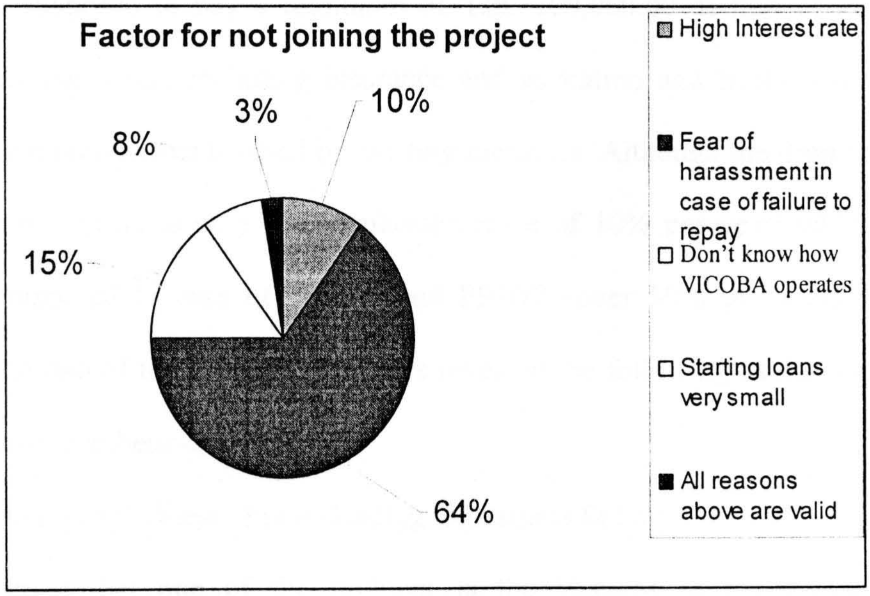
According to the members opinions, it is has been found that in VICOBA project interest rate don't have a negative impact to the project members and also does not affect their implementation of their income poverty reduction projects. But the most limiting factor is the inadequacy of capital which was given to the VICOBA project by the WCRP as matching fund. Since the establishment of VICOBA project WCRP has provided Tzs 4,800,000.00 as a matching loan and Tzs. 5,000,000.00 as a grant.

4.1.5.2 Non clients opinion

In ranking the major reasons of not joining the project, the surveys for the non participants revealed that 70% didn't join the project due to fear of getting harassments upon failure to effect repayment of their credit acquired. 12% didn't know how it operates, 8% feared high interest rates, 6% had the opinion that the starting loan size is very small and 4% argued that all the reasons were the problems.

Table 11: Major problems for failure to join the Project

No	Major problem for not joining the project	Number of respondents	%Age
1	High Interest rate	4	10
2	Fear of harassment in case of failure to repay	26	65
3	Don't know how VICOBA operates	6	15
4	Starting loans very small	3	7.5
5	All reasons above are valid	1	2.5
	Total	**40**	**100**



In open ended questionnaire with the control group responded that they fear of harassment after delay to repay their loan. However they were not sure whether the project helps to alleviate poverty although they agreed to observe changes from most participants as a result of the project.

4.1.6 The dropout rate from the project and the reasons/problems.

The research was to assess if there was some members exiting the project and the problems/reasons impacting to dropout from the project. This was done by assessing the group dynamics in the FGD with group number one (1) in which six (6) members dropped out of the project and thereafter four (4) members were replaced by the new ones. Through the discussion in FGD the following information were obtained from group number (1).

The six (6) members out of 30 (20%) drop out comprises 3 men and 3 female for two years, these members came from different cells. The member who replaced the exiting member is supposed to pay a minimum of Tsh. 100,000.00 as part of his/her share contribution and others including insurance and education and health contribution to meet the minimum shares reached by existing members. Although the drop out from the project for two years is only six members(average of 10% per year) which is not so small as compared to case of FINCA and PRIDE (over 50% per year). FGD and interviews to two of the dropped members revealed the following as the major reasons for dropout of members:-

a) Changes of business climate leading to business failure

It was learned that one of the problem is the changes in the business climate accompanied by the sudden decrease in number of customers due to the introduction of similar or competing product or inability to compete in the market. However this does not affect many people due to the training and development of good business plan before issuing loans.

b) Risk factor occurring beyond VICOBA project insurance policy accompanied with insecurity (Two case studies)

- Risk Analysis

The researcher was able to identify the following risks and how they were addressed in VICOBA project:-

No	Risk	Preventive Measures
1.	Default of repayment of loans due to bad business climate	• For deliberate defaulters, shares saving are deducted with fine, the rest refunded. The loss is met by a group of 5 guarantors and insurance. • In case of pure bad business performance. Loss is met by insurance, 5 members from the cell and finally the group of 30 members.
2.	Death of participant before repayment	Loss met by group of 30 group members
3.	Arising of social problems such as health costs school fees etc.	Participants borrow from respective funds and repay without interest.

According to the VICOBA project the funds contributed by members for insurance is only used as a security for the loan.

Case No. 1: One member namely Raphael Materini (49 years old) who was using his credit to operate a butcher business, exited the project when the slaughtered cattle was condemned during meat inspection, after being found not fit for human consumption. The credit was sunk and the shares of the member were diffused to repay the credit and the member remained with neither shares nor business. This occurred due to wrong investment decision made during project designing including insufficient knowledge on the cattle suitable for slaughtering and ability to manage risks. This could allow him to be aware on how to deal with problems such as animal's meat which is not suitable for human consumption.

Case No. 2: One member namely Japhet Swai from Madafu was doing a business of selling perishables. Unknowingly he temporary employed a person who was unfaithful in order to supervise sales. He also bought a bicycle using part of VICOBA credit which was used to carry products from the whole sellers. One day when Mr. Swai was in the group meeting, the seller decided to steal everything including his bicycle. This may be a problem of unscrupulous employees. The VICOBA project was meant to finance small family, household size economic ventures where the owner operates most of activities.

c) Gender inequality (power of men to impose decisions)

Some men argued that they were not able to be under the leadership of women and therefore they exited from the project because all positions of leadership in group are held by women. This also was the reason which presented men from joining the project when it was established.

d) The delays of matching loans (additional loan from the financier-MFI)

Some members dropped from the VICOBA project because of delay of matching funds from WCRP after completion of the training period. However after the funds were released they decided to continue with the project.

e) Size of loan were small for those whom their business grew faster

Most of the borrowers used money to increase capital of the already existing business. So the rapid changes of size of business capital found that the size of loan offered in VICOBA project was by then very small for the said business. This can now be termed as the dropout after graduating from absolute poverty whereby at this point the business operators exiting are no longer the project targeted group.

f) Power of men decisions leading to business failure and credit repayment by female borrowers:-

It was learned by the researcher that some men had informal decision over the credit fund borrowed by their wives and spent out of the intended activities. This was evidenced by a case study of one member namely Yusta.

She borrowed Sh. 200,000/= to operate her business. When she got home with the money and informed her husband, the husband requested her to give him 200,000/= to support his relative who was sick in Iringa promising that he will repay the same when he comes back. She gave her husband Sh. 200,000/= she had borrowed and he traveled with it and used the entire credit sum for treatment of the sick but eventually the sick passed away. Yet her husband was not able to refund the amount when he was back causing the poor women to drop from the group. The group members found that this was against the VICOBA norms and they decided to report the case to the ward office. After the borrower explained the truth the ward office decided to call the husband who committed himself to repay the loan monthly at the rate of Sh. 40,000/= for five months but yet her wife had to dropout from the project.

4.1.7 Spillover impact of VICOBA project

The researcher had to assess whether there are more benefits than those intended during the establishment i.e. related with the microfinance product, which also have an impact on poverty reduction and adds to capital assets here including:-

The following were the findings from the field:-

a) Social capital

According to J. Allister McGregor (2000) the relationship between social capital and micro-finance is being posited in two ways:-

- Microfinance is a means of generating social capital
- Social capital is an important factor in making microfinance interventions effective

Social capital has increased among members of the cells, groups, other stakeholders in microfinance (example members from another VICOBA pilot project at Kisarawe) and among the family members. Project members have been able to solve their problems together and found to be more powerful than before and in comparisons with non-members.

b) Human Capital

Various members have been facilitated to attend workshops in various parts of the country and therefore enhance capacity building. Through the group lending they have been able to gain various skills training occurring in the organization including manufacturing of batik (dyes).

Members have been exposed to various microfinance models after being approached by various MFIs including Dar es Salaam Community Bank (DCB), PRIDE Tanzania and FINCA.

c) Financial Capital

Apart from financial earnings to the members which created self employment, WCRP created jobs when they employed and trained some members who are used to train other members. Also members have been earning some allowances when they attend various trainings and workshops with which they argue to have increased their liquidity position. The members of the groups have built saving habits which have made them to increase sustainably their financial capacity.

d) Physical capital assets

Some members have been able to purchase some assets which are used for income generation as their business entities grow up which before were hired. Some physical assets purchased by members through VICOBA project income include carpentry, hand tools, sewing machines, driers for women hair saloons, bicycles and refrigerators. One VICOBA member who is also the group chairperson (Mrs Rwegasira) had been given a desktop computer by her relative in order to support her in record keeping and data processing of VICOBA project activities.

4.1.8 Project impact on economic welfare for reduction of income poverty in the long run.

4.1.8.1 Significant improvement of participants' income levels

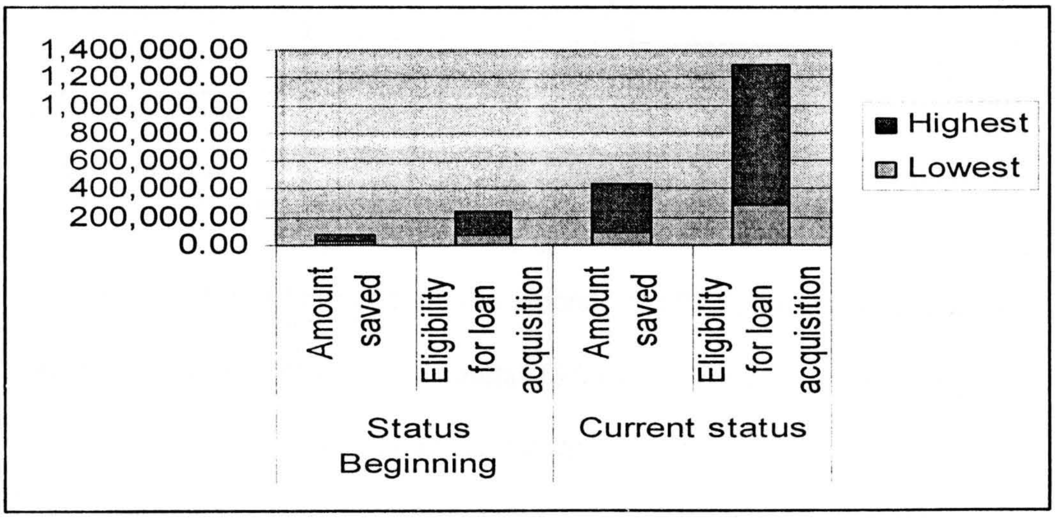
It is generally difficult to measure economic impact over a short period of one or two years and especially with small loans. The researcher used two approaches to measure the significant improvement of the participants' incomes. The first approach was the use of increase in participants' income levels and their potential in credit acquisition size. Secondly was by the comparison between the non clients operating the same type economic activities in the same geographical area.

i) Increase of income levels to the participants

The data revealed that there was significant increase in income level since participant increased saving capacity in shares. The shares capital owned by group members increased from Sh.23,000/= to 93,000/= for the lowest and s/he was eligible to acquires a loan of Sh. 279,000/= while before it was only 69,000/=. At the beginning the highest owner of shares was eligible to acquire Sh.165,000/= from the share capital owned of which was only Sh. 55,000/= but now eligibility for credit acquisition has increased to Sh.1,017,000/= from the saving of Sh. 339,000/= capital shares. The table 1.6 and the bar charts below elaborate more on the trend of a raise in income.

Table 1.12: The assessment of the status of income poverty

Position	Status Beginning			Current status		
	Shares	Amount saved (Tsh)	Eligibility for loan acquisition	Shares	Amount saved	Eligibility for loan acquisition
Lowest	23	23,000.00	69,000.00	93	93,000.00	279,000.00
Mean	39	39,000.00	117,000.00	216	216,000	648,000.00
Highest	55	55,000.00	165,000.00	339	339,000.00	1,017,000.00



ii) Comparison between clients and non clients operating the same type economic activities

The samples for borrowers and non borrowers having been taken from the same area (location), gender, the same type of businesses show the same size of average household and almost mean age of the participants were surveyed. In this case non borrowers were used as a control group. Income size showed that the borrowers (participants of the project) are better of economically with an average income of over 100,000 per month as compared to about 60,000 per month for the non borrowers. An increase in income to the borrowers in comparison to the non-borrowers indicate that if the project went on for a longer period *ceteris paribus*, significant changes in economic status could be achieved by the participants see table 1.13.

Table 1.13 Incomes.

Variable	Mean for borrowers	Mean for non-borrowers
Age	39	37.6
Household size	3	3
Monthly income	109,629.60	61,600
Minimum income	55,000	20,000
Range of income	160,000	100,000

During the surveys it was learned that 39 respondents (97.5%) out of 40 were of the opinion that given sufficient time and capital for matching loan VICOBA project will help in poverty alleviation in the long run as shown below.

Table No. 1.14: Impact of VICOBA Project in Poverty Eradication

The impact to poverty alleviation	No of respondents	%age
Helps in poverty alleviation	39	97.5%
Does not help in poverty alleviation	1	2.5%
No effect in removing poverty	0	0%
	40	100%

Observation: Through observation the researcher found members of VICOBA working in various activities like tailoring and selling ready made clothes to the customers. When they were interviewed they argued that they were trained as part of the process of VICOBA project.

During the FGD one of the only two men in group, Mr. Evans Chipindi said that they have changed even their attitude of mind on the size of capital, initially they thought that a capital of 100,000/= was suitable but now they are thinking that 300,000/= is the minimum capital requirement within the group. This argument was supported by his fellow members sighting the data provided in table No. 1.14.

This means through VICOBA project, one can get employed in an economic entity, generate income, adapt a certain skill which will make him/her productive and marketable and also can increase the level of financial capital. With these characteristics therefore VICOBA project can be used to reduce income poverty in the long run.

4.1.9 Sustainability of the participant's business and VICOBA project resulting from the scheme

This is the most important aspect of VICOBA project. 80% participants of the project responded that their business entity will be sustainable in the future, 12.5% responded to be not sure with the future and 7.5% responded for not sustainable. The interview with the participants and FGD revealed that the fear for business sustainability was due to the shortage and delay of matching loan from the funding organization. In terms of shortage of fund one member Mr Evans Chipindi argued that "Hatuna uhakika wa kushindana na wenye pesa nyingi wanapoiga kufanya biashara zetu" meaning that with small size of capital in business it is difficult for them to compete with new entrants in the same business with large capital.

Table No. 1.15 Sustainability of participants business as a result of project

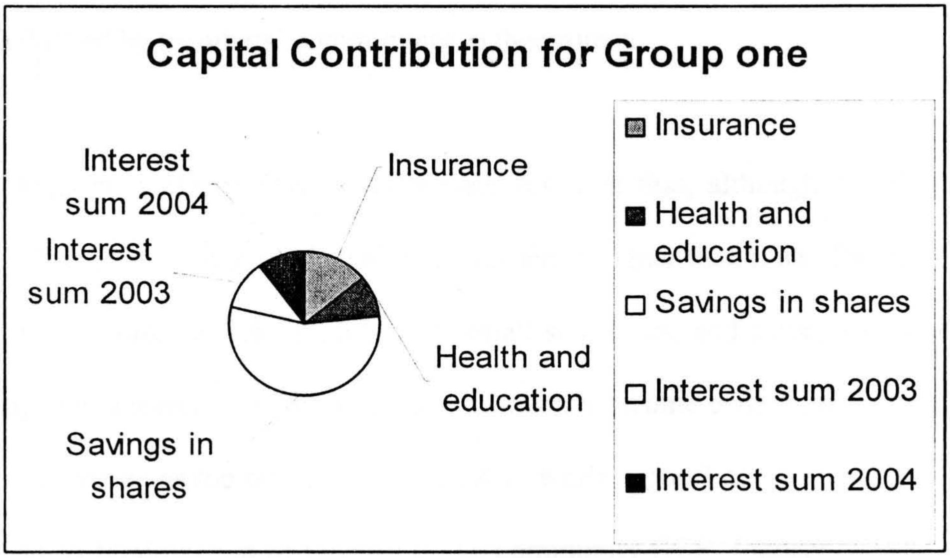
State of sustainability	No of respondents	Percentage
Sustainable	32	80%
Not sustainable	3	7.5%
Not possible to predict future trend	5	12.5%

However the argument agreed by all 10 members in one FGD was that the project is sustainable because even without external funding they have managed to remain with some money from their share saving. They said WCRP gave them matching funds once and now they have their own funds to the tune of Tshs. 5,842,300.00 with the following distributions:-

Table 1.16: Size of own capital for group one

Type of capital contribution	AMOUNT (Tshs)	%age
Insurance	812,000.00	13.9
Health and education	546,900.00	9.4
Savings in shares	3,258,000.00	55.8
Interest sum 2003	639,000.00	10.9
Interest sum 2004	586,400.00	10.0
Total	**5,842,300.00**	**100**

Source: VICOBA group records



After joining VICOBA project, most of the members have continued to pay for shares and increased their capacity of borrowing, from 108,000/= at the beginning of project to over 300,000.00 to date, the project is sustainable because members continue to contribute their shares and borrowing with paid up interest of 10%, limited to the group members' saving and then divided to among the members at the end of the year. Also businesses had been financed and grow sustainably.

4.2 Conclusion and Recommendations.

4.2.1 Conclusion

The field finding of the impact assessment of VICOBA microfinance is concluded as follows:-

According to the first objective the management structures, the procedures of saving and borrowing and the guiding principles for operation of VICOBA project are in favour of the poor active both women and men. Also trainings empowered the participants towards understanding the project and ownership. With ownership in mind, project sustainability can be achieved by members' commitment to the project.

The findings on inclusiveness of the gender revealed that, although VICOBA policy does not discriminate men participation of women is higher than men. This is due to the nature of the project which involves very small size loans, and saving of shares at the beginning. The project therefore is in favour of small income earners, demonstrating the position of women as the majority poor (70% of world's poor) compared to men. This is referred to as feminization of poverty in the community (H.F. Johnson, 1998). Women have been mostly attracted, involved and included in the leadership positions compared to men and youth. This can be the reason of good performance of VICOBA in loan repayment as women are described in literature as likely to make better repayment rates (Mike FitzGibbon, 1999).

Due to the small size of beginning loans, the economic activities in which members have been using borrowed funds are those related to small size businesses. These include selling general merchandise, provision of services, production by use of simple technology and few sub-whole sellers. Businesses operated are for example sale of second hand clothes (mitumba), meat shops (butcher), stationeries, production dyes (making batiks), food vendors, cooked food, shoe shining, selling flowers, tree seedlings, hair saloon etc. These businesses are the ones widely done by small business operators and petty traders in Dar es salaam due to their nature of small size capital requirement and also which can be performed by both men and women.

It has been evidenced that there were effectiveness in the capacity building through various skills by provision of trainings ranging from simple accounting procedures, simple business management, and some entrepreneur skills as the part of VICOBA project operations. These training have been not only useful in successful operations of VICOBA but also growth of their economic activities confidently. Most of the members now have confidence in many issues pertaining to their business as compared to the past, which is very important for the individuals in adapting the changes of growing businesses due to capital increase through the project.

The fifth objective have been accomplished by assessing the impact of interest rates and credit procedures, in this case most of the participants are satisfied with the charged interest rates and the procedures of operations. This implies that the VICOBA model is in favour of the poor as compared to other existing programs in Ukonga which use Grameen model. The high interest rate and unfair operation procedures of other programs is among the reasons which caused non participants fear to join VICOBA project. They thought it was going to apply the same credit procedures involving harassment if they fail or delay to repay the loan. In the same vein the positive impact have been evidenced from the field findings indicating that the dropouts is small and there are various causes of the dropouts including small size of credit, interference of men in decision on use of funds out of intended use, risk factors, delay of matching fund and change of business climate. Each of these factors contributes very little to the dropouts and indicates to have no significant negative impact.

The findings also achieved seventh objective by assessing the spillovers/externalities of VICOBA credit rather than the intended ones including development of human, social, financial and physical capital assets which had been positively attained and wider impacts achieved. The importance of VICOBA project towards poverty reduction has been proved here because the microfinance intervention have positive results to capital assets which enhance sustainable economic development to the clients. It also supports the argument by Colin Kirkpatrick and David Hulme (2002) that IA of microfinance has important complex investigation of the interlinkages between social, economic and environmental impacts for sustainable development.

The IA research investigated the impact of the project on poverty alleviation in the long run for eighth objective and finding showed the positive results. The ownership of the project by members, ever increasing size of capital and growth businesses of the clients are at the heart of the project results surrounded by the increased aforementioned four capital assets which are necessary for poverty reduction results in the long run.

The project impact on the increase of clients' income levels has been evidenced through the increase of their share sizes through savings, economic activities performed by the members also have increased their capital size. This also leads to achievements in terms of impact of the VICOBA project in sustainability of the operation of microfinance services as well as participants' businesses. It has been successfully observed that the project has high degree of facilitating sustainablity due to progressive growth of shares, savings as well as capacity building.

Generally, in the last two years, poor people at Mazizini in Ukonga ward have used small loans to start new enterprises and expand ongoing ones. They have taken advantage of increased earnings to improve consumption levels, send their children to school, and build assets. They have accumulated savings to provide protection against illness and sudden shocks. They have increased their capacity to access better health care. Women, the focus of many microfinance programs, have become empowered to participate in the decisions that affect their lives.

In order for VICOBA project to expand microfinance activities and operate under microfinance policy framework, UYACODE decided to allow VICOBA members to work independently (with the name Ukonga Saving and Credit Association-USACA) in future. However some institutional arrangements and policy issues have to be dealt for sustainability, so that development of the project is done within the microfinance institutional framework. This will allow the project to manage large amount of money which is being accrued as time goes in project operations.

4.2.2 Recommendations

4.2.2.1 General recommendation

From the analysis of findings and conclusions above on the VICOBA Project impact assessment, the researcher recommends that the VICOBA microfinance project has shown a positive impact in relation to the income poverty reduction in a sustainable manner due to the following reasons:-

a. The policies, methodology and procedure for credit and shares savings with high degree of ownership are acceptable by the project members mainly women.
b. Participatory process of the beneficiaries which involve them in every point of developing the project and the aspect of ownership is well addressed.
c. There are externalities which show that the project benefits cater for capital assets important for poverty reduction; those are physical, financial, social and human capital assets.

d. The dropout from the project is very small in comparison with other project evidenced from the literature reviews which operate commercially. Also income levels increase to group members after joining the VICOBA project.

In order to accelerate the growth of members' enterprises the timely and adequate availability of matching funds from the microfinance organization (WCRP) at the same interest rate is necessary so as to be able to borrow at potential size of loan as per VICOBA policy and hence improved economic impact. This is contrary to the mission of many MFOs which is to maximize profits, but setting prices too high, relative to service quality and cost, result in some new clients leaving, who might have remained at a lower price (James Copestake, 2001).

Another very important assessment result is that the project focuses on women; this is also strategic in the project as noted by Sabina I. Osehobo (2000) that "If a woman has money, the family is more likely to be taken care of. The woman is likely to feed her children; if you want to have an impact, work with women, because their children are a priority and if their children are doing well, they are happy". In view of this statement therefore, it is recommended that men have to support their wives (women) in the project so as to make them perform well instead of misusing their loans. Sensitization meeting shall be conducted to empower men's attitudes towards improving women's performance in the project. It is also recommended that a kind of dialogue is established to reach and sensitize husbands of female borrowers to facilitate their wives in implementation of their business entity as per business plan and not otherwise.

4.2.2.2 Policy recommendation

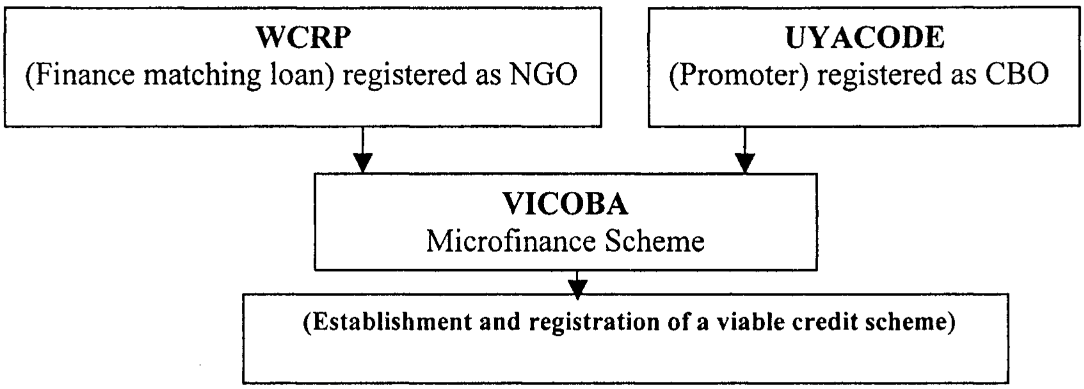
VICOBA model has proved relevant to the economically active poor for rural and urban areas in Tanzania because the model has shown positive economic and social impacts with minimal management costs in environment like Tanzania as captured in the literature review. In this case therefore I recommend to UYACODE and WCRP to dialogue with the Government and donors to join hands for a pilot projects regional wise. The government of Tanzania through Public Private Partnership can work out to promote such project in collaboration with Civil Society Organizations (CSOs) and mainstream Government and public related microfinance programs (like SIDO, PTF, and WYDF for Local governments) using VICOBA project model in order to benefit most of the poor for sustainable income poverty reduction through economic empowerment. Also it is recommended that a training policy for the projects include training on data management in order to establish and use data management system.

4.2.2.3 Policy Gap

Although the VICOBA project model is good but the environment it operates lacks direct inclusiveness in the Tanzania Microfinance Policy and legal framework because neither the promoter UYACODE nor the financing WCRP organizations are registered as MFI or MFO. WCRP is registered as NGO and UYACODE registered as a CBO.

Therefore VICOBA project is not a viable microfinance scheme and is limited to operate big volume of money and hence not sustainable.

Due to the fact that the size of share capital for VICOBA members was observed to be increasing, the need of having a separate local institution registered for operating microfinance was inevitable. UYACODE and WCRP agreed to establish a viable and sustainable independent microfinance scheme which will work within the Microfinance policy framework.



The essence of the decision to formalize VICOBA Scheme is as follows:-

1. To operate under the microfinance policy framework as a registered MFO.
2. Attain increase in ownership for effective and efficient management by members.
3. To allow the project members to lay out principles through establishment of a by-law to guide the project while it works independently under VICOBA members.
4. To be able to access and solicit donors for funding the matching loan for the purpose of increasing the capital size for lending to the other borrowers.
5. Increase commitment to manage the scheme and achieve microfinance autonomy.

CHAPTER FIVE

IMPLEMENTATION OF RECOMMENDATIONS

5.0 ESTABLISHING A VIABLE AND SUSTAINABLE MICROFINANCE SCHEME

5.1 Introduction

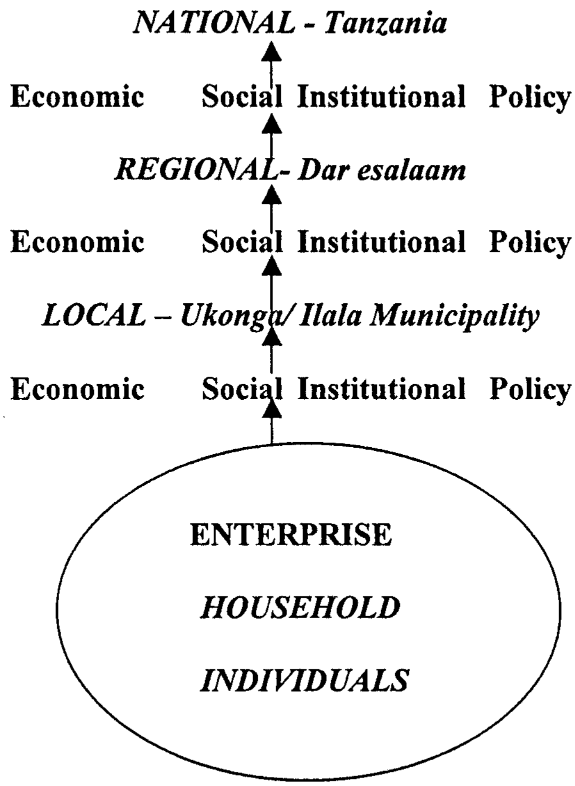
The findings from the research part and the results of the Impact Assessment for VICOBA S cheme revealed the need for implementation of project towards improving the positive impacts through strategic positioning of VICOBA project as part of realizing the importance of microfinance intervention to poverty alleviation in Ukonga ward. Advocating the same, Mark M. Brown(2004) stated that "Microfinance remain to be among the best tools to alleviate poverty because the world's poor and low income entrepreneurs do not want charity, lack energy, work ethic, ideas, or entrepreneurial spirit, what the world's poor people lack is access, and choice. And that is exactly what microfinance provides". Hence it was necessary to improve the impacts of VICOBA project through establishment of a viable and sustainable credit scheme. Improvement of microfinance project m et b y p roviding r ecommendations a bout t he m eans w ith w hich present and future project performance could be able to encourage a processes by which inputs are converted into outputs and outcomes (D..Hulme & C. Kirkpatrick, 2002).

Due to reliability and acceptability of the VICOBA model, there have been a progressive growth of the project fund as well as increase in shares since the project started to the extent that all four groups in two years time have saved in shares more than TZS 22.0 million from the balance of less than TZS 360,000 at the beginning of the project. Also the dropout rate have been very small as compared to other model (eg. a modified Grameen model used by PRIDE Tanzania). This calls a need to improve the assessed impacts by formulating some strategies to empower the scheme for growth.

5.2 Levels and methods for improving impact of VICOBA

5.2.1 Levels of Impact of Micro-finance Interventions

Below are the levels with which improved VICOBA model is expected to be effective:-



(Men, women and children)

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

5.2.2 Methods designed for Improving Impacts of VICOBA Project

The following are the methods for improving the impact and future performance of VICOBA Project in accordance to the levels identified above from the AIMS studies:-

a. Establishment of USACA Savings and Credit Cooperative Society which originates from Ukonga Savings and Credit Association, by separation of VICOBA functions from UYACODE Programs and work as an independent organization to deal with microfinance products only and sustain VICOBA project model.

b. Designing actions to improve effectiveness and sustainability of USACA SACCOS in provision of microfinance services

i. Propose the USACA enhancement of wider impact of microfinance services.

To propose the way USACA shall follow for the wider impact of microfinance through VICOBA model at Ukonga Ward, Ilala District, Dar es Salaam and Tanzania as whole.

ii. Registration of USACA SACCOS as microfinance organization to operate VICOBA model.

To Process and register the newly established USACA which maintains VICOBA model in mobilization and operation of the groups.

Across the aforementioned objectives the five strategic themes were defined as follows:-

- Supporting the development of microfinance for VICOBA project
- Play a link role with external (donors) support and the groups in order to empower the existing groups and extend the service of microfinance operations to other groups

- Increasing the project outreach of microfinance while operating in form of institution.
- Improving the legal and regulatory framework of VICOBA under microfinance institution.
- Facilitating the commercialization of the products offered by small business operators financed by project funds to the Ukonga community as well as else where.

5.3 Establishing a Savings And Credit Cooperative Society (USACA SACCOS)

One of the advantages of VICOBA model is less demand of management and administration from outside the groups. VICOBA Project management does not cost much in terms of money instead much time is spent weekly by the project members in groups to save, discuss and assess the trend of the project which act as a means to control and manage their funds. So establishment of USACA SACCOS was an important part in improving the effectiveness of the results of impact assessment of VICOBA Project model because there will be no much cost implication to operate it under the existing model.

5.3.1 Objectives of USACA SACCOS

The main objective of USACA SACCOS is to raise and improve the living standard of the members to empower them to meet and finance various social and economic needs through microfinance services provision including soft loans with guidance of USACA by-laws and the cooperative societies guiding principles.

USACA SACCOS establishment was aimed to meet the following specific objectives

a) Separating the functions of microfinance from UYACODE in order to allow the VICOBA project to operate under microfinance organization/institution and widen the microfinance services provision without limitation from UYACODE constitution but also compliance with the National Microfinance Policy.

b) To provide matching loan to the groups, this in turn will provide the loans to the cells of their respective groups at the same cost and condition as in VICOBA project.

c) Create an atmosphere favourable for the groups to join and form an umbrella organization which will help to self guard the interest of the groups and voice through a legally registered microfinance institution.

d) To be able to solicit funds from external organizations as well as donor agencies for providing adequately and timely the matching loan as per VICOBA policies of three times the shares saved by members.

e) To increase the capacity of practice in products other than saving and credits including education, health and loan insurance to work at reasonable amounts.

f) To establish more groups under VICOBA Model in and outside Ukonga ward so as to expand the performance of VOCOBA in the near future and provide financial services to many poor community members with more focus to poor women.

g) Reduce poverty by providing quality microfinance services to poor women through group lending under VICOBA model.

5.3.2 USACA SACCOS Responsibilities

Towards achieving the above specific objectives USACA SACCOS shall act as a separate microfinance organization set up by VICOBA groups to perform the following responsibilities:-

a) Receive registration fees, Shares and insurance fund from the member groups.

b) To provide soft loans to the members groups.

c) To charge interest to the credit offered to the groups and enhance capital growth.

d) To make sure members money are safe and no loss comes out of loans.

e) To insist to the members to increase their savings in their shares and insurance.

f) To generate income through saving the excess income in Financial Institutions for profit, buy government securities and shares.

g) To raise and improve the living standard of her members as well as increase of the social relations among the members.

h) To sensitize non-members to join for membership.

i) To establish and implement other economic activities as will be agreed by general meeting and the registrar of Cooperative Societies or the representative.

j) Maintain and sustain VICOBA model in microfinance service operations;

k) Marketing of products of members related to the scheme.

5.4 The actions to improve effectiveness and sustainability of USACA SACCOS microfinance services

The most significant factors that influence to improve the effectiveness of VICOBA IA include the following:-

- To access adequate financial resources to increase the capacity of group lending in at Ukonga ward and later on outside Ukonga ward.
- Institutionalization of VICOBA project to plausible micro-finance organization with registration under the national legal and policy framework for microfinance operation.
- Requirements for improving data Management System.

The strategic action was to register USACA in a form of a microfinance institution as a SACCOS which will be able perform the following:-

a) To establish a leadership under a board to monitor the operations of the groups and have a legal status to solicit funds from various organizations interested to help the expansion and outreach of the project.

b) Various institutions tend to invite microfinance institutions to bid for provision of microfinance services as their agent to reach the targeted groups. These institutions include Governmental institutions (eg. Vice President Office), Local Government (eg. Ilala Municipal Council), International organization (eg. UNDP) as well as some Banks may require an institution registered to operate as a microfinance institution by using her own model. A registered USACA can bid for as an agency for provision of microfinance services to her members from various donors and if succeeded increase her capacity and outreach of financial services to the community members.

c) It will also increase institutional capacity building to attain sustainability and to develop better marketing approach for microfinance products offered and increase relationship with financial institutions and development partnerships with MFIs like donors and technical support sector to insist capacity building in their networks, better coordinate funding and develop market research as well as new products.

5.5 Registration of USACA under VICOBA microfinance model

After providing the useful information from the impact assessment, the researcher was assigned to assist the VICOBA project in the registration process. This was to be done under the Cooperatives Societies Act. 2003 as a Saving and Credit Cooperative Society (SACCOS), which is very important aspect as far as establishment of the viable and sustainable microfinance scheme is concerned. In order to make USACA operate VICOBA model under acceptable Microfinance Policy Framework to fill the gap evidenced in the IA explained above, registration process was inevitable.

5.5.1 Assignment for registration of the VICOBA microfinance project

The tasks for registration process under the Cooperatives Socities Act. 2003 as a Saving and Credit Cooperative Society (SACCOS) were accompanied with the following activities:-

1. To design the name of organization, identify and make a description of the process for registration which comply with VICOBA project model
2. To designing application letter for registration
3. To assist the members in them development of the By-laws for their new organization
4. Developing the action plan and implementation of registration process

5.5.2 Process for registration of SACCOS

After studying carefully, both the National Micro-finance Policy of 2000 and Cooperative Societies Act of 2003 of Tanzania it was learned that for the purpose of registration the methodological approach of VICOBA model falls under the Cooperative Societies Act of 2003 of Tanzania under Savings and Credit Cooperative Societies (SACCOS) with minor differences. Therefore it was acceptable to be registered as a Savings and Credit Cooperative Society (SACCOS). The proposed type of registration was tabled for discussion with the VICOBA members for such type of registration and the reasons behind. The members agreed to process the application for registration of their groups as a SACCOS.

5.6 The process and conditions for establishing SACCOS

5.6.1 Formation of the cooperative groups and Membership

In the section 15 (1b, 2 and3) of the Cooperative societies the following conditions apply to the formation of SACCOS (Primary society) and membership conditions:-

(a) Primary society shall be formed by twenty persons or more for savings and credit cooperatives.

(b) A person may not be a member of a primary society unless he/she has the following qualifications:-

- Attained a minimum age of eighteen years and is of sound mind.
- He/she operate a trade or occupation relevant to the society's object as defined in the by-laws;
- Has common need the society wants to satisfy.
- Capable of paying fees and acquiring shares
- Members of minimum age of fifteen years may become members but shall not be eligible to act as a member of a committee until attain the age of eighteen years.

5.6.2 The objectives of a primary society

According to the section 18 of the Cooperative societies Act, the objectives of the primary society are:-

a) To strive to raise the standard of living of its members

b) To facilitate the operation of individual members

c) To provide services to its members

5.6.3 Process for Registration of SACCOS

a) Section 22 (b) stipulates that the registrar may register the savings and credits societies, 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 the rural and urban areas.

b) Section 24 stipulates that, application for registration shall be made to the Registrar in the prescribed form and shall be accompanied by:-

- Four copies of the proposed by-laws of the society, signed by the applicant;
- A report of a feasibility study or project write-up (Economic viability report) indicating the viability of the society;
- Such other information in regard to the society as the Registrar may require.
- The application forms for SACCOS must be signed by twenty members.

  Section 25 explains that:-

i. The Registrar shall after receiving the applications consider and decide on an application for registration within ninety days from the date of the application.
ii. The Registrar before effecting the registration to any society may require it to amend the by-laws so as to conform to such directions as he may give in that behalf.
iii. The society shall upon registration pay registration fees as may be prescribed by the registrar.

- The society shall not be registered unless the Registrar is satisfied that:-

i) The volume of business from the society is sufficient to cover its costs

ii) Proper provision has been made for financing of the society

iii) No society exists in the same locality performing similar activities for people of the same class or occupation, and that the registration of another society would serve no useful purpose.

iv) Section 26 provides for refusal of registration by the registrar that may occur if he/she is satisfied that the society has failed to meet the prescribed requirements for registration. However if any person is aggrieved by the decision of the Registrar for refusing to register a society under subsection (1) shall within sixty days from the date of notification of the decision of the registrar, appeal to the Minister whose decision shall be final.

5.6.4 Certificate of Registration

Section 27 and 28 stipulate that, where the Registrar approves registration he shall issue a certificate of registration to the society, together with the copy of the by-laws certified by him as having been approved and registered.

A certificate of registration signed by the registrar shall be conclusive evidence that the society mentioned in that certificate is duly registered unless it is proved that the registration of the society is cancelled.

5.6.5 Process for registration of VICOBA project as a SACCOS

A Savings and credit cooperative society (SACCOS) means a registered society whose principal objectives are to encourage thrift among its members and to create a source of credit to its members at a fair and reasonable rate of interest.

According to the guideline for registrations of VICOBA project as a SACCOS, the Ilala Municipal Cooperative Officer (MCO) explained the simplified and practical process for registration as follows:-

1. To write an application letter to the MCO as a representative of the Assistant Registrar of the Cooperative Societies at Municipal (District) level.
2. To conduct a general meeting between the officials from the Municipal Cooperative Officer and VICOBA members for:-

a. Awareness creation on various issues concerned with the microfinance policy and the requirements for SACCOS.

b. To identify, discuss and state common bond of the SACCOS and the proposed name

c. To discuss the issues concerning the linkage between the VICOBA model and how it is going to operate under the registration as a SACCOS without changing the model.

d. To elect the members of Formation Board this will comprise of few members.

3. The Formation Board is supposed to do the following duties:-

a. To prepare the by-laws

b. To prepare the economic viability report

c. To prepare the income and expenditure report

d. To prepare a list of registered initial members

e. To get consultation from the MCO

f. To conduct another general meeting and submit the three report.

4. The second general meeting shall be conducted to discuss the reports of the formation body and if is agreed then the general meeting pass a resolution to approve these reports.

5. The approved reports have to be forwarded to the MCO with the duly filled application forms for registration to the Registrar.

6. The Assistant Registrar works on behalf of the Registrar with the function to promote, inspect, and advise the cooperative societies (Section 11.1a). Therefore the MCO will advise if any corrections are required before submission to the Assistant Registrar for the case of Dar es Salaam the Assistant Registrar is the Regional Cooperative Officer. MCO will forward with recommendation for registration to the Assistant Registrar of Cooperative Societies for Registration.

7. The Assistant Registrar will register the Association and provide certificate of registration to the applying SACCOS.

8. The registration certificate will be handled over by the registrar to the registered SACCOS by the procedure explained in 4.4.

5.7 Achievements attained

5.7.1 Achievement in the process of registration

The following tasks have been completed so far:-

a. Designing the SACCOS name

The name for the SACCOS have been designed and used to title their books for financial accounts records. The name for the SACCOS which operates by use of VICOBA model is USACA SAVINGS AND CREDIT COOPERATIVE SOCIETY with initials originated from the pre- designed by the VICOBA members before, namely Ukonga Savings and Credit Association.

b. To assist them developing the By-laws for their new organization

The prepared By-Laws were approved by the Assistant Registrar.

c. Application letter for registration to the Municipal Cooperative Officer (MCO).

Application letter for registration which was written to the Municipal Cooperative Officers with reference No. US/UKR1/001 dated 25 November, 2004 and positively responded by MCO with a letter dated 30 November, 2004 with Reference No. DRS. 421/W.17/4/32 (attached as annex vi).

d. To assist in preparation of Income and Expenditure reports

The economic viability have been prepared as well as income and expenditure report.

e. Conducting meeting for approval of application

All meetings required by the Act have been conducted before submission of application forms with the list of members' contributions, Estimates for revenue and expenditure.

f. To apply and register USACA as a SACCOS

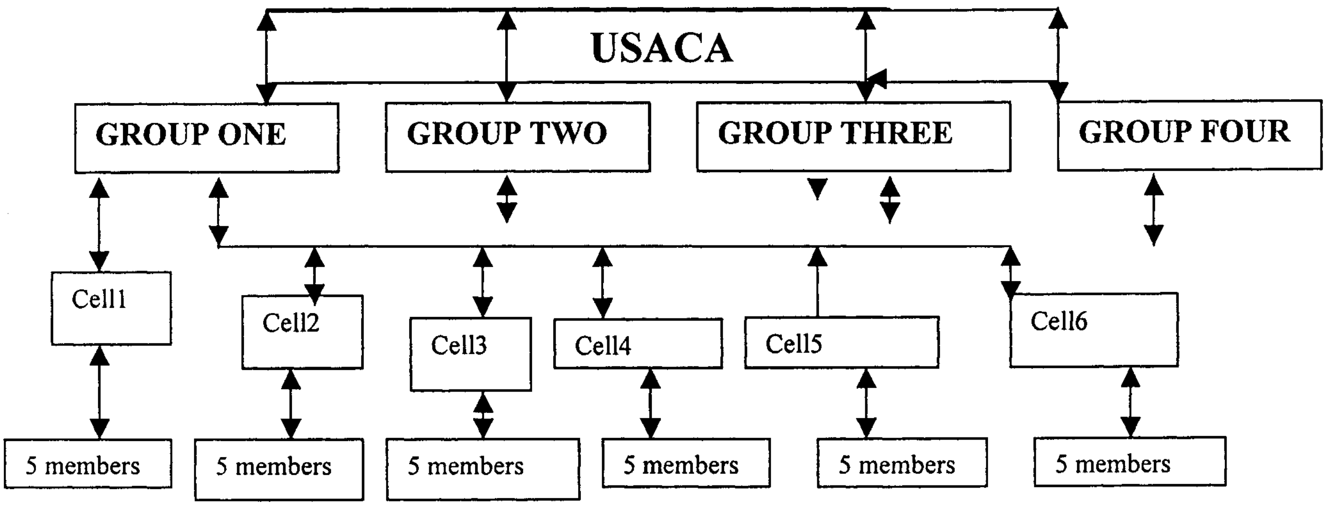
All forms required for registration and other requirements were fulfilled and registered as a SACCOS and issued a certificate of registration Na. DSR 624. (See annex vii).

5.8 USACA SACCOS financing and methodological approach

USACA members from the four groups agreed to contribute 60,000.00 each group equivalent to 240,000.00 to meet various initial expenses for office work (Transport, stationeries, secretarial services etc). Also each group had to buy shares of TZS 300,000.00 each as a starting capital for a SACCOS (USACA). This amount to TZS 1,200,000.00 for all four groups the funds will be used as initial capital and saved in USACA opened account. After that each group shall be saving a minimum of TZS 30,000.00 and not more than three times in each month for twelve months. Before 12 months groups cannot apply for a loan from USACA. The total capital for USACA after 12 months shall be (30,000.00x4x12= 1,440,000.00 + 1,200,000.00) a minimum of TZS 2,640,000.00 at the bank.

However before twelve month credit applications of individual members shall continue from group lending under VICOBA Procedures. In case of any donor contribution to USACA before 12 month elapse, USACA shall channel the funds to the groups for lending to the cell members. After twelve month (12) the credits shall be made at the same interest rate (10% per six month). The interest accumulated shall be divided to the groups at the end of the year or saved to increase the capital as shall be deemed fit and agreed by the VICOBA groups. This methodology reflect the same procedure as is the case in VICOBA model but now instead of thinking of cells and individuals against a group here we think about a group and USACA (SACCOS) implying an increase in scope of organization and size of capital.

The organization arrangement of USACA



A SACCOS (USACA) is made of:-

Four **(4)** groups, each group is made of six **(6)** cells which amount to **24** cells in a SACCOS. Each cell is made of 5 members, 30 members per four (4) groups and **120** members in a SACCOS.

There is a mutual relationship between USACA, Groups, Cells and individual members whereby members contribute to cells and through their groups to USACA But also USACA provides loan to the members through their groups.

5.9 Conclusion

Establishment of a viable and sustainable credit scheme for improving the effectiveness of Impact Assessment results has been very useful for sustainability of VICOBA project. As explained above the linkage between VICOBA groups and USACA SAVINGS AND CREDIT SOCIETY have not only created a room for sustainable growth but also for a well planed system for operation and management of microfinance product through an acceptable model.

The project research has been very successful because the assistance given to the community members have come up with the improved and effective means of microfinance operation with the following achievements:-

a. Create a room for external/donor support
b. Enhance the member to build more internal capacity so that if there is no external support USACA SAVINGS AND CREDIT SOCIETY can stand alone and provide financial services to the project members.
c. VICOBA project will now operate with legal status as an organization under National Microfinance policy Framework.
d. Provide a new Model for microfinance services which is recommendable to Local Authority Women and is recommendable to Local Authority Women and Youth Development Fund (WYDF) and other Government microfinance intervention to the poor especially poor active women.

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