

SOUTHERN NEW HAMPSHIRE UNIVERSITY

&

OPEN UNIVERSITY OF TANZANIA

**MASTER OF SCIENCE IN COMMUNITY ECONOMIC DEVELOPMENT
(2005-2007)**

**Assessment of Opportunities and Challenges for Establishment
of a Member-Based Micro-Finance Institution (SACCOS): A
Final Project Report for Kishapu SACCOS in Shinyanga Region.**

Suleiman Mussa Monata

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Final Project Report for Kishapu SACCOS in Shinyanga Region.**

**“Submitted in partial fulfillment of requirements for M.Sc. in
Community Economic Development”**

Suleiman Mussa Monata

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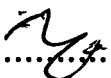
BIBLIOGRAPHY

APPENDICES

**ASSESSMENT OF OPPORTUNITIES AND CHALLENGES FOR
ESTABLISHMENT OF A MEMBER-BASED MICRO-FINANCE
INSTITUTION: A REPORT FOR KISHAPU SAVINGS AND CREDIT
COOPERATIVE SOCIETY (SACCOS) IN SHINYANGA REGION.**

SUPERVISOR'S CERTIFICATION

I certify that I have read this project and I am satisfied that it can be submitted to the Open University of Tanzania / Southern New Hampshire University senate in partial fulfillment of the requirements for the award of Degree of Science in Community Economic Development (Msc. CED).

Signature of the Supervisor:.....

Hermegild Mtenga

Date:.....

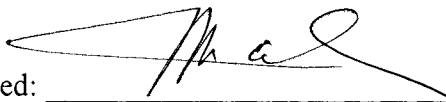
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DECLARATION BY THE AUTHOR

I, Monata Suleiman Mussa, declare that this project report is an original product of my own personal research work and that it has not been submitted for a Master degree or similar award in any other higher learning institutions.

All the materials, like data or figures or statements, which have been quoted from other writers and used in the course of writing this document have been duly acknowledged and included as reference material.

Signed: 

Monata, Suleiman Mussa

Date: 18th September, 2007

DEDICATION

I dedicate this piece of work to my family members for their patience, tolerance and encouragement as I spent sleepless nights working on this project report.

ACKNOWLEDGEMENT

The successful accomplishment of this project report would not have been possible without the inputs of several institutions and individuals who deserve special mention for their contributions.

First, I would like to extend my gratitude to Mr. Hermengild Mtenga, the Project Supervisor, for his inputs, criticism and comments through all the drafts to the final version. His constructive advises and guidance, to a large extent, contributed to the completion of this document.

Secondly I wish to express my special thanks to the Course Director Mr. Michel Adjibodou, who not only encouraged me, but also diligently edited all the drafts and offered constructive advises. Also take this opportunity to express my sincere gratitude to all Course Instructors for their guidance and assistance throughout the entire period of my study.

Further, my sincere appreciations are extended to members of Tumaini Development Programme, Youth Advisory and Development Council and Kishapu District Council Officers and the Kishapu community members for their hard working during the project survey and implementation.

Lastly, I am grateful to the survey respondents who contributed their time that enabled us to gather information on the opportunities and challenges in the establishment of Member-Based Financial Institution (SACCOS) in Kishapu Division.

ABBREVIATIONS

AGM	Annual General Meeting
BOD	Board of Directors
BOT	Bank of Tanzania
CBO	Community Based Organization
CRDB	Cooperative and Rural Development Bank
CUT	Cooperative Union of Tanzania
GOT	Government of Tanzania
HQ	Head Quarters
KNCU	Kilimanjaro Native Cooperative Union
LGA	Local Government Authority
LGCDG	Local Government Capital Development Grant
LGRP	Local Government Reform Programme
M & E	Monitoring and Evaluation
MFI	Micro Financial Institution
MSE	Micro and Small Enterprise
NGO	Non-Governmental Organization
NSGRP	National Strategy for Growth and Reduction of Poverty
SACCOS	Savings and Credit Cooperative Society
TUDEP	Tumaini Development Programme
URT	United Republic of Tanzania
VFCU	Victoria Federation of Cooperative Unions

ABSTRACT

This project report provides a review of the operational mechanism that prevails in micro-finance arrangements in Kishapu district, so as to identify opportunities and challenges in provision of such services. Using information obtained from survey and secondary sources is set out to provide useful information for enhancing access to savings and credit by the majority of the small scale producers (farmers) and petty traders.

Questionnaires administered to a sample of 100 randomly selected respondents from three villages: Mhunze, Iboja and Ndoleleji in Kishapu District were used to collect primary data. The analysis of findings was then done using a statistical computer package for social scientists (SPSS 11.5). Cross tabulation and regression analysis was also done.

Major findings indicated that the majority of the population in Kishapu is not accessible due to none availability of financial institutions. Government and donor-funded schemes such as Women and Youth Revolving fund are only availability of financial schemes in the area which again are not comprehensive as they are only geared toward specific target groups based on sex, age, or socio-economic status.

The findings suggest that there is a need to address key factors that inhibit access to credit by small farmers and petty businessmen that would facilitate alleviation of poverty amongst the majority of the rural population in Kishapu district.

EXECUTIVE SUMMARY

Kishapu District is one of the eight districts in the Shinyanga region. Administratively, the district is divided into six divisions and 20 wards. The headquarters of the Kishapu district are at Mhunze Township, 50 kilometers from Shinyanga Municipality. Based on the 2002 National Census, Kishapu district had a population of 239,305 people of which 51% were male and 49% female. Kishapu Division, where the study was undertaken comprises of three wards: Kishapu, Mwakipoya and Shagihilu that together accounted for 14.2% of the total population. The main occupation of the local population is agriculture, which accounts for over 77% of total economic activities undertaken in the division. Others economic activities include forestry, fishing; mining and quarrying (14.7%), trade and commerce (3.9%), craftsmen (1.5%), and full-time employment and other associated professions (2.7%).

In spite of agriculture being considered as the leading economic sector for the community, there are no formal financial institutions (banks) operating in the area to provide credit facilities to the sector. Commercial banks are reluctant to extend credits to small farmers is basically due to the fact that farming, especially subsistence agriculture, is considered to be a high risky area for investments because of its susceptibility to weather and external shocks and that peasants require only small amount of loans which are considered costly to administer. Thus, inadequacy of credit arrangements in Kishapu division impedes development of agriculture and other rural sectors in general.

Therefore, the main objective of the study and hence this project report is to identify opportunities and challenges that surround microfinance institutions (SACCOS) in relation to poverty alleviation amongst the poor people, especially those living in rural areas. In addition to the general objective, stated above, below is a list of specific issues looked into while undertaking the project.

- i) Assessment of strengths and weaknesses of SACCOS, as a Micro-Finance Institution, in relation to poverty alleviation among the poor people.
- ii) Pioneering establishment of a pro-poor rural Micro-finance institution – Kishapu Savings and Credit Cooperative Society (SACCOS).
- iii) How to build up the capacity of the rural poor households in Kishapu District in such a manner that they will be able to benefit from the financial services that would be provided by the SACCOS.
- iv) Factors which contribute to low performance in terms of loan re-payment and suggest ways to enhance loan re-payment.
- v) Better methodologies that can be adopted by Micro-financing institutions for the purpose of improving the prevailing micro lending system practiced by most MFIs so as to make them more geared towards serving the poorest of the poor.

Tumaini Development Programme (TUDEP) in collaboration with the Youth Advisory and Development Council (YADEC), an NGO that provides financial assistance to rural economic groups in Shinyanga region are the facilitators for the establishment of the

SACCOS. The researcher who is also the author of this report works with the two organizations to ensure the objective is attained.

The project expectations are to establishment a vibrant Kishapu SACCOS that would eventually grow into a Ward Bank and thereby become a major provider of micro-credits facilities to a larger population in Kishapu district. Also the SACCOS will promote a Joint-Investment facility (a collective member-investment facility). The facility is intended to uplift the standard of living of the local communities including the poorest segments of the community through provision of employment opportunities to SACCOS members regardless of their economic status.

In preparing the project, a prolonged community needs assessment was conducted, assessment of opportunities and challenges surrounding the current operating context in Tanzania with particular attention to Kishapu district, the tools and skills available to address them and the support required to be both technically, and administratively viable. This included an analysis of the strengths and weaknesses of the local community, TUDEP/YADEC and partner agencies in relation to other initiatives in the cooperative, and private sector.

CHAPTER I: COMMUNITY NEEDS ASSESSMENT

Community Needs Assessment is one of the main preparatory activities that are carried out prior to the designing of a community project. The process involves several participatory techniques in which participants are given opportunities to express their views and concerns as to what they think or feel to be a problem that needs to be solved. This process is very important because participation of the people at the grassroots level provides an effective means to mobilize local resources, organize and tap the energies, wisdom, and creativity of people for their development activities. Secondly, it enables prior identification of community needs and helps to customize development activities to meet the needs. Above all, participation of the people provides legitimacy to the project or activity, promotes commitment on the part of the people in its implementation, and assures sustainability¹.

Therefore, Community Needs Assessment is a process for identifying and measuring gaps between the current set of circumstances and desirable set of circumstances; prioritizes the gaps, and determine ways of bridging them.

¹ Stanley Gajanayake and Jaya Gajanayake: A Participatory Training Manual on Community Project Development, a section on "People's Participation" - pg. 4.

1.1 Profile of Targeted Community

1.1.1 Location

Kishapu division where the project is being undertaken is located 50 kilometers southeast of Shinyanga Municipality along the Shinyanga-Maswa road. Administratively the Kishapu division falls under the newly established Kishapu District Council.

1.1.2 Population

Based on the 2002 National Census, Kishapu district which administratively is comprised of eight divisions and 20 wards, had a total population of 239,305 people out of whom 50.3% (or 120,287 people) were male and 49.7% (or 119,018 people) were female. Kishapu division that forms part of the district is made up of three wards: Kishapu, Mwakipoya and Shagihilu which together accounted for 14.2% of the total population (or 33,988 people).

1.1.3 Economic Activities

Data on economic activities for Kishapu District as per 2002 Population and Housing Census revealed the following information:

- i) 67% of the labour force was employed

- ii) 33% of the labour force was unemployed out of which, 14% were fulltime students.

Further analysis of employment status revealed following economic activities that are undertaken in the area:

- i) 77% of the labour force was engaged in agriculture (farming and cattle keeping)
- ii) 15% of the labour force was engaged in elementary occupations (forestry, fishing, mining and quarrying and others).
- iii) 8% of the labour force was engaged in petty business (service, shop business and street vendors).

1.1.4 Poverty Status in Kishapu

Many households in Kishapu division live below the poverty line. Average monthly per capita income in the area was found to be Tshs. 20, 000.00, or US\$ 200. One of the main reasons that are attributed to this situation is the fact of low productivity in both agriculture and livestock keeping due to poor technology. Survey results as depicted in table 07 below indicated that 67% of respondents (mostly peasants) have monthly income of between Tshs. 10,000 and 30,000.

Survey results depicted that 80% of the income in Kishapu division is received between the months of July and September. However, the only category that receives less even

distributed income throughout the year are full time workers, who constitute only 20% of the total workforce in the area. This means that even income derived from petty business operations in Kishapu are at their highest level during the months of July to September. This is due to the fact that over 80% of the population is engaged in agricultural activities, and the said period is very crucial because it is a crop harvesting season where the majority of the population experiences the highest purchasing power.

1.1.5 Micro-Finance Institutions in Kishapu

There is no financial institution, be it formal or informal, that caters for the financial needs of population in Kishapu district with exception of Kurugenzi SACCOS whose target beneficiaries are only government employees. Other available small micro-finance arrangements in Kishapu are those provided by the government through schemes such as Women and Youth Revolving that are operated at the district level where again only few individuals are able to access the financial services.

Thus, none availability of financial services in Kishapu has resulted into all banking transactions to be done in Shinyanga Municipality, 50 kilometers away! To a greater extent this is considered to be one of the reasons that explain why propensity to save in Kishapu is very low. The survey results show that only 26% (N=100) were found to operate bank accounts.

National Micro-Bank Ltd	18%
-------------------------	-----

CRDB Bank Ltd	6%
NBC Limited	2%
Not Applicable	74%
Total	100%

Kishapu District, being a government department, is required by law to make all its payments by check. This includes payments of workers salaries and other operational expenses. A designated financial institution for local authorities is the National Micro-finance Bank Limited (NMB Ltd). As the Kishapu district workers are compelled to receive their salaries through the NMB Ltd, it is no wonder that many of the personal accounts noted above belong to them. However, low propensity to save implies that the long-term sustainability of the credit institutions in Kishapu is not assured and that chances of growth are limited for the small scale producers.

As one way of solving the problem of access to formal financial services by the majority of the local community, the local people have initiated a traditional self-help scheme known in Sukuma language (local language) as “Nfongonho”² in an effort to provide its members with small funds, on rotation basis, in order to help them meet pressing problems such as funeral, medication and educational expenses.

² Nfongonho is a locally initiated self help scheme that is practiced amongst the Sukuma communities in Shinyanga region. The scheme entails group members’ agreeing on an equal timely contribution (mostly weekly) whereby such contributions are paid to members on rotation basis.

1.2 Community Needs Assessment

1.2.1 Methodology used

In conducting Community Needs Assessment a number of tools or methods were used in collecting both primary and secondary data. These included interviews in which semi-structured questionnaires were mainly used; focus group discussions and direct observation by the researcher. Secondary data on the other hand, was collected through books, journals, internet and review of reports from various sources. The main reason for employing such tools was to enable the researcher collect information directly from the people at the grassroots in order to ascertain as to what extent the need as put forward by representatives of the grassroots income-generating groups truly reflect the need of the community in Kishapu division as a whole.

Community needs assessment for this project was conducted in two stages. The first stage was prior to the designing of the project in which the aim was to collect information that facilitated the project design. Essentially, the first stage dealt more on focus group discussions with the grassroots income-generating groups while the second stage concerned with a survey that involved a random selected sample population of 100 respondents from the community. Secondary data, on the other hand, were collected through published documentaries or internet. The survey results were yet another method that was used to prove whether the need that was expressed by the grassroots

income generating groups was real a community need. The results from the survey depicted a more less the same need as depicted in tables 03 through 05 below.

1.2.1.1 Focus Group Discussion

Initially the researcher sent a letter of self-introduction to the chairman of Tumaini Development Programme (TUDEP), a Community-Based Organization which is headquartered in Shinyanga Municipality and has been operating in Kishapu District since 2004. The CBO had trained six peer educators and located them in three wards of Kishapu division (Kishapu, Mwakipoya and Shagihilu wards). The peer educators were charged with responsibility of promoting establishment of grassroots income-generating groups.

In the letter the researcher indicated his desire to work with the organization for the next 18 months while pursuing Master of Science degree in Community Economic Development and that service he was to render to the CBO would be free of charge. After the letter had been accepted, the researcher held several discussions with the chairman and some few members of the CBO. These discussions centered on a number of issues pertaining to rural development. Having been familiarized with the CBO, the researcher was later introduced to 16 self-help income generating groups in Kishapu division that had been established for the purpose of pulling together their merger resources in order to combat poverty in their area. After a thorough discussion with the

groups the researcher agreed to meet them once in every first Wednesday of the month so as to review progress of their activities and plans initiated for the way forward for the purpose of enhancing their income-generating activities.

However, in order to learn more about core problems facing the Kishapu community, the researcher visited some members of the grassroots income-generating groups and interviewed them so as to capture their views on what they thought to be immediate need of their community. From the discussions the researcher somewhat realized that lack of capital and access to financial services seemed to be the major problems that faced the groups and the community in general. Nevertheless, in order to confirm these views the researcher requested the chairman of TUDEP to arrange for meetings that were to bring together representatives of the grassroots income-generating groups, village leaders, peer educators, District council's officials responsible for rural poverty reduction as well as representative of YADEC (rural economic development financier) for the purpose discussing the community needs and the way forward. The TUDEP chairman after consultation with the CBO members, YADEC and grassroots income-generating groups agreed to hold three meetings, one in each ward. The three meetings were scheduled for October 10, 2005 in Kishapu Ward, October 12, 2005 in Mwakipoya Ward and October 15, 2005 in Shagihilu Ward. These meetings brought together twenty seven participants in total. They included the chairman of TUDEP, 16 representatives from the grassroots income generating groups, six peer educators, three village leaders, District Cooperative Officer and the Credit Officer from the Youth Advisory and Development Council

(YADEC). With exception of representatives from the grassroots income-generating groups whose selection was done democratically in their respective groups, the rest of the participants involved were key informants.

Discussions held in these meetings centered on problems facing the Kishapu community and the way forward. However, for the purpose of facilitating the discussions the researcher had prepared guidelines (structured questions) that intended to help the participants to explore the really problem. Problems that were expressed by the participants in three meetings were summarized as follows:

- i) Inadequate access to credit facilities by poor people
- ii) Interest rate for loan too high
- iii) No banking operations are available in Kishapu division
- iv) Loan duration too short
- v) Lack of guarantee from Local government Authority for loans taken
- vi) Lack of collateral required when applying for loan

During the discussions, the facilitator was very keen to observe reactions of the participants on number of issues as they were posed and at the end of each session, the facilitator asked each participant to independently assign weight to the above mentioned problems as follows:

- i) Five (5) points for what they thought to be the really problem.
- ii) Three (3) points for what they thought to be a relative problem.

iii) One (1) point for what they considered not to be the really problem.

The exercise took approximately ten minutes and the following were the results.

Table 01: Community Need Assessment Results

TYPE OF PROBLEM AS PREVIOUSLY IDENTIFIED	INDEPENDENT RANKING BY PARTICIPANTS		
	POINTS ASSIGNED	NO. OF PARTICIPANTS	RANKING/ POSITION
Inadequate access to credit by rural poor.	5	13	1
	3	0	
	1	0	
Interest rate for loan too high.	5	2	3
	3	2	
	1	0	
Inability of banking operations in Kishapu.	5	2	4
	3	1	
	1	0	
Loan duration too short	5	0	
	3	1	
	1	0	
Lack of guarantee is from Local Government Authority for loan taken	5	1	5
	3	1	
	1	0	
Lack of collateral for loan requested	5	3	2
	3	1	
	1	0	

Results from survey conducted in the field involving 100 random selected respondents from three villages of the Kishapu division portrayed similar results as shown in Tables 02 through 04 below.

Table 02: Respondent ever accessed credit facility

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
Yes	31	30.7	30.7	31.7
No	69	68.3	68.3	100.0
Total	101	100.0	100.0	

Table 03: Loan duration

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	16	15.8	16.0	16.0
4 to 6 months	1	1.0	1.0	17.0
7 to 9 months	14	13.9	14.0	31.0
10 to 12 months	69	68.3	69.0	100.0
N/A	100	99.0	100.0	
Total	1	1.0		
Missing	1	1.0		
System	101	100.0		
Total				

Table 04: Loan problem incurred or experienced by respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
long process & time	3	3.0	3.0	4.0
consuming	1	1.0	1.0	5.0
collateral as basic	12	11.9	11.9	16.8
requirement for loan	15	14.9	14.9	31.7
amount of loan given is too	69	68.3	68.3	100.0
little	101	100.0	100.0	
higher interest rates				
N/A				
Total				

The survey results as depicted above confirmed to the argument posed by Diagne and Zeller (2001) that lack of adequate access to credit for the poor may have negative

consequences for various household level outcomes including technology adoption, agricultural productivity, food security, nutrition, health and overall welfare. Zeller and Sharma had earlier pointed out that microfinance can help to establish or expand family enterprise, potentially making the difference between grinding poverty and economically secure life. In that respect, using empowerment indicators such as productive asset ownership and political awareness, Kabeer (2001) concluded that access to credit had a positive impact on women empowerment.

1.2.1.2 Interview

Interview that was conducted involved a sample population of 100 respondents randomly selected from the three villages of Mhunze, Iboja and Ndoleleji in Kishapu division whose particulars are as depicted in Tables 05 and 06 below.

Table 05: Residence of respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
Mhunze village/urban, Kishapu ward	35	34.7	34.7	35.6
Iboja village, Mwakipoya ward	35	34.7	34.7	70.3
Ndoleleji village, Shagihilu ward	30	29.7	29.7	100.0
Total	101	100.0	100.0	

Table 06: Sex of respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
Female	46	45.5	45.5	46.5
Male	54	53.5	53.5	100.0
Total	101	100.0	100.0	

The survey results as depicted in Table 07 below indicated that 67% of respondents (mostly peasants) receive monthly income of between Tshs. 10,000 and 30,000. Agriculture, which includes both farming and livestock keeping, is the main source of income for the majority of local communities in Kishapu division. The level of income of the rural population is low largely because of poor technology used in both agriculture and livestock keeping that in turn causes low productivity and hence increased poverty in the community.

Table 07: Income of respondent per month

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid less than 10,000	5	5.0	5.0	5.0
10,000 - 30,000	67	66.3	67.0	72.0
31,000 - 50,000	7	6.9	7.0	79.0
51,000 - 80,000	12	11.9	12.0	91.0
81,000 - 100,000	1	1.0	1.0	92.0
101,000 and above	8	7.9	8.0	100.0
Total	100	99.0	100.0	
Missing System	1	1.0		
Total	101	100.0		

Further, survey results portrayed a clear income distribution pattern in Kishapu division whereby it was revealed that 80% of the total income in Kishapu division is received between the months of July and September mostly by peasants. However, the remaining portion of the income, 20% of the total income, is mainly received more even throughout the year. Full-time workers belong to this category.

Table 08: Period with highest income in a year

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
July - September	80	79.2	79.2	80.2
January - December	20	19.8	19.8	100.0
Total	101	100.0	100.0	

The characteristic of peasantry agricultural activities is labor intensive. In that respect, the average household population of seven and above as shown in the survey results (51% of respondents) serve to justify that fact. Again, the average income of Tshs. 10,000 – 30,000 a month for most local population in Kishapu division (67% of respondents) can be one of the reasons as to why 59% of the respondents live in mud houses (“tembe”) as shown in Table 09 below.

Table 9: Type of house staying/ owned by respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
cement blocks house	13	12.9	12.9	13.9
burnt bricks house	28	27.7	27.7	41.6
mud house	59	58.4	58.4	100.0
Total	101	100.0	100.0	

Mud houses do not qualify as collateral when it comes to accessing credits from financial institutions and this may be one of the main reasons as to why financial institutions are not attracted in the area because permanent houses form significant collateral.

1.2.2 Financial Problems facing the Community

Predominantly communities in Kishapu division rely on agriculture for their survival. Survey results indicate that over 77% of the population derives their livelihood from agricultural activities. Although agriculture is considered to be the backbone of the economy of the local community, yet at present there is no banking institution that operates in Kishapu for the purpose of facilitating farmers and small-scale businesses with credit facilities. Credits are crucial for rapid development of this dominant section of the population.

In the contemporary liberalized trade environment, the need for micro-financing system for the poor people especially those living in rural areas, Kishapu division being of no exception, cannot be overemphasized. This is partly due to the fact that income for the majority of the local community are pathetically low (average income per year less than Tshs. 100,000). The situation dictates the need for rural population to be in position to access financial services if they are to be able to manage their otherwise scarce household resources more efficiently. Micro-financing would also help protect them

against risks, make provision for the future, and take advantage of available investment opportunities for better economic returns.

The current setup of the micro-finance institutions only allows rendering their services as suppliers without context of the underlying economic opportunities to the widespread economic prosperity. Consequently, they have not been able to fully play their needful part in activating development initiatives for the purpose of paving the way towards poverty eradication amongst the poor majority in Kishapu division.

Inadequate access to financial services by grassroots-based smallholder farmers, livestock keepers, and micro-enterprises in Kishapu division poses a major obstacle to the rural development. Lending conditions that are set by financial institutions constitute serious constraint as far as access to credits by the poorest of the poor is concerned. Traditional banking conditions that need to be met before a loan application is processed or considered include among others the following:

- i) A borrower is compelled to surrender an economic viable title deed for property to be mortgaged against intended loan. Normally, the amount of loan provided by the financial institution ranges between 60% and 80% of the current market value of property mortgaged.
- ii) A borrower needs to have maintained an active bank account for at least three years. This implies that a prospective borrower needs to have a regular income.
- iii) An average bank interest charged on a loan rates range between 20% and 30%

per annum.

- iv) Loan repayment period is shorter, normally between one month and six months.

Considering the above conditions, it obvious that most financial institutions, commercial banks in particular, are traditionally reluctant to provide credits to farmers due to the belief that farmers (especially peasants) are un-bankable, widely dispersed geographically and that they require small amount of loans which are costly to administer. Also, they consider farming (especially subsistence agriculture) activities as being highly risky areas for investment because of their susceptibility to weather and external shocks.

Financial sector reforms which were initiated in the early 1990s aimed at liberalizing the financial sector in order to create a more competitive and efficient financial system. The reforms abolished credit to priority sector such as agriculture, health and water (Muwanga, 2000). However, the overall outcome of financial reforms has had adverse effects on the vulnerable poor, particularly those with limited resources at their disposal. In order to bridge this gap the government initiated credit schemes or programmes such as Women and Youth Development Revolving Fund which are coordinated by the Community Development Department in the Local Government Authorities. Nevertheless, empirical evidence shows that repayment performance of these loans has significantly been poor as the loans are perceived by many people to be political grants which should not be paid back. Also, there are concerns that these credits are not

reaching the poor effectively as they normally accessed by no-poor due to good political connections.

1.2.3 Challenges in Establishing Member-based Microfinance

Micro-financing institutions especially member-based micro-finance institution (SACCOS) touches lives of people from all walks of life. Consequently they have become peoples' daily talking. However, establishment of member-based institutions including Savings and Credit Cooperative Societies (SACCOS) face many challenges. These include the following:

- i) Peoples' mindset that is negative towards cooperatives as an organization.
Misappropriation and embezzlement of cooperatives/members' resources in the past is the major causes of this negativity.
- ii) Cooperatives (including SACCOS) not based on members' needs.
- iii) Weak institutional support for cooperative development.
- iv) Poor and inappropriate cooperative education and training
- v) Weak and corrupt leadership and management that result into wide range of theft and embezzlement in cooperative societies.
- vi) Weak economic base and lack of strategic planning.
- vii) Micro-finance institutions (SACCOS) provide only generic products with standardized features.

1.2.4 Opportunities available to the Community

Despite the fact that financial institutions and in particular the SACCOS in Tanzania face many challenges, yet several opportunities have been identified, which if properly tapped signifies a bright future for SACCOS. These include among others the following.

- i) Cooperative as a concept is acceptable in the community despite of past record of misappropriation and embezzlement of organizational/members resources.
- ii) Being a rural members-based micro-finance institution (SACCOS) whose primary objectives are outreach to poor people, farmers and small and medium enterprise. The objectives are among the key components in the Rural Development and Agricultural Sector Development Strategies and hence linked to the Tanzania Development Vision 2025.
- iii) Unavailability of formal financial institution to serve such a bigger population in Kishapu district (239,305) is like untapped “bee hive” and therefore a golden chance for immediate investment. Seibel (1996) argued that “microfinance is business and not charity”.
- iv) The Government has designated Maganzo and Ukenyenge areas for allocation to small-scale miners (diamonds). These areas form part of Kishapu and the decision entails good cash flows in the near future and hence need for a financial institution.

- v) Establishment of the Kishapu District Council is yet another opportunity. Besides the institutional effects it is expected that business will grow as a result of the multiplier effect.
- vi) Support from donor agencies including NGOs as part of international initiative to eradicate poverty amongst the rural poor. A good example is that Youth Advisory and Development Council (YADEC), an NGO operating in Shinyanga, with technical assistance from the CED student has initiated a financing program for Kishapu District whereby people are being motivated to organize themselves into economic groups in order to facilitate flow of financial assistance. These efforts culminated into establishment of Kishapu Savings and Credit Cooperative Society (SACCOS) in March 2006 and thereof being granted Tshs. 5,000,000 to be utilized as a Revolving Fund.

1.2.5 Expected Results

- i) Economically strong micro-finance institution (Kishapu SACCOS) with capacity of facing competitive challenges.
- ii) Kishapu SACCOS to gradually grow into a Community Bank which will be able to provide better financial services to its members and general public at large.
- iii) An empowered membership through acquisition of education, new knowledge and skills

- iv) Good governance and accountability in the SACCOS which will in turn minimize the problem of theft, misappropriation of funds and corruption.
- v) An efficient and cost effective SACCOS that will easily respond to the needs of its members.
- vi) Establishment of an efficient information system within the organization (SACCOS) and other stakeholders.

1.2.6 Research Questions

The following research questions guided the study:

- i) Are you aware of any financial institution that provides credits in the area?
- ii) Does the credit arrangement have any potential impact in increasing incomes and improving livelihood of the credit users?
- iii) What are the socio-economic characteristics of beneficiaries of the rural financial services?
- iv) Do members have entrepreneurship skills?
- v) Are conditions for accessing credit favorable to the poorest of the poor?
- vi) Are the financial services differentiated and tailored to the need of the people and to the specific environment conditions?

1.3 Survey Methodology

Survey refers to the collection of both primary and secondary data in order to answer or justify issues studied. Primary data refers to the information a researcher obtains from the field that is from the subjects in the sample while secondary data is defined as data collected from studies made by others for their own purposes. Thus the secondary data is the information a researcher obtains from research articles, books and internet to mention few.

1.3.1 Survey Design

The survey aimed at collecting information from the Kishapu community in order to find out the peoples' perceptions regarding opportunities and challenges for establishment of a member-based financial institution (SACCOS) as a way forward towards poverty alleviation in the community.

The survey design was a cross-sectional for it aimed at collecting information about the community at a single point in time. The design was considered desirable for it is easier, less time consuming and is economical. In order to accomplish the objective, the surveyor formulated 51 questions in a form of a questionnaire for respondents to answer. However, the questions in the questionnaire were grouped into six sub-topics as follows:

- i) Personal particulars – these included sex, age-group, educational level, marital status, size of the family, residence, occupation etc.
- ii) Level of income and expenditure of the respondent per month and how it is distributed in the year (whether evenly distributed throughout the year or not),
- iii) Property owned by respondent – the consideration was on land, houses, and livestock
- iv) Respondent's propensity to savings – in this the concern was to determine whether the respondent has savings account with financial institutions offering the services.
- v) Knowledge about the SACCOS and whether the respondent is already a member or is a potential member, type of training offered and its impact and what specific training needed.
- vi) Respondent's accessibility to credit or loan from a SACCOS or any other micro-finance institution. This included the range of the financial portfolio accessed, the rate of interest charged, modalities applied by micro-finance institutions in granting credits to poor people, how the loans were utilization by the respondent, loan repayment period, levels of respondent's satisfaction in respect to lending conditions and suggestions on how to improve modalities for the credit facility.

1.3.2 Type of Survey

This project report employed a descriptive type of survey. Descriptive survey is a process of collecting data in order to test hypotheses or answer questions concerning the

current status of the subjects in the study³. The purpose of a descriptive survey is to determine and report the way things are done on the ground, that is to say it attempts to describe such things as possible behavior, attitudes, values and characteristics. These descriptions match with the purpose of this project report as its intention was to assess the opportunities and challenges that surround the establishment of member-based micro-finance institution (SACCOS), and how rural community perceive its effectiveness in relation to poverty alleviation.

1.3.3 Characteristics of the Survey

The survey used structured questionnaire which was administered through individual interview. This method or approach was chosen because it was relatively easier and cheaper to administer as compared to other methods.

The contents of the questionnaire were formulated in Kiswahili, because it is the language the local population understands better. However, for the purpose of this report document the questionnaires were translated into the English language (see appendix B). Nevertheless, in rare cases where respondent could not capture the questions well an interpreter had to be used to bridge the gap.

1.3.4 Sample size and sampling

Simple random sampling method was the main sampling technique used in selecting 100 respondents from three villages of Iboja, Mhunze and Ndoleleji in Kishapu Division.

³ Mugenda, A.G (199: 160 – 161)

The sample size constituted fairly the characteristics of the entire population in Kishapu division and Kishapu district as a whole as every person in Kishapu division was given equal chance of being included in the sample on his or her own merits and without any relation to its inherent characteristics, except as a member of that sample. The method was further considered convenience to the surveyor taking into account transport, financial and time constraints that the surveyor faced while conducting the survey.

1.3.5 Reliability Test

Before going out into the field to collect data, the questionnaires and the interview schedules were first piloted by using a sample of 20 respondents from a nearby village. The experimental test involved the researcher and three officers (DALDO, DCDO, and DCO) from the Kishapu District Council. The purpose of the piloting was to test if the data collection tools were clear, if the tools to be used could be understood, if they were reliable, and if similar question items could produce similar responses from respondents in the same or similar working environments.

1.3.6 Validity Test

Validity simply means information that can be relied upon that is reality and truth of the result obtained. The validity tests for the tools were based on comments which resulted from the piloting exercise. In order to check for the validity of the data collection tools, first, some colleagues were requested to check if the questions which appeared in the data collection tools could collect valid data as specified in the specific objectives. This

attempt of collecting valid data was done by directly matching the question or statement items appearing in the data collection tools with their corresponding specific research objectives (see appendix B). Secondly, individuals who were involved in the piloting of the data collection tools were requested to give comments on the questions appearing in the data collection tools if they could collect the expected data. These comments were used to improve the data collection tools before the actual data collection exercise started.

1.3.7 Preparation for Data Collection

Having piloted and edited the data collection tools (questionnaires and interview schedules), preparations for data collection were done. First, the researcher wrote a letter to the District Executive Director, Kishapu District Council requesting for permission to allow three officers: District Cooperative Officer, District Agriculture and Livestock Development Officer and District Community Officer to assist in data collection exercise. The permission was granted and the three council officers joined the researcher in finalizing data collection preparations.

1.3.8 Questionnaire administration

The questionnaire was administered by the CED student in collaboration with the three officials from the Kishapu District Council: District Cooperative Officer, District Community Development Officer and District Agriculture and Livestock Development Officer. The District Council officials engaged in the survey are knowledgeable persons

and who have been working in area for the last two years, hence assured maximum response. However, two days before the actual survey was conducted training of the assistants and the pre-testing exercise was done. The training aimed at ensuring that the interviewers were conversant with the meaning and survey techniques. Pre-testing exercise or piloting was done in order to make sure that questionnaires were completed on time and that they were answered correctly. All the three officials understand the local language (Sukuma language). This was an added advantage to the whole exercise as their knowledge of the local language helped to ensure that the questionnaires were well administered because they were able to accommodate the language barrier by translating the questions into the local language to broaden the local peoples' understanding.

An average time taken to complete the questionnaire was 30 minutes. However, considering the fact that the local peoples are not used to this type of survey and also due to problem of transportation the entire survey took six days (June 14 through June 19, 2006).

1.3.9 Limitation of the Survey

The study was based on the assumption that the randomly sampled population was a fair representation of their homogeneous characteristics in culture and social-economic status. However, due to the fact that most households do not have a culture of keeping records, thus the accuracy of the data collected depended very much on the individual's ability to recall. Funds and time constituted further limitations.

It is however, believed that the data collected provide a useful basis of information that can be depended upon in making recommendations for improving access to credit by the majority of rural poor and also in the enhancing the effectiveness and efficiency of the credit delivery mechanisms in various credit institutions and micro-credit programmes.

1.3.10 Data Analysis

Data that was collected from respondents in the survey was processed by using Statistical Package for Social Scientists (SPSS version 11.5) and the results are presented in the form of tables, charts, and figures.

Results and Interpretation

The survey was conducted for the purpose of assessing opportunities and challenges that are faced in the establishment of a member-based micro-finance institution (SACCOS) in Kishapu district. The overall survey result has indicated the following opportunities and challenges:

- i) Ownership of properties is considered to be an opportunity for accessing credit services.**

The properties that are consideration in this case are land, houses and cows. From the survey results in Tables 10 and 11 below, showed that 88% of the respondents owned land and that the majority of them (61%) mostly the peasants own 5 acres and above.

Table 10: Whether respondent own land

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
Yes	88	87.1	87.1	88.1
No	12	11.9	11.9	100.0
Total	101	100.0	100.0	

Table 11: Size of land owned by respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	2.0	2.0	2.0
< 1 acre	12	11.9	12.0	14.0
1-2 acres	13	12.9	13.0	27.0
3-4 acres	61	60.4	61.0	88.0
5 acres and above	12	11.9	12.0	100.0
N/A	100	99.0	100.0	
Total	1	1.0		
Missing	101	100.0		
System				
Total				

Also, 75% of the respondents owned cows of which 47% were found to own between 21 and 30 cows. As the major characteristic of a peasantry agricultural is labor intensive then the average household population of seven and above (52% of respondents) as shown in Table 12 serves to justify that fact Kishapu community is predominantly depending on peasantry agriculture for their livelihood.

Table 12: Family size of respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-2	9	8.9	9.0	9.0
	3-4	18	17.8	18.0	27.0
	5-6	21	20.8	21.0	48.0
	7 and above	52	51.5	52.0	100.0
	Total	100	99.0	100.0	
Missing	System	1	1.0		
Total		101	100.0		

Again, the average income of Tshs. 10,000 – 30,000 a month for most local population in Kishapu division (67% of respondents) can be one of the reasons as to why 59% of the respondents are living in mud (“tembe”) houses.

ii) Knowledge of SACCOS.

It was found that 41% of the 100 sampled population indicated that they had prior knowledge about SACCOS as depicted in Tables 13 and 14 below.

Table 13: Previous knowledge about SACCOS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		1	1.0	1.0	1.0
	yes	41	40.6	40.6	41.6
	no	59	58.4	58.4	100.0
	Total	101	100.0	100.0	

Table 14: Name of SACCOS previously known to respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
Kurugenzi SACCOS	15	14.9	14.9	15.8
Mhunze Rural SACCOS	3	3.0	3.0	18.8
Kishapu SACCOS	23	22.8	22.8	41.6
N/A	59	58.4	58.4	100.0
Total	101	100.0	100.0	

Kishapu division falls within the Western Cotton Growing Area (WCGA), where cooperative movement has remained the order of the day since the 1940s. However, in recent years morale to join the cooperatives including SACCOS has significantly been retarded mainly due to misappropriation of members' funds by leaders of Shinyanga Region Cooperative Union (SHIRECU). Nevertheless, survey results indicated that the current efforts by the government to motivate the general public on the importance of joining cooperatives especially the SACCOS have begun to bear fruits. Survey results have showed that 43% of the sampled population indicated their willingness to join the SACCOS. The pro-cooperative inclination especially in respect to joining the SACCOS has largely been motivated by the government initiative to promote the SACCOS through allocation of Tshs. 1.0 billion to each region. The amount is for establishment of regional revolving fund that would provide ease access to credit by poor people.

Apart from assessing available opportunities for establishment of SACCOS, the project also was involved in unearthing the challenges related to establishment and provision of

member-based micro-finance (SACCOS). Survey results noted the following major challenges in the establishment of SACCOS in Kishapu division.

i) Low education:

As far as education is concerned, the survey results revealed that 41% of the respondents had no formal education and that 35% of the sampled population had completed primary education. Those with secondary and tertiary education accounted for only 24% of the sampled population as depicted in Table 15 below.

Table 15: Education level of respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
No formal education	41	40.6	40.6	41.6
Primary education	35	34.7	34.7	76.2
Secondary education	15	14.9	14.9	91.1
Tertiary education	9	8.9	8.9	100.0
Total	101	100.0	100.0	

This implies that most families do not value education or that there are not enough local secondary schools to absorb most of the primary leavers. Nevertheless, early marriage has been identified as one of factors that hinder the attainment of higher education in the area, especially for girls.

SACCOS being a member-based institution its leadership is primarily vested on its members. Hence, low educational level of the majority of the people in Kishapu division who are prospective members of the SACCOS signifies an adverse effect on its future leadership. Also advanced training of members on various aspects such entrepreneurship skills, management, and leadership skills requires a person who has attained at least a secondary education.

ii) Training

Among the 100 respondents contacted 38% of them (Table 16), most of them being members of Kurugenzi SACCOS, indicated that they had been trained. Nevertheless the type of training that had been offered covered mostly the basic knowledge about the SACCOS and its benefits as depicted in Table 17 below.

Table 16: Training that has been offered to respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
yes	38	37.6	37.6	38.6
no	62	61.4	61.4	100.0
Total	101	100.0	100.0	

Table 17: Type of training offered

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
basic knowledge about SACCOS & its benefits	38	37.6	37.6	38.6
N/A	62	61.4	61.4	100.0
Total	101	100.0	100.0	

Lack of members' empowerment strategy had been one of the biggest weaknesses of the Cooperative movement in Tanzania since the 1940s. That is to say, members had not been able to receive enough training that would have enabled them take up their responsibilities as owners of cooperatives including the SACCOS. That was one of the major reasons that led into collapse of most of the cooperatives in the recent years.

The need for more training on specific areas such as entrepreneurship skills, business plan and management, basic book keeping and savings and credit skills as was depicted by 38% of the sampled population is in line with the MEMCOOP Model.⁴

⁴ MEMCOOP Model is a member-centered cooperative model introduced in Kilimanjaro in 2002 that entails to build the capacity of cooperative members so as to have ownership perceptions regarding their cooperative.

iii) Low propensity to save

The propensity to save has a direct relationship with future investment which in turn brings about increase in income. Therefore the propensity to save can be traced to the behavior or tendency of the population to maintain bank accounts. Survey findings indicated that the majority of people in Kishapu division lack a culture of operating bank accounts with banking institutions. Out of 100 the sampled population randomly picked from three villages of Iboja, Kishapu and Ndoleleji in Kishapu division only 26% were found to operate bank accounts in financial institutions as shown below:

National Micro-Bank Ltd	18%
CRDB Bank Ltd	6%
NBC Limited	2%
Not maintaining bank accounts	74%
Total	100%

It is evident that the majority who maintain these accounts are employees of the Kishapu District Council. The employees are compelled to operate bank accounts because their salaries are paid through banks (NMB Ltd). However, lack of financial institutions that provide banking services in Kishapu which is located over 50 kilometers away from Shinyanga Municipality is yet another reason that can be advanced to that effect.

As noted above, per capita income of the majority of the population in Kishapu (farmers) is very low and that the highest income is received between the months of July and September that is during harvest time. To a certain degree this can be considered to be one of the major reasons for the low propensity to save. However, low propensity to save implies that the long-term sustainability of the credit institutions is not assured and chances of growth are therefore limited in Kishapu.

iv) Community access to financial services

The survey results in Table 18 below showed that only 31% out of the respondents indicated to have accessed credits. The average amount of credit given ranged between Tshs. 30,000 and 50,000 (Table 19) which is a very small amount to enable a borrower invest in a viable project that can assure him/her moving out of the poverty. In a liberalized trade environment where forces of globalization are pre-dominant in the economy, such small amount credit given is not able to help borrowers come out of poverty, instead it makes them even poorer as the higher interest rates of 30% per annum surpasses profit generated on the loans. This is one of the reasons why most of borrowers become unable to service their debts on time.

Table 18: Respondent ever accessed credit facility

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
yes	31	30.7	30.7	31.7
no	69	68.3	68.3	100.0
Total	101	100.0	100.0	

Table 19: Amount of credit given to respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
Tshs. 10,000 - 30,000	1	1.0	1.0	1.0
Tshs. 31,000 - 50,000	15	14.9	15.0	16.0
Tshs. 81,000 - 100,000	7	6.9	7.0	23.0
Tshs. 101,000 and above	8	7.9	8.0	31.0
N/A	69	68.3	69.0	100.0
Total	100	99.0	100.0	
Missing				
System	1	1.0		
Total	101	100.0		

1.3.11 Overall survey results

The overall survey results as have been indicate above suggest the following:

- i) Most people in Kishapu division are not aware as to the availability of micro-credit facilities in their area. This implies that very little has been done to disseminate information to the majority of the local population concerning services that are offered by financial institutions/schemes. That is why only very few people (31%) managed to access credits from these institutions/schemes.

- ii) The average amount of credit provided ranged between Tshs. 30,000.00 and Tshs. 50,000.00 which is very little to have an impact on poverty alleviation.
- iii) Most people in Kishapu depend on subsistence agriculture for their livelihood (68%), they own and live on un-surveyed plots, their properties are not secured and that most of them do not have formal education. These factors, to greater extent, hinder them from and accessing credits.
- iv) Conditions for accessing credits and interest rate (30%) are unfavorable to poor farmers. Lack of required collaterals is one of the major obstacles that hinder most of them from meeting minimum conditions for accessing credits, which in turn make the fight against poverty become even more challenging.

Therefore the overall results suggest that the majority of the people in Kishapu division have very little chance of accessing credit facilities from the Micro-Financing Institutions within the current micro-credit arrangements. MFIs are only targeting a small proportion of the poor whom they have code named “*the economically active poor*”⁵. That is to say those who have businesses and capacity to repay back the loans.

⁵ Research Series No. 41; Microfinance and Poverty Reduction in Uganda: Achievements and Challenges.

CHAPTER II: PROBLEM IDENTIFICATION

Microfinance in Tanzania is still a new concept and is mainly linked to micro-enterprises in which women are the principal beneficiaries. However, when the government decided to put in place the National Microfinance Policy in 2001 it meant that microfinance was since then recognized as a tool for poverty eradication. Although banks have taken interest to provide microfinance services yet in practice they are still neglecting rural financial requirements. Provision of microfinance services are still concentrated in towns and that Microfinance institutions (MFIs) are only targeting a small portion of the poor whom they have code named *“the economically active poor”*.

The MFIs definition of the economically active poor is those that have business and capacity to repay back the loans. From the poverty view, the economically active poor are the richest of the poor just close to the poverty line. This outlook has serious policy implications for the poorest of the poor (the core poor).⁶ While this concept is predominantly in almost all MFIs, there remains a question as to when and how will these organizations will be able to reach remoter areas.

1.1 Problem Statement

Most cooperatives which were established after independence (i.e. 1961) had one thing in common, that is, they were established using a top-down approach as Mwangamila

⁶ Research Series No. 41; Microfinance and Poverty Reduction in Uganda: Achievements and Challenges.

(1990) observed. The approach which essential was controlled by the government machinery contradicted with the principle of voluntary membership as stipulated by the International Cooperatives Alliance (ICA). As a result many cooperatives in Tanzania performed badly in the 1970s and 1980s as observed by Chambo (1990). Problems that led into such bad performance included the following:

- i) Nepotism
- ii) No feasibility studies were conducted prior to formation of cooperatives. This resulted into forming on-viable cooperatives.
- iii) Theft and misappropriation of funds
- iv) An uninformed membership that is to say members did no know why they were belonging to such cooperatives, as membership was not voluntary.
- v) Lack of training for both management and ordinary members of the cooperatives.

In order to address these problems, the Government enacted the Cooperatives Act of 1991 which among others, provided for the establishment of Savings and Credit Cooperative Societies (SACCOS) as member-based institutions. The main objective of the financial reform was to develop a sustainable, efficient and effective financial system in the country which is considered crucial ingredients for achieving the goal of poverty alleviation. This initiative widened the range of micro-credit service providers to include commercial banks and non-bank financial institutions, NGOs, Savings and Credit Cooperative Societies (SACCOS).

Although many microfinance institutions (MFIs) have since then been established in Tanzania⁷ with formal objectives linked to poverty alleviation yet the poverty burden continues to weigh heavily on Tanzanians especially those living in the rural areas. It is estimated that over 50% of the people in Tanzania are categorized as poor with an annual income below the poverty line. A household survey conducted in 2002 indicated that 36% of the rural households lived under poverty as compared to 18% in Dar-es-Salaam and 26% in other urban areas (URT, 2002).

In the contemporary liberalized trade environment, the need for micro-financing system that more oriented to serve poor people living in urban and rural areas cannot be overemphasized. This is partly due to the fact that incomes of the majority of Tanzanians are pathetically low, making their need to access financial services imperative if they are to be able to manage their otherwise scarce household and entrepreneurial resources more efficiently. Micro-financing would therefore help to protect them against risks, making provision for the future, and taking advantage of available investment opportunities for better economic returns.

However, the current setup of the micro-finance institutions has been unable to fulfill this needful role that aimed at activating development initiatives for the purpose of paving way for poverty eradication amongst the poor majority in the rural areas.

⁷ By 2005 there were 28 banks in Tanzania: 22- commercial banks and the remaining 6- regional & community banks. There were also 6 non-banks, 1700 SACCOS and numerous other societies & NGOs that involved themselves in micro-credit operations.

As a matter of fact therefore, inadequate access to credit by grassroots-based farmers, livestock keepers, and micro-enterprises in Kishapu district as a whole, has been identified as the major problem that contributes to poverty which is currently facing the majority of the people in the area. Based on the 2002 National Census over 80% of the Kishapu population lives in the rural areas and they depend on agriculture for their livelihood. Empirical evidence suggest that although agriculture is the leading source of livelihood for the local people yet, there are no significant efforts that have been put in place to enable these poor peasants access financial services. It is no doubt that financial services would have enabled them take advantage of the available economic opportunities and therefore increase their level of output, and thereof overcome poverty.

Thus, the inability of local people to access credits, which are crucial for improvement of agricultural output, has resulted into many farmers in Kishapu area to face low productivity both in agriculture and livestock keeping as they are compelled to continue using poor and outdated technologies. An average production of cotton, the main major cash crop found in the area ranges between 300 and 500kgs per acre as opposed to the Ministry of Agriculture and Co-operative's recommendation of 750 to 1000kgs⁸. Also, milk production is very low: an average of 2 litres per cow per day as compared to 20 litres for cows under good animal husbandry management.

⁸ Annual report submitted to the Tanzania Cotton Marketing Board, Shinyanga office for 2004/05 season.

Since there are no formal banking services available in Kishapu, credit services are provided by small credit schemes which still are limited in scope and they do target specific groups. Certainly, the inadequacy of credit arrangements in Kishapu division impedes development of agriculture and rural sector in general. Given the fact that agriculture is the mainstay of a large segment of the populace, their poor performance makes the fight against poverty even more challenging.

Diagne and Zeller (2001), point out that lack of adequate access to credit by the poor has negative consequences for various household level outcomes including technology adoption, agricultural productivity, food security, nutrition, health and overall welfare. Access to credit therefore affects welfare outcomes by alleviating the capital constraints on agricultural households, hence enabling poor household with little or no savings to acquire agricultural inputs. This reduces the opportunity costs of capital intensive assets relative to family labor, thus encouraging the adoption of labor-saving, higher-yield technologies and therefore increasing land and labor productivity. In addition, access to credit increases the poor households' risk-bearing ability, improves their risk-copying strategies and enables consumption smoothing over time. By so doing, microfinance is argued to improve the welfare of the poor.

Therefore, establishment of Kishapu SACCOS endeavors to take up the above challenges with a driving goal of enhancing incomes and livelihood of the rural population in Kishapu area. The SACCOS is expected to empowerment its members and

the local communities in general in the manner that they could in future, be able to take up their own responsibilities in addressing the problems of poverty and unemployment in their areas, both individually and collectively.

1.2 Target Community

In the interim period, the project targets community in Kishapu division. However, it is expected that the project would gradually grow to include the entire population. According to the 2002 National Census Kishapu division had a total population of 33,988 people, out of whom 49% were male 51% women. On the other hand the population in Kishapu division equaled 14% of the total population of the district.

1.3 Stakeholders

Implementation of the project will involve various stakeholders whose vital roles are important to the success of the Kishapu SACCOS. Table 21 below shows the stakeholders that are involved in the project implementation, their roles and time frame of their participation in the project.

Table 21: Role of Stakeholders

Name of Stakeholder	Role played in the Project	Time frame
TUDEP/YADEC	Sensitization and mobilization of grassroots economic groups in Kishapu Division. These groups to be amalgamated to form SACCOS	November 2005 to March 2007
Cooperative Development Officer – Kishapu District Council	Provide guidance and assistance on how to organize economic groups and formation of SACCOS. Supervise and evaluate performance of SACCOS through monthly site visits. Arrange and conduct capacity building programs for SACCOS for members, leaders and management. Solicit funds for the SACCOS that will help it render better services to its members.	Since inception in November 2005
Central Government	Provide directive and guidance on micro-financing Provide training funds and grants to SACCOS in form of revolving funds.	Since inception in November 2005
Political Leaders	Through political meetings to mobilization people to form income generating groups in an effort to eradicate poverty.	November 2006 to March 2007
Village and Ward Leaders	Provide enabling environment in their respective areas of administration for mobilization of grassroots into economic groups through regular public meetings. Intervene and take immediate action in case of theft, embezzlement of groups/members resources in order to assure security of members' resources.	From inception of the project in November 2005.
Private Sector	To become active members of the income generating groups and SACCOS and actively participate	Since inception of the project in November 2005

	in management to ensure growth and prosperity.	
SACCOS regulators: Kurugenzi SACCOS. Mhunze Rural SACCOS etc.	Performance experience gained from these SACCOS to be considered when planning establishment and thereof running of Kishapu SACCOS.	January 2006 to March 2007
CRDB Bank Limited	Banker to Kishapu SACCOS Provide guidance for Kishapu SACCOS to be linked to the bank in order to access credits for its members.	From March 2006
Moshi University Collage of Cooperative and Business Studies, Shinyanga Centre	Provide training programs for Kishapu SACCOS members, leaders and management. Assist in translating Cooperative Act into simple language and possibly into Kiswahili language to enable members to understand.	From January 2006 onwards

2.4 Project goal(s)

The project goals are to enhance transformation of member-based micro-finance institution (SACCOS) from being simply a credit channel into genuine self-help organization that would be capable of mobilizing savings, providing appropriate financial products for the poor and promoting capital growth through joint-investment model. Also it is geared towards empowering its members in such a manner that they would be able to take up their responsibilities as owners in managing their organization. Additionally the project would help the CED student to fulfill his academic requirements

for the award of a Master of Science degree in Community Economic Development from the Southern New Hampshire University, Manchester, USA.

2.5 Objectives of the Project

2.5.1 Overall Objective

The primary objective of the project is to assess opportunities and challenges in the establishment of a member-based micro-finance institution (SACCOS) in Kishapu district, Shinyanga region and thereof support the development of a diversified, viable and sustainable rural micro-finance system with wide outreach.

2.5.2 Specific objectives

In addition to the primary objective as depicted above, four specific objectives were further identified in the course of working with the community, around which this study was conducted. These are as follows:

- i) To assess the operational procedures and performance of the existing SACCOS and other micro-credit schemes that avail credit services to smallholder farmers, petty business and others.
- ii) To identify factors which contribute to borrowers not being able to service (repaid) their loans on time.

- iii) To assess whether members, board of directors and staff have knowledge on the best practices of the micro-finance institution (MFI).
- iv) To come up with best approach and practices for the promotion of effective and sustainable rural financing institution.

2.5.3 Host Organization

Tumaini Development Programme (TUDEP) a registered non-profit making Community Based Organization (CBO) operating in Shinyanga region, with its headquarters on the 2nd floor of the CRDB Bank building in Shinyanga Municipality is the one hosting the project. TUDEP has 12 members out of whom one is a medical doctor and three are retired senior government officials. TUDEP works in partnership with Youth Advisory and Development Council (YADEC), an NGO whose main objectives is to solicit funds from various sources both internally and externally for rural income generating projects are the ones pioneering this project. Since 2004, the two organizations have been mobilizing formation of self-help grassroots income-generating groups in Kishapu division and had trained six peer facilitators to that effect. The grassroots income-generating groups have been targeted as the front-runners of proposed Kishapu Savings and Credit Cooperative Society (SACCOS).

CHAPTER III: LITERATURE REVIEW

A literature review is an examination of the relevant scholarly and research that has been conducted in a particular field of study. Hart (1998) defines a literature review as a selection of available documents (both published and unpublished) on the topic, which contain information, ideas, data and evidence. This selection is written from a particular standpoint to fulfill certain aims or express certain views on the nature of the topic and how it is to be investigated, and the effective evaluation of these documents in relation to the research being proposed (p. 13). The Purpose of a Literature Review is:

- i) To demonstrate one's scholarly ability in identifying relevant information and outline existing knowledge.
- ii) To identify the 'gap' in the research one's study is attempting to address, positioning his/her work in the context of previous research and creating a '*research space*' for one's work.
- iii) To evaluate and synthesize the information in line with the concepts that one has set for his/her research.
- iv) To produce a rationale or justification for one's study.

In this project report literature review covers three areas: Theoretical review, Empirical review and Policy review in relation to micro-finance to the rural poor as presented below.

3.1 Theoretical Review

Micro financing involves making monetary and/or related provision readily available to the majority of low-income earners, collateral-less people, small and medium-size entrepreneurs of whom traditional commercial banks are reluctant to extend credits as they considered them to be un-bankable economic players.

Access to credits is an essential for agricultural and rural development programmes and also important instrument in helping small farmers and micro-entrepreneurs their increase productivity, boost income levels, increase employment at household level and thereby help to alleviate poverty. Advocates of credit as a poverty alleviation measure (Howse 1978, Adam et.al 1984, and Mutua 1996) argue that limited availability of credit services has undermined rural micro-enterprise activities due to lack of capital for investment and has also prevented farmers to adopt improved farming practices because of their inability to purchase the necessary inputs required in production. Hence, low productivity in agriculture and livestock is generally attributed to the use of poor technology resulting from limited access to credit. More still, it goes without saying that, inadequate credit facilities has had an effect of discouraging entry of youth to the farming sector and therefore leave majority of them unemployed due to lack of investment capital and incentives.

The reluctance of commercial banks to provide savings and credit services to farmers and micro-entrepreneurs has therefore paved way for conventional forms of lending, that is informal and small-scale lending arrangements which have long existed in many parts of the world, especially in the rural areas and they still survive. Good examples of such schemes in Ghana, Kenya, Malawi, Nigeria and Tanzania are “the Merry-Go- Round”, “Esusus”, “Upatu”, and “Nfongonho”⁹. These schemes are characterized by provision of relatively small loans of a few thousands of shillings and their repayment period is relatively short, between one to six months. Women are the major beneficiaries and the destinations of the funds are horticulture, poultry, petty business, and small craft processing. Their administrative structure is generally light and the entire process is participatory in nature.

In most MFIs’ mission statements the poor people are mentioned as their number one target group. However, the MFIs do not have in place operational parameters to identify the poor. Since their driving factor is the repayment capacity and profitability, then it may not be surprising that many of the clients of the MFIs are the non-poor. Empirical evidence has shown that urban people (mostly employees and business people) who managed to make regular savings with the MFIs stand a better chance of accessing MFIs’ credits as compared to rural poor who depend virtually on subsistence agriculture for their livelihood. Therefore, the bottom line challenge is that, if the microfinance

⁹ Nfongonho is a locally initiated self help scheme that is practiced amongst the Sukuma communities in Shinyanga region. The scheme entails group members’ agreeing on an equal timely contribution (mostly weekly) whereby such contributions are paid to members on rotation basis.

services are not made accessible to the core poor, mainly the poor farmers, how will their welfare be improved?

Since the poor are not a homogeneous lot of people, there is a need for the MFIs to design appropriate financial products that meet their diverse needs. Currently the MFIs are mainly providing generic products with standardized features. The products are characterized by short-term small loans (Tshs. 30,000 – 50,000) with an average recovery periods of 4 to 12 months, no grace periods; and repayments are usually set on weekly basis. The weekly repayment schedules are preferred by MFIs on account of easing their cash flow problems and also enhancing high repayment rates. In that respect these product features are not suitable for agriculture related investments, from which the majority of rural poor derive their livelihoods. This is because if we consider poor farmers taking the MFIs loans to purchase production inputs say a 90-days high yielding seeds, then the first weekly installment repayment will be due even before they plant the seeds or before the seeds even germinate which raises the issue of resources of funds for loan repayment. Such restrictive MFIs credit products constraint the uptake of new, more productive and high-yielding technologies by poor farmers, which would have a profound impact on household income and poverty alleviation.

Ahmed (1999) argues that payment of small periodical installments, despite being accepted as the best practice, might not be a good method of collecting loans from poor people experiencing negative shocks. He further points out that in order for the MFIs to

meet the needs of the poor, they should try to understand the vulnerabilities that the poor operate in and design flexible products that cater for the income vulnerabilities of the poor. Further, Wamatsembe (2001) observed that, MFIs which follow the microfinance best practices prefer to operate only in urban and peri-urban areas (usually within a radius of 5 kilometers from town centers). This is perhaps due to the good urban infrastructure which minimizes transaction costs, the diversified household income bases of the urban households as opposed to those in the rural sector that depend on agricultural income which is characterized with high variations. Other advocates of credit as a poverty alleviation measure (Howse 1987, Adam et al 1984, Boomgard 1989, and Mutua 1996) contend that limited availability of credit services has undermined rural-enterprise activities due to lack of capital for investment and has prevented farmers to adopt improved farming practices because of their inability to purchase the necessary inputs required in production. Low productivity in agriculture and livestock is generally attributed to use of poor technology resulting from limited access to credit. Moreover, it is perceived that inadequate credit facilities has to a large extent discouraged the entry of youth to farming sector, and leave majority of them unemployed because of lack of investment capital and incentive.

On the other hand, Hulme and Mosley (1996) comment that credit gives poor a means of investing and breaking out of the “vicious circle” of poverty. They further, the argued that credit has the potential of improving credit users’ income and savings and thereof enhances investment and reinforces high incomes. This argument is also supported by

Kashuliza et al. (1998) observed that income of the credit users in the Southern highlands areas of Tanzania is significantly higher than the income of non-credit users in the same area.

The enactment of the Cooperatives Act of 1991 formed the basis for the establishment of Savings and Credit Cooperative Societies (SACCOS) as equity-based institutions that are mandated to involve themselves in the micro-credit operations. The cooperative principles or guidelines by which cooperatives put their values into practice are as follows:¹⁰

- i) Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- ii) Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the members. Members have equal voting rights (i.e. one member one vote).
- iii) Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership.
- iv) Cooperatives are autonomous, self-help organizations controlled by their members.

¹⁰ These principles are as defined by the International Cooperatives Alliance (ICA).

- v) Cooperatives provide education and training for their members, elect representatives, managers, and employees so they contribute effectively to the development of their cooperatives.
- vi) Cooperative serves members most effectively and strengthens the cooperative movement by working together through local, national, regional and international structures.
- vii) Cooperative work for the sustainable development of their communities through policies approved by their members.

Administratively the Cooperatives are under the jurisdiction of the Ministry of Cooperatives and Marketing. Although the Minister has extensive discretionary powers under the provisions of the Act, the basic principle established under the law is volunteerism and self-regulation. To ensure compliance with the provisions of the Act as well as with a cooperative society's own by-laws, the Ministry avails of two principal instruments:

- i) Field inspection and examination of individual SACCOS by District Cooperative Officers.
- ii) Examination of externally-audited financial accounts by the Registrar of Cooperatives.

Prior to enactment of Cooperative Societies Act of 2003 Tanzania's cooperative sector had maintained a four-tier structure as follows:

- i) Primary cooperative societies at the community level.
- ii) Cooperative unions at the district or regional level.
- iii) Apex organizations based on activity specialization, e.g., the sugar, coffee, tobacco and cotton production sector etc. or the Savings and Credit Cooperative Union League of Tanzania (SCCULT) which is the representative apex organization for SACCO; and
- iv) The Tanzania Federation of Cooperatives (TFC) - is the national-level umbrella organization for all kinds and tiers of cooperative societies.

However according to Section 14 of the Cooperative Societies Act No. 20 of 2003 and also the Cooperative Development Policy of 2002 pages 18 through 20 the new structure is a two tier system that is:

- i) Primary cooperative societies and
- ii) The Tanzania Federation of Cooperatives.

Nevertheless, the Cooperative Societies Act No. 20 of 2003 does provide room for Primary Societies, if they wish, to form Secondary Societies (that is Unions) and in the same manner the Secondary Societies are at liberty to form Apex should the need arises.

The governance of the SACCOS is as follows:

- i) The supreme Governing body of the SACCOS is the Members' Annual General Meeting (AGM) or as generally referred to as the General Assembly. Membership to the AGM requires meeting basic requirements,

which include payment of annual membership fee. In the AGM every member has the right to attend and vote. The quorum required for the AGM to proceed is decided in and depicted in the by-laws of each SACCOS.

- ii) The day to day running of the SACCOS is entrusted to the Board of Directors which is elected by the Annual General Meeting. The General Meeting may also elect Credit and Supervisory Committee from among the Board Members or delegate the activity to the Board.¹¹ The functions of these committees are as follows:

- The Board of Directors is to oversee the administration affairs of the society.
- The Loans/Credits Committee is to scrutinize loan applications and approve or reject loans.
- The Supervisory Committee which is entrusted with the function of auditing and supervision.

According to section 63 of the Cooperative Societies Act No. 20 of 2003, members of the Board of Directors are eligible to hold office for a period up to nine years. Due to financial constraint most SACCOS do not hire administrative personnel to manage their organizations and for that reason the management of the entity relies on the voluntary services of the Board members. However, the law requires that after every three years 1/3 of the Board members are obliged to resign but still they may be re-elected.

¹¹ The Cooperative Societies Rules, 2004, section 78.

3.2 Empirical Review

Micro-Financing Institutions touch lives of people from all walks of life. Micro-credits are provided by a range of organizations: CBOs, NGOs, SACCOs, Non-bank and Commercial banks. It is no wonder; Micro-financing has become people's daily talking. Therefore, there are numerous literatures pertaining to this subject. However, the following are some of works that have been done related to the micro-financing.

The Rural Finance Services Programme (RFSP) is a programme that is being co-financed by the International Fund for Agricultural Development (IFAD) and the Government of Tanzania for a total cost of USD 21.60 million. The overall goal of the Programme aim at achieving sustainable increase in incomes, assets and food security of poor rural households through enhancing their capacity to mobilize savings and investments in income generating activities and development of viable rural financial services systems.

Lessons learned:

- i) Evaluation that was in 2004 made on Phase one of RFSP revealed that a RFSP MFI member who is considered eligible to access credit is the one who has savings of at least Tshs. 10,000/= deposited to a respective MFI.
- ii) An eligible member can apply for a loan up to twice or thrice his/her savings. This suggests that the RFSP MFIs are only targeting a small proportion of the poor who have code named "*the economically active poor*" leaving aside the

majority of core poor. The MFIs define the economically poor *as those that have business and the capacity to repay back the loans.*

Joseph Temba and Daniel Eric Gerber (2002) when presenting a case on Rural Credit facility for the Poorest of the Poor in Zambia indicated that in 1998 the Zambian Government through the Ministry of Agriculture and Cooperatives (MACO) initiated a project to establish an agricultural credit-delivery system that was to be managed by the private sector. Africare, an international NGO with more than 20 years of experience in working with rural communities in Africa, was hired by a private commercial bank, the Zambia National Commercial Bank Plc, to manage the project. MACO's only role was to provide guidance and technical support when needed. The project targeted to improve the lives of 12,000 households classified as the poorest of the poor, which were making less than USD 1 per day. The goal of was to push poor farmers out of their present misery to a level where they could survive under commercial interest rate which by then swayed between 50% and 60%. In this project, the government role was to provide guidance in policy and ensured smooth and timely flow of funding from the donor to target poorest of the poor. Through this approach the Government of Zambia guaranteed the poorest of the poor to acquire agricultural credits which they could otherwise not accessed. As a result hunger is now something of the past for those that benefited from the Rural Credit Facility for the poorest of the poor.

The project achievements were as follows:

- i) There have been high repayment rates, measuring over 80 percent, and most of those who remained steadfast clients have since declared hunger “a thing of the past”.
- ii) Strong partnerships have been forged for effective delivery and servicing of credit system. This has mostly involved the government, NGOs and the private sector.

Lessons learned are as follows:

- i) Identification of and access to markets remain important considerations even where credit facilities are available
- ii) While there is a strong opposition to subsidies in rural financing, government backing is still required for other partners to participate effectively.
- iii) Special loan (credit) conditions are necessary if poor rural farmers are to benefit from rural financing systems.

Wolday Amha (2002) in his presentation on “The Role of Microfinance in Poverty Reduction in Ethiopia” pointed out that poverty is a national issue, multidimensional in nature and that it is more pronounced in rural than urban areas. Poverty is also associated with gender, age, household size, land ownership and availability of infrastructure. Further to that he noted that the existing financial channels which include commercial banks, microfinance institutions, cooperatives, government projects and semi-

formal/informal organizations. can only provide about 9% of the support required. According to Dr Amha, the overriding mission of rural microfinance institutions should be poverty alleviation; and since one of the determinants of poverty is lack of education, then there should be a capacity-building component in all microfinance initiatives.

Nevertheless, the Ethiopian microfinance sector has achieved the following:

- i) There are clear microfinance laws for licensing, and since 1996 twenty MFIs have been registered and there are over 600,000 clients with own service loans (OSL). Forty seven percent of the clients are women and about 55% of the loans are for the poor.
- ii) The MFIs have been able to mobilize about USD 12 million for lending purposes. Microfinance service products include loans and savings. The savings can be broken down into compulsory, voluntary and pension-fund management.

Lessons learned are:

- i) Despite existence of a regulatory framework yet there are difficulties with monitoring.
- ii) There is limited support to micro and small enterprise development and a limited awareness of the role of microfinance in poverty alleviation. Therefore, much more awareness-raising needs to be done.

Ruth Mufute (2002) of Africare, Zimbabwe defended her argument on the need for rural financial system in the poverty- alleviation strategy in Zimbabwe by pointing out that over 70% of the population live in rural areas of whom 30% are infected with HIV/AIDS which is quite expensive to control, particularly by the rural poor. According to her, Africare's involvement in rural finance systems has been through collaborative projects with the following institutions:

i) Agriculture Finance Corporation (AFC).

This institution was contracted to administer USD 29 000 into a revolving loan fund for lending purposes to rural farmers. Achievements of this partnership were that in the first year, 30 percent of the targeted farmers applied for loans, out of which 10% were women. In the second year, 35% of those targeted applied and 15% of the applicants were women.

ii) Self-Holder Development Foundation.

This collaboration involved working with women's savings clubs while implementing an oil agro-processing project in the area. Achievements of this partnership were as follows:

- Increased profits and savings for participating clubs
- Increased production of cooking oil

- Diversified business activities including poultry keeping, gardening and craft.

iii) **Village Bank.**

In this partnership, Africare provided a revolving loan fund for agro-processing projects. Additional support was given in the form of management training and measures to strengthen and expand the bank, leading to increased bank membership and bank shares during 2000-2002. Achievements of this partnership had the following results:

- i) Achieving the high loan recovery rate of 72%
- ii) Establishing small-to-medium-scale agro-based rural enterprises with access to micro-financing.
- iii) Creating jobs, leading to:
 - Increased income at the enterprise, supplier and purchaser levels
 - Increased rural agriculture productivity
 - Enhanced rural management and technical skills
 - Stemming of rural-urban migration
 - Fostering of improved linkage between rural communities and the mainstream economy
 - Integrating HIV/AIDS education in agricultural initiatives by equipping agricultural staff members with skills to educate communities on HIV/AIDS.

Overall lessons learned were as detailed below:

- i) There is a high demand for savings and credit facilities in rural areas – but low supply.
- ii) Formal financial institutions utilize inflexible business practices that do not facilitate adaptation to the specific needs and willingness to save.
- iii) Rural borrowers prefer and require less bureaucratic procedures (issues of timing, access to deposits).
- iv) It is crucial that both the public and private sector should be involved in the conceptualization, drafting and endorsement of mandates addressing HIV/AIDS as a socio-economic problem with impact on all aspects of development, including rural financing and agriculture.

Challenges faced included the following:

- i) Jobs must be created in order to stem rural-urban migration
- ii) There is low supply but high and increasing demand for rural financial services
- iii) Low literacy among beneficiaries is a limitation associated with poor repayment.
- iv) Timing of the financial services is important
- v) Services need to be more people-oriented, taking into consideration the disparities among communities
- vi) The impact of HIV/AIDS is serious and need to be factored into poverty-reduction strategy.

Peter Mashinga (2002) in his paper entitled “*Challenges for Deepening Outreach in Cooperative Microfinance in Rural Areas*” outlined cooperative microfinance organizations as member owned, savings driven and build on local resources as opposed to non-cooperative microfinance organizations which are usually built on donor funding. One of the major disadvantages of the non-cooperative microfinance organizations is that if the organizers are not proactive, there is potential likelihood of such organizations to collapse when donor funds dry up. According to Mashinga, the Government of Tanzania has failed to support rural credit services, which has produced the need to identify more effective ways and means of meeting the demand for rural financial services, particularly targeting the rural poor. Nevertheless the failure of cooperative microfinance institutions lies on lack of continuous innovations, research, experimentation and adaptation to the industry’s best practices through, among other things, strategic planning, product development and services.

Lessons learned:

- i) Rural areas are relatively disadvantaged in terms of financial services due to poverty, low productivity, weak markets, and infrastructural limitations.
- ii) There is an apparent lack of promotional skills among cooperative microfinance institutions, coupled with the use of outdated outreach approaches. Consequently, target group populations are not reached.

- iii) The proficiency of cooperatives can be measured by: growth of outreach branches, increased income of rural people, percentage of rural clients, flexibility of services, and relevance of products and services offered.
- iv) Cooperatives are savings driven and incur low costs in providing outreach services.

3.3 Policy Review

The Government of Tanzania initiated financial sector reforms in 1991, within the framework of its Financial Sector Reform Policy Statement that aimed at creating an effective and efficient financial system. The lynchpin of those reforms was the Government's "commitment to allow banking institutions to operate on commercial basis, making business and management decisions free from outside intervention within the norms of prudential supervision"¹² To implement this commitment, the principal elements of the financial sector reform included: liberalization of interest rates, elimination of administrative credit allocation, strengthening of Bank of Tanzania's role in regulating and supervising financial institutions, restructuring of state owned financial institutions, and allowing entry of private banks (both local and foreign).

Liberalization of financial sector facilitated increase in number of banks and financial institutions in Tanzania. Following the financial reform Community Banks were also

¹² Financial Sector Reform: A policy Statement of 1991.

allowed to operate provided that they satisfy the requirements under the provisions of the Banking and Financial Institutions Act, 1991 and the Bank of Tanzania's additional requirements. Among these requirements are that a community bank in order to operate it must be licensed by the Bank of Tanzania; and must have a minimum capital of Tshs.50.0million. The Bank of Tanzania does not involve itself in the day-to-day management of a rural community bank or in the policy decision making process. However, the Bank of Tanzania maybe approached by a Board of Directors of a rural community bank for some technical advice.

Entrance of private banks into financial markets has resulted into more competition and development of efficient financial markets. State-owned banks have had to be restructured in order to enable them comply with the more demanding prudential requirements and be able to face competition in the market. The reforms also brought about recognition of the need for autonomy of the central bank (the Bank of Tanzania), not only in the formulation of monetary policy, but also in the regulation and supervision of the financial sector as well.

Despite the fact that the reforms brought about efficiency and competition in the banking sector; yet, provision of financial services to the lower income segment and assurance of access to basic financial services by the majority of Tanzanians has not increased proportionately. This situation prompted the Government to take measure that aimed at developing of a broader based financial system with wide outreach and diverse financial

products. Thus, in collaboration with the donor community, the government embarked on the development of the National Microfinance Policy.

The National Microfinance Policy articulates a clear vision and strategy for the development of a sustainable microfinance industry, specifying the respective roles of the key stakeholders – the Government and its principal agencies in policy formulation and implementation, the different institutional providers of microfinance services, and the donor community. In its statement of the overall microfinance policy, the Government recognizes the microfinance sector as an integral part of the financial sector, which falls within the general framework of its Financial Sector Reform Policy Statement of 1991. The microfinance policy identifies the Ministry of Finance as the agency having the overall responsibility for government finances, the development of the financial system and oversight for all official donor assistance. On the other hand, the Bank of Tanzania (BoT) assumes the responsibility for oversight of the entire financial sector. Thus, the policy places on the BoT the overall responsibility to coordinate the implementation of the national microfinance policy.

The policy covers the provision of financial services to households, small holder farmers, small and micro enterprises in rural areas as well as in the urban sector. It covers a range of financial services including savings, credit, payments, and other services which clients use to support their enterprises and economic activities as well as their household financial management and consumption needs. Thus, in principle the

policy focuses on financial services for low-income families and their enterprises that have lacked access to financial services from mainstream financial institutions. The principal providers of financial services to the poor and low income households in the rural and urban areas of Tanzania consist of licensed commercial banks, regional and rural unit banks; savings and credit cooperative societies (SACCOS); and several NGOs whose micro-credit delivery operations are funded and supported with technical assistance by international donors.

Further, the National Microfinance Policy recognizes the institutions providing microfinance services as the real driving force behind the achievement of the ultimate goal of development of sustainable microfinance. As a result of this policy, banks and non-bank financial institutions, SACCOS and NGOs are free to develop microfinance services on the basis of their own internal objectives – whether for profit, poverty alleviation, self-help or other motivations. The Government expects the institutions that decide to become microfinance service providers to fulfill their responsibility to learn best practices and to apply sound financial principles in the delivery of their services, particularly with respect to pricing, loan delinquency control, financial reporting and information management, appropriate techniques and products, gender equity and governance.

The Bank of Tanzania imposes a ceiling on unsecured lending by banks such that the unsecured loans to a single borrower may not exceed 5 % of a licensed bank's capital.

The general perception among banks is that acceptable or eligible collateral, with respect to this prudential guideline, is limited only to cash or near cash securities. This perception may very well be due to the existence and emergence of a number of severe restrictions on the ability of banks to accept real estate as acceptable collateral. Because most microfinance loans are *not* properly secured in the conventional sense, this prudential ceiling on unsecured loans is likely to have an adverse impact on the wholesale lending by licensed banks, including regional banks and rural unit banks, to microfinance NGOs or SACCOs. For instance, a regional bank with its required minimum capital of Tshs. 200 million would only be permitted to make an unsecured wholesale loan of not more than Tshs. 10 million, while a rural unit bank with its required minimum capital of Tshs. 50 million can only make an unsecured loan not exceeding Tshs. 2.5 million.

CHAPTER IV: IMPLEMENTATION

Implementation is a major component in the life cycle of a project. It implies the actual carrying out of planned activities. Planned activities include launching of the project, coordination of activities, monitoring and taking care of contingency situations as they arise. Active participation of community concerned is vital for success of the project.

According to the project plan it is anticipated that by the end of the second year (2007) the project will have completed its activities. And that the only ongoing activities thereof will remain to be monitoring and evaluation. This project is a member-based and is being implemented by its members although inputs from key stakeholders that include YADEC, District Cooperative Officer, the researcher and the CRDB Bank are of great importance in the success of the project.

4.1 Products and Outputs

Outputs from the project at the end of the second year, that is 2007, include the following:

- i) An economically strong member-based microfinance institution (Kishapu SACCOS) with capacity of rendering competitive financial services to the majority of rural poor in Kishapu district.

- ii) Kishapu SACCOS that would gradually grow into a Community Bank that would be able to provide differentiated financial services to its members as well as the general public at large.
- iii) Empowered members through training in entrepreneurship and SACCOS management skills.
- iv) Good governance and accountability in the SACCOS that would minimize problem of theft, misappropriation of funds and corruption.
- v) An efficient and cost effective SACCOS that would easily respond to the needs of its members.

4.2 Project Planning

Project planning is a crucial stage in the life cycle of a project, as it is where activities to be carried out in the course of project implementation are set. In planning process consideration is made in terms of situation in which the project is to be implemented such political, economical, social and others. Also requirement needed to enable the project take off including funding, personnel, material and key stakeholders. During the period of 18 Months, the project plans to implement a number of activities as depicted in Table 16 below. These activities are geared towards accomplishing the following objectives:

- i) To assess the operational procedures and performance of the existing SACCOS and other micro-credit schemes that avail credit services to smallholder farmers, petty business and others.
- ii) To determine factors that influence credit accessibility by farmers, petty business and other categories of poor people.
- iii) To assess the impact of credit on income and the livelihood of credit users
- iv) To identify factors which contribute to loans not being serviced (repaid) on time.
- v) To assess whether, members, board of directors and staff have knowledge on the best practice of the MFI.
- vi) To suggest best approach and practices for the promotion of effective and sustainable rural financing.

4.3 Project Implementation strategy

The project is a member-based that in which members' participation is of prime importance. Major component of the project implementation are:

- i) Members' empowerment through active participation in management, planning and control.
- ii) Enterprise development through enhancement of business planning and operational marketing skills in the membership; development of grassroots income-generating groups with much focus in business planning, marketing and business budgeting skills.
- iii) Expanding members' capacity for advocacy and lobbying

- iv) Enhance the empowering capacity of the institution (Kishapu SACCOS) so as to create greater room for freedom and autonomy of the members and thereof be able to take responsibilities in running the affairs of the institution.

In implementing these strategies the researcher is a facilitator and therefore will coordinate, and facilitate establishment of Kishapu member-based micro-finance institution. However, the efforts of the facilitator will, to a greater extent, be complemented by the inputs of project stakeholders as shown in Table 21 above.

4.4 Project Plan and Implementation Schedule

Project implementation plan as given in Table 22 below started in December 2005 and is expected to run until December 2011 when summative evaluation will be conducted. In preparation of the project implementation plan financial, economic, and social factors were taken into account. Being member-based micro-finance (SACCOS) sources of revenue are share capital, savings and deposits, entry fees and interests charged on loans. However, as a community-based institution the SACCOS has an additional advantage as it automatically stands a chance for accessing government funds which are readily available through the Local Government Authority for social and economic activities that are directly related to community development.

TABLE 21: PROJECT PLAN OF WORK FOR 18 MONTHS

NO	ACTIVITIES	RESPONIBLE	RESOURCE	TIME FRAME FOR IMPLEMENTATION
1	Prepare Constitution for proposed Kishapu SACCOS and circulates the document to prospective members through Peer Facilitators in the three wards of Kishapu division.	DCO/YADEC/Facilitator	Stationery/Transport	December 2005 – February 2006
2	Review records of existing SACCOS in Kishapu district: Kurugenzi SACCOS and Kishapu Rural SACCOS	Facilitator/TUDEP/YADEC	Stationery/Transport	January – February 2006
3	Review Audit opinion by the COASCO in respect of Kurugenzi SACCOS, Kishapu Rural SACCOS and other SACCOS in Shinyanga region for the years 2001 to 2005.	Facilitator/TUDEP/YADEC/DCO	Stationery/Transport	January – February 2006
4	Convene 1 st meeting of representatives from organized income generating groups in the three wards to launch Kishapu SACCOS.	Members/DCO/YADEC/TUDEP/Facilitator	Stationery/Transport/Food	March 2006
5	Election of Office Bearers of Kishapu SACCOS: Chairman, Secretary and Treasurer; Executive Committees: Board of Directors, E who will be responsible to run	Members/DCO/YADEC/Facilitator	Stationery/Transport/Food	March 2006
6	Solicit funds from the government (Kishapu District Council) for capacity building and community mobilization	Members/DCO/YADEC/Facilitator	Stationery/Transport	April – June 2006 & April – June 2007
7	Assist peer facilitators to conduct 2 meetings in each village in the three wards of Kishapu division to educate local people benefits of SACCOS and financial services that are provided	Executive Committee /DCO /Facilitator	Stationery/Transport	July – September 2006

	to members.			
8	Conduct workshops/seminars at village level to sensitize and mobilize establishment of grassroots income-generating groups	Executive Committee /Facilitator/DCO/ YADEC/Political Leaders	Stationery/Transport	May 2006 – May 2007
9	In collaboration with the District Cooperative Officer, TUDEP and YADEC to run SACCOS awareness programmes through local radio station (Faraja FM) to sensitize local people join SACCOS.	DCO/Executive Committee/Facilitator	Funds (Fees)	June –September 2007
10	Conduct baseline survey in three villages of Mhunze, Iboja, and Ndoleleji in Kishapu division to establish causes of low repayment of loans.	DCO/Facilitator	Stationery/Transport	July - August 2007
11	Conduct inter-person interview with board members and staff to ascertain their knowledge on the best practice of SACCOS	DCO/Facilitator	Stationery/Transport	July - August 2007
12	Review Curriculum Vitae of the board members and staff to determine their training on the best practice of SACCOS.	DCO/Facilitator	Stationery/Transport	July - August 2007
13	Translate the Cooperative Act into Swahili language and make the document available for use by members and general community at large.	MUCoCB /DCO/ Executive Committee /Facilitator	Stationery/Transport/ Funds	July – December 2007
14	Preparation of Business Plan for Kishapu SACCOS	Executive Committee/ DCO/Facilitator	Stationery/Transport/ Funds	June -September 2007
15	Conduct Periodical Evaluation	DCO/Executive Committee	Stationery/Transport/ Funds	December 2006, June 2007 & December 2007
16	Preparation of Banker's guidelines on SACCOS linkage to financial institution (CRDB Bank)	DCO/CRDB/Executive Committee	Stationery	June – September 2007

TABLE 22: PROJECT IMPLEMENTATION PLAN

No.	ACTIVITIES	2005			2006												2007												Resources Needed	Person Responsible
		O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D		
1	Prepare Constitution for proposed Kishapu SACCOS and circulates the document to prospective members through Peer Facilitators in the three wards of Kishapu division.																												Stationery/ Transport/	DCO/YADEC/ Facilitator
2	Review records of existing SACCOS in Kishapu district: Kurugenzi SACCOS and Kishapu Rural SACCOS																												Stationery/ Transport/	Facilitator/ TUDEP/ YADEC
3	Review Audit opinion by the COASCO in respect of Kurugenzi SACCOS, Kishapu Rural SACCOS and other SACCOS in Shinyanga region for the years 2001 to 2005.																												Stationery/ Transport/	Facilitator/ TUDEP/ YADEC/ DCO
4.	Convene 1 st meeting of representatives from organized income generating groups in the three wards to																												Stationery/ Transport/ Food	Members/ DCO/YADEC/ TUDEP/ Facilitator

[illegible]

8.	Conduct workshops/seminars at village level to sensitize and mobilize establishment of grassroots income-generating groups																	Stationery/ Transport	Executive Committee / Facilitator/ DCO/YADEC/ Political Leaders
9.	In collaboration with the District Cooperative Officer, TUDEP and YADEC to run SACCOS awareness programmes through local radio station (Faraja FM) to sensitize local people join SACCOS.																	Funds (Fees)	DCO/Executive Committee/ Facilitator
10.	Conduct baseline survey in three villages of Mhunze, Iboja, and Ndoleleji in Kishapu division to establish causes of low repayment of loans.																	Stationery/ Transport	DCO/Facilitator
11.	Conduct inter-person interview with board members and staff to ascertain their knowledge on the best practice of SACCOS																	Stationery/ Transport	DCO/Facilitator
12.	Review Curriculum Vitae of the board members and staff to determine their training on the best practice of																	Stationery/ Transport/	DCO/Facilitator

[illegible]

TABLE 23: ACTUAL PROJECT IMPLEMENTATION

Objective	Activities	Resources	Time frame	Actual Implementation	Remarks
To assess the operational procedures and performance of the existing SACCOS and other micro-credit schemes that avail credit services to smallholder farmers, petty business and others.	Review records of existing SACCOS in Kishapu district: Kurugenzi SACCOS and Kishapu Rural SACCOS	Stationery/ Transport	January 2006 to February 2006	Review of records of Kurugenzi and Kishapu Rural SACCOS done as planned.	
	Review Audit opinion by the COASCO in respect of Kurugenzi SACCOS, Kishapu Rural SACCOS and other SACCOS in Shinyanga region for the years 2001 to 2005.	Stationery/ Transport	January 2006 to February 2006	Review of Audit Opinions of COASCO in respect of Kurugenzi and Kishapu Rural SACCOS for the years 2001 through 2005 done as planned.	COASCO issued Auditors certificates as follows: Clean Audit Certificate Kurugenzi 2001-2005 Kishapu Rural 2001 – 2002 and Conditional Cert. 2003 -2005.
To pioneer establishment of Member-based financial institution (SACCOS) in Kishapu by March 2006.	Prepare Constitution for proposed Kishapu SACCOS and circulates the document to prospective members through Peer Facilitators in the three wards of Kishapu division.	Stationery/ Transport	December 2005	A draft of Constitution prepared and circulated to prospective members in December 2005, three months before actual launching of Kishapu SACCOS in March 18, 2006.	
	Convene 1 st meeting of representatives from organized income generating groups in the three wards to launch Kishapu SACCOS.	Stationery/ Transport/ Food	March 2006	1 st SACCOS “Members” meeting convened as planned where most of the grassroots income-generating groups and the general public from Kishapu division met and unanimously agreed to establish a SACCOS.	

Objective	Activities	Resources	Time frame	Actual Implementation	Remarks
	Solicit funds from the government (Kishapu District Council) for capacity building and community mobilization.	Stationery/ Transport	April – June '06 and April – June '07	The District Cooperative Officer on behalf of Kishapu SACCOS solicit and received Tshs. 1,860,000 from Kishapu District Council for capacity building.	
	Assist peer facilitators to conduct 2 meetings in each village in the three wards of Kishapu division to educate local people benefits of SACCOS and financial services that are provided to members.	Stationery/ Transport	July– September 2006	Six mobilization meetings were conducted in the three wards of Kishapu division between January and September 2006. Total Tshs. 15,015,000 was spent and total of 1868 people benefited from these trainings.	Financing of the training was co-financed by YADEC and Kishapu District Council. YADEC contributed Tshs. 13,155,000 while the remaining sum (1,860,000) came from Kishapu District Council.
	In collaboration with the District Cooperative Officer, TUDEP and YADEC to run SACCOS awareness programmes through local radio station (Faraja FM) to sensitize local people join SACCOS.	Funds (Fees)	June-September 2007	Contract for airing the programmes was signed in May 24, 2007 and effective airing of the programmes is expected to begin in third week of July 2007 after Kishapu SACCOS has paid an initial advance of Tshs. 750,000.	

Objective	Activities	Resources	Time frame	Actual Implementation	Remarks
To identify factors which contribute to loans not being serviced (repaid) on time.	Conduct baseline survey in three villages of Mhunze, Iboja, and Ndoleleji in Kishapu division to establish causes of low repayment of loans.	Stationery/ Transport	July – August 2007	By May 26, 2007 Questionnaires to be used in the survey had been prepared by the facilitator. Actual survey is due to start on July 16, 2007.	
To assess whether members, board of directors and staff have knowledge on the best practice of the MFI.	Conduct inter-person interview with board members and staff to ascertain their knowledge on the best practice of SACCOS.	Stationery/ Transport	July – August 2007	The interview is expected to start in the mid of July 2007.	
	Review Curriculum Vitae of the board members and staff to determine whether they have received training on the best practice of SACCOS or not.	Stationery/ Transport	July – August 2007	The interview is expected to start in the mid of July 2007.	
To come up with best approach and practices for the promotion of effective and sustainable rural financing.	Translate the Cooperative Act into Swahili language and make the document available for use by members and general community at large.	Stationery/ Transport/ Funds	July– September 2007	The work has been rescheduled to begin in first week of August 2007.	The Cooperative experts from MUCoCB who will administer the work is currently involved in other official activities in Dar-Es-Salaam.

	Preparation of Business Plan for Kishapu SACCOS	Stationery/ Transport	June- September 2007	By June 30 th 2007, 30% of the work had been completed.	
	Prepare a banker's guidelines on SACCOS linkage to financial institution	Stationery/ Transport	June- September 2007	By June 30 th 2007, the first draft had been completed and sent to the CRDB for comments.	

4.5 Project Development Budget

Kishapu SACCOS is a member-based financial institution and according to the Cooperative Act both operational and development budgets are financed internally through members' contributions in form of shares, savings, deposits and entry fees. However, developing a SACCOS as a project arrangements have been made to mobilize funds to meet development needs. Once the project takes off, financing of the Kishapu SACCOS will adhere to arrangements as stipulated in the by-laws and the Cooperative Act of 2003.

There is no staffing pattern; rather most of the work is done on voluntary basis. The leadership is made of a chairman, a vice chairman, a secretary and a treasurer and day to day operations are entrusted to the Executive Committee. The elected office bearers are not salaried but they do render their services on voluntary basis. A detailed budget is presented in appendix A of this project document. However, the said budget is largely for meeting costs for establishment of SACCOS and training costs. The budget financing is as follows:

Kishapu District Council	3,000,000.00
YADEC/TUDEP	16,000,000.00
Contribution from facilitator	500,000.00
Kishapu SACCOS	500,000.00
TOTAL BUDGET	20,000,000.00

CHAPTER V: MONITORING, EVALUATION AND SUSTAINABILITY

Monitoring and evaluation (M&E) are essential elements of project implementation. They are tools for tracking results and making necessary adjustments throughout the duration of the project. In essence, performance monitoring helps follow intervention process while evaluation focuses on measuring achievement against set objective and milestone standards. However, in order for monitoring and evaluation to be meaningful, they should involve major stakeholders of the project from the beginning to the end. That is to say, monitoring and evaluation methods should be participatory in nature. In that respect they serve to create sense of ownership of the project on the part of the beneficiaries as well as in the implementation process of the project. Monitoring of this project adheres to specified activities implementation schedules and annual work-plans as depicted in table 26 below.

5.1 Project Monitoring

Monitoring is a continuous routine process of gathering information on all aspects of the project. The gathered information helps the managers to:

- i) Analyze current situation
- ii) Identify problems and find solutions
- iii) Keep project activities on schedule

- iv) Measure progress towards objectives and formulate or revise future goals and objectives
- v) Make decisions about human, financial and material resources.

5.1.1 Monitoring Methodology

Before the project started the elected Executive Committee of the SACCOS, key stakeholders and the facilitator developed a reporting system that confirmed to policy and benchmarks set by the SACCOS. It was agreed that both the management and financial reports were to be prepared on monthly basis and actual performance compared to budgeted figures of the pre-determined activities in the work-plan. Any significant variance noted to be reported immediately and corrective measures taken to rectify the situation.

The Executive Committee that is entrusted with the day to day affairs of the SACCOS and is responsible for the preparation of monthly and quarterly reports that are submitted to the Board of Directors for scrutiny. The monthly financial reports of the project provide means for comparing the actual with budget to determine performance. The information is also shared with other interested parties as depicted in Table 18 below. To be able to achieve this noble task, it was agreed that project records its financial transactions on daily basis. Such a system facilitates tracking of flows of all funds into and out of the project, as well as within the project. Also, independent auditors, COASCO, have been contracted to conduct audit on yearly basis, but in case of need an

interim audit is conducted in order to arrest the situation. The Auditors opinions and recommendations help to strengthen the financial management system of Kishapu SACCOS.

SACCOS as member-based institution functions in accordance with the instruments it has set and also legal requirements as stipulated in the Cooperative Act of 2003. In that respect monitoring and evaluation of Kishapu SACCOS constitutes two levels:

- i) Level 1: Development of SACCOS as a project and
- ii) Level 2: SACCOS as a financial organization.

As a project for developing the SACCOS, monitoring adheres to the objectives, stages and indicators for measuring the successful setting up of the SACCOS. However, when it comes to the functioning of the SACCOS as a financial organization, there are instruments that have been set up by the SACCOS itself (including by-laws) and legal requirements that need to be observed.

Therefore, in order to strengthen the monitoring system during SACCOS development stage, it was agreed that members of the Executive Committee, representatives from Kishapu, Mwakipoya and Shagihilu wards, the District Cooperative Officer, TUDEP/YADEC representatives and the facilitator meet twice a month (Wednesdays of first and the third weeks of the month) so as to review the project implementation. The

timetable however, took into account the period in which the facilitator was to attend classes in Mwanza that is the 4th week of every month.

5.1.2 Methods used for Data Collection

Monitoring of the project is done on monthly basis through the Management Information System (MIS) that has been put in place. In facilitating collection of data three main methods were used. These are review of records and interview.

5.1.2.1 Review of Records

Kishapu SACCOS has put in place a management information system that has necessitated preparation of a set of monthly reports that are submitted to the Board of Directors for review. Monthly reports prepared by the SACCOS include the following:

- i) Monthly Financial Reports
- ii) Management Interim Progress Reports
- iii) Internal Audit Reports
- iv) Field Supervision Reports by District Cooperative Development Officer, Board of Directors.

Financial reports include Income and Expenditure Statements and Cash Flows, while management reports deal mainly with issues such as membership, shares acquired and increased SACCOS outreach programs. These reports are crucial to the organization because they do help both the Executive Committee and Board of Directors to track

performance of the SACCOS against pre-determined activities which have been set in the work-plan and therefore be able to assess whether desirable results have been achieved. More still review of reports facilitates identification of areas of weaknesses in the course of project implementation and therefore enables the Board of Directors to intervene by taking immediate action in order to improve the situation. For the last twelve months the system has remain active in the sense that it enabled the SACCOS to achieve over 90% of its targeted activities between March and October 2006 as shown in Table 21 below.

5.1.2.2 Interview

Interviews in the form of guided or structured questions and discussions held with peer educators, stakeholders and the public in general concerning their views on how they perceive the performance of the SACCOS constituted the main informal method used to determine whether the management information system is functioning well. A survey results (Table xyz) below confirmed that 23 out of 41 respondents who have been actively involved in making follow ups on the performance of the SACCOS rated its performance as “good” while 15 found it to be “fair” and the remaining three rated it as “poor”.

Table 24: General performance as rated by respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
good	23	22.8	22.8	23.8
fair	15	14.9	14.9	38.6
poor	3	3.0	3.0	41.6
don't know	59	58.4	58.4	100.0
Total	101	100.0	100.0	

Adhering strictly to routine monitoring system, the SACCOS were able to keep the information up to date. Records are kept properly and disseminated to users (members and stakeholders) as required by the law. In that respect it was able popularity amongst the general public. Due to that many people are now motivated to join the SACCOS. Results from survey conducted as depicted in Table 23 below, revealed that 43% of the respondents were ready to join the SACCOS while 16% were yet to make decision to join the SACCOS. However, evaluation that was conducted in December 2006 showed a positive increase in membership. Previously it had been planned that the SACCOS was to enroll 150 members in the first year, however enrollment rose to 278.

Table 25: Whether non-SACCOS members ready to join SACCOS

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1.0	1.0	1.0
yes	43	42.6	42.6	43.6
not yet decided	16	15.8	15.8	59.4
N/A	41	40.6	40.6	100.0
Total	101	100.0	100.0	

TABLE 26: PROJECT MONITORING AND EVALUATION PLAN.

Work plan activities	Indicators	Information needed/ Source of information	Time frame for collection of the information	Person(s) responsible	Significance of gathered data
Review records of existing SACCOS in Kishapu district: Kurugenzi SACCOS and Kishapu Rural SACCOS	Review of records done and report prepared.	Minutes of meetings	March 2006	DCO/YADEC/ Facilitator	Show that review was conducted
Review Audit opinion by the COASCO in respect of Kurugenzi SACCOS, Kishapu Rural SACCOS and other SACCOS in Shinyanga region for the years 2001 to 2005.	Review of Audit opinion done and report prepared.	Minutes of meeting	March 2006	Facilitator/TUDEP/ YADEC	Show that review was conducted
Conduct workshops/seminars at village level to sensitize and mobilize establishment of grassroots income-generating groups	Number of workshops/ seminar conducted	Minutes of meetings Progress reports	End of each Month effective June 2006	Facilitator/TUDEP/ YADEC/DCO	Shows whether committee was selected.
Prepare Constitution for proposed Kishapu SACCOS and circulates the document to prospective members through Peer Facilitators in the three wards of Kishapu division.	Constitution was prepared and agreed upon by members and stakeholders.	Copy of Constitution	March 2006	Members/DCO/ YADEC/TUDEP/ Facilitator	To ensure that members know their rights and responsibilities
Convene 1 st meeting of representatives from organized income generating groups in the three wards to launch Kishapu SACCOS.	Records of what was agreed upon and follow up of Registration	Minutes of meeting	April 2006	Members/DCO/ YADEC/ Facilitator	Shows trend of fund raising

Election of Office Bearers of Kishapu SACCOS: Chairman, Secretary and Treasurer; Executive Committees: Board of Directors, E who will be responsible to run	Names of leaders elected to take office and their qualifications.	Minutes of meeting	March 2006	Members/DCO/ YADEC/ Facilitator	SACCOS has constitutionally elected leaders
Assist peer facilitators to conduct 2 meetings in each village in the three wards of Kishapu division to educate local people benefits of SACCOS and financial services that are provided to members.	Record of such workshops were conducted.	Minutes of meetings/ Progress reports	August- October 2006	Executive Committee /DCO /Facilitator	Show that workshops were conducted as planned.
In collaboration with the District Cooperative Officer, TUDEP and YADEC to run SACCOS awareness programmes through local radio station (Faraja FM) to sensitize local people join SACCOS.	Agreement signed and terms of contract.	Minutes of meetings/ Progress reports	July-October 2007	Executive Committee /Facilitator/DCO/ YADEC/Political Leaders	To show evidence of program aired by Faraja FM Radio
Conduct baseline survey in 100 sampled respondents from three villages of Mhunze, Iboja, and Ndoleleji in Kishapu division to establish causes of low repayment of loans.	Record of survey conducted	Minutes of meetings/ Progress reports	August-September 2007	DCO/Executive Committee/Facilitator	Indicate that survey was conducted
Conduct inter-person interview with board members and staff to ascertain their knowledge on the best practice of SACCOS	Record of interview conducted	Interview checklist/ Progress reports	August-September 2007	DCO/Facilitator	Indicate that interview was conducted

Review Curriculum Vitae of the board members and staff to determine their training on the best practice of SACCOS.	Record of Qualification and experiences of office bearers	Review Report	August-September 2007	DCO/Facilitator	Show that review was conducted
Write proposal to solicit funds from the government (Kishapu District Council)	Action taken to solicit the funds	Copy of the Proposal	July 2006 and July 2007	DCO/Facilitator	SACCOS leaders in soliciting funds for training
Translate the Cooperative Act into Swahili language and make the document available for use by members and general community at large.	Terms of reference given and conditions agreed upon	Copy of the Swahili version of Cooperative Act.	January 2008	MUCoCB /DCO/ Executive Committee /Facilitator	To members and public ease Understanding of the Act.
Preparation of Business Plan for Kishapu SACCOS	Time frame of the Business plan and whether stated to be executed	Copy of Business Plan	October 2007	Executive Committee/ DCO/Facilitator	Give guidelines for operations of the SACCOS
Conduct Periodical Evaluation	Record of evaluation report	Copy of Evaluation Report	January 2007 and July 2007	DCO/Executive Committee	How the project is fairing
Preparation of Banker's guidelines on SACCOS linkage to financial institution (CRDB Bank)	Plan to implement linkage to the financial institution.	Copy of Bank guidelines	Jan 2007	DCO/CRDB/Executive Committee	Guiding the SACCOS for possible Linkage to the financial institution

5.1.3 Management Information System

Effective information management does guide planning and management of SACCOS initiatives. Financial records of Kishapu SACCOS which provide essential information about the affairs of the SACCOS are kept on daily basis. Financial Statements are prepared on monthly, quarterly, half a year and the Final Accounts are prepared within three months after the year end of the accounting period. Accounting period for Kishapu SACCOS runs from January to December each year. Management progress reports are also produced monthly whereby actual performance is compared to planned activities. Auditing of the books of accounts is conducted on yearly basis by COASCO. Nevertheless, on special circumstances, an ad-hoc audit might be done to safeguard the resources of the members. More still as part of his/her routine duties, the District Cooperative Officer is obliged to make regular supervision visits to ensure good performance of the SACCOS .

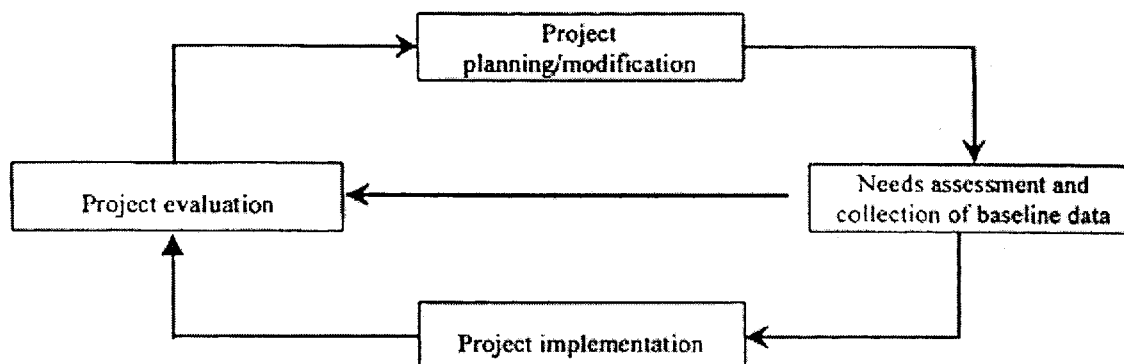
This project intends to use information technology as a management tool. In that respect the Kishapu SACCOS has budgeted for purchase of computer in the 2007 accounting period. Also provision has been in the budget in order to offer computer training to the members of Executive Committee and the Board of Directors. In order to have smooth internal and external communication, reliable and efficient facilities are essential. Thus, in order to improve project effectiveness operations, the project has installed telephone in its office in order to ease dissemination of information.

5.2 Project Evaluation

Evaluation is a continuous process designed for collecting of information and analyzing such information for the purpose of assessing whether a project is proceeding as planned and that the project intended objectives have been achieved. Although evaluation is somewhat linked to monitoring, yet the two differ in the sense that while monitoring checks to see whether the project is on track, evaluation on the other hand questions whether the project is on the right track. Again monitoring is largely concerned with the short-term performance of the project while evaluation looks more at long-term effects in terms of project objectives. Further, the project evaluation implies a systematic examination of the project; determine its relevance, effectiveness, impact, or benefits to the target community. Thus, evaluation is conducted in order to give information about the development and progress of a project. In essence evaluation is vital in the project life cycle as it provides information that helps to improve the project.

Frechtling (2002) explains that evaluation provides information to communicate with the stakeholders and to improve the project and gives new insights. Sometimes this includes new information that was not anticipated and he uses the term 'unanticipated consequences' for these unexpected, but often very useful outcomes of an assessment. Recent literature stresses the close relations between evaluation and implementation. Therefore evaluation should be incorporated from the beginning of a project or program and below is analytical framework that illustrate the continuous evaluation cycle.

Figure 1: Project Evaluation Process



Project evaluation is mainly conducted in three parts:

- i) Periodically (monthly, quarterly, half-yearly or/and yearly)
- ii) Mid-term
- iii) At the end of the project

Internally evaluation which is normally refereed to as periodical evaluation, is carried out by the project manager or project staff while the externally evaluations are carried out by the donor(s) or by consultant.

As for the case of this project, interim evaluation is carried periodically (half-yearly or after every six months). The first project evaluation was done in December 2006 by the Executive committee and the 2nd evaluation is expected to be conducted in June 2007. At this time the project will be running as planned. Furthermore, the 2nd evaluation will be very important as far as the project is concerned because, among other things, it will include the assessment of impact of the Government's funds (Tzs. 21.0 billion) released

to twenty one regions in the country in support of poverty eradication strategy at the grassroots level. The program entails provision of Tshs. 1.0 billion to each region in the Tanzania Mainland that is intended to be loaned to grassroots entrepreneurs for the purpose of expanding their businesses. Kishapu SACCO has been targeted as one of the major recipients of the money on behalf of its members.

5.2.1 Evaluation Plan

Activities which were carried out in planning evaluation are as depicted in Table 18 above are as follows:

- i) Provide in-service training to members of Executive Committee, Board of directors and other relevant SACCOS staff in M&E skills on site and through a workshop on the development of a data base and also collection of baseline information;
- ii) Conduct a baselines survey of existing SACCOS in Shinyanga and develop a data base;
- iii) Conduct a baseline survey that targeted community's knowledge about SACCOS and its benefits;
- iv) Identify potential activities to increase knowledge about benefits of SACCOS and;
- v) Choose indicators and establish a monitoring program that establishes a system of collecting, recording, analyzing data and report writing.

5.2.2 Evaluation Methods and Techniques

The selection of methods and techniques in an evaluation is shaped by what the evaluation is for, what kinds of questions are being asked, who the users or audiences of the evaluation are and what views they have about what constitutes valid and reliable data. Other considerations to take into account include the available resources for evaluation, logistical aspects as well as the expertise and methodological preferences of evaluators.

The project has used to a large extent focus group discussion, interview and review of record in data collection for formative evaluation. The same methods will be used during summative evaluations. However, the SACCOS as an enterprise is considered an on-going entity (a going concern), therefore during summative evaluation in the year 2011, the evaluation will largely be conducted in order to assess the impact of the SACCOS on the livelihood of its members and how it has managed to address issues such as gender representation and increase in organizational capital base.

Tools or techniques employed in the evaluation of the Kishapu SACCOS included the following:

i) Review of records

Record review gave the evaluators the opportunity to assess the actual performance of the SACCOS against predetermined objectives. Record reviewed included minutes of various meetings and deliberations; financial reports and management progress reports.

Other documents reviewed included the Kishapu SACCOS Constitution, by-laws set by the SACCOS, budget and the Action Plan of the SACCOS. This was done to ensure that activities that had been planned were actually out and to what degree. As already mentioned above, over 90% of the activities planned for March through October 2006 were found to have been accomplished.

ii) Interviews

Guided or structured interview is essentially a conversation between the interviewer and the interviewee. Interviews allowed the evaluation team to capture the perspectives of the people involved in project implementation. These included SACCOS members, peer educators, stakeholders and other people from the general public who are in one way or another are associated with the project. The use of interviews as a data collection method begins with the assumption that the participants' perspectives are meaningful, knowable, and able to be made explicit, and that their perspectives affect the success of the project.

iii) Focus group discussions

Focus group is a well-established method of social inquiry, taking the form of structured discussion that involves the progressive sharing and refinement of participants' views and ideas. The techniques served to reveal participants' (SACCOS members, stakeholders and the general public) perceptions and views on the project's implementation, results and impact on the community.

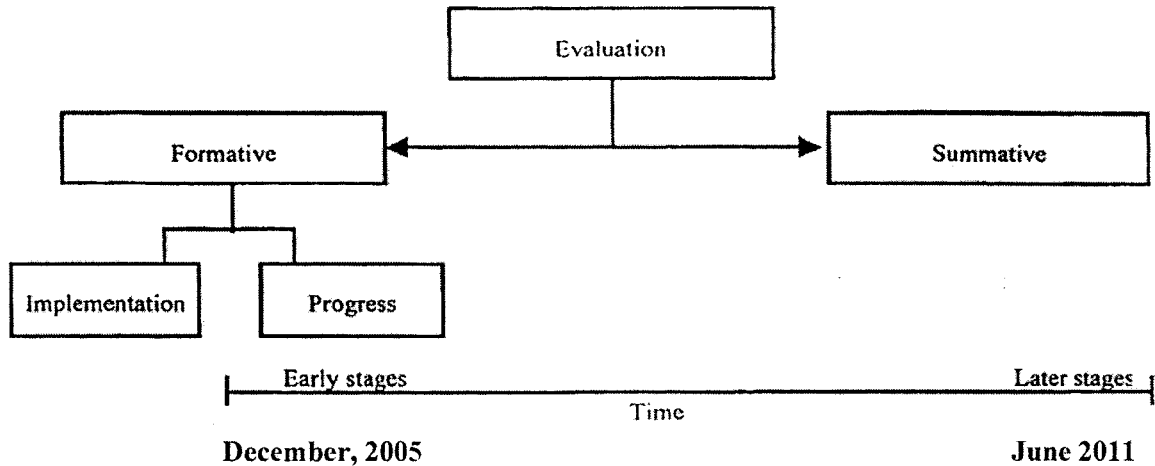
Focus groups are a form of participatory evaluation. By involving the actors or beneficiaries of the project as co-participants, the conclusions drawn became more credible and more readily accepted. The focus groups used in project evaluation were well adapted to the local environment (Kishapu division) where the evaluation took place as such they were also used for the validation of data collected and for complementing qualitative data.

Greenbaum (1993) and Vaughn, et al (1996) argue that focus group potentially provide an exploratory approach and may be more effective in certain research processes than more traditional approaches. They also pointed out the fact that focus groups may be used to refine information previously known about a topic or may be designed to elicit new insights and information about a topic by examining it from a new angle.

5.2.3 Levels of evaluation

The evaluation as noted above is pursued to give information about the development and progress of a project and tells whether a project is proceeding as planned as well as whether the objectives were met. Basically there are two levels of evaluation that is carried out during the lifecycle of a project. These are formative and summative evaluation as depicted in figure 2 below.

Figure 2: Levels of Project Evaluation



5.2.4 Formative evaluation

Formative evaluation takes place in the earlier phases of a project and can be carried out several times in the development of a project. It is subdivided in the implementation evaluation and the progress evaluation. Implementation evaluation studies whether a project is carried out the way it was planned. This is done in an early phase because the project plan has to be carried out properly before any judgments can be made on the success or failure of the project plan. The progress evaluation on the other hand, assesses the development towards the goals of a project and tries to answer the question whether the project will meet its goals or that unexpected developments occurred.

Progress evaluation is a continuous analysis and assessment of the inputs, effects, and relevance while the project is being executed. The evaluation helps to match the results

with the objectives as planned, and to identify any gaps or problems and therefore allow for decisions to be taken to rectify the situation.

As for this project, progress evaluation is done on monthly basis by the Executive Committee, District Cooperative Officer through field visits, and record keeping reports prepared and submitted on monthly basis. The Board of Directors makes quarterly evaluation. On quarterly basis monthly progress reports are compiled in a progressive manner and submitted to the Board of Directors' meeting. In the same manner at each end of the year the reports are consolidated to form a final year report to be submitted to the end of the year meeting of all members. This is the Annual General Meeting where members and stakeholders review the progress of the SACCOS.

Periodical Evaluation is conducted after every six months. The 1st evaluation was conducted in December 2006 and the next one is due in June 2007. At this time the project is expected to be running as planned. Moreover the 2nd evaluation is considered very important as far as the project is concerned because, among other things, it will take into account the assessment on the impact of the Government's funds (Tzs. 21.0 billion) released to support poverty eradication strategy in the country whereby each region in the Tanzania Mainland has received Tshs. 1.0 billion. SACCOS, Kishapu SACCO being of no exception, have been targeted as the major recipient of the money on behalf of their members.

5.2.5 Summative Evaluation

A summative evaluation is carried out when the project is at its maturity phase. The purpose of summative evaluation is to make assess on the project performance addressing questions like; to what extent has the project met the stated goals, changes or impact on the community, whether the project is to be sustained, should it be ended or modified. Thus it is designed to make an appraisal as to whether the intended objectives have been achieved ad defined.

The summative evaluation studies the strategies, activities and processes that led to a certain outcome. It is often used for decision-making about the project and determining the future strategies. The project has planned to carry out summative evaluation in June 2011. The researcher will facilitate the evaluation exercise and the results will be presented to all the group members for discussion and comments and way forward.

5.3.0 Evaluation results:

Microfinance theory is still at its infancy in Kishapu division. Out of 100 sampled respondent only 31% had accessed credit. Nevertheless the majority (over 75%) of those who had accessed such credits were workers implying micro-financing is targeting mostly the non-poor leaving the poorest of the poor unattended.

Membership to the micro-finance is generally poor and as such it is clear that the majority of the people do not know the benefit they can get from SACCOS. Hence, one of the major problems that are attributed to the negative impact SACCOS is

lack of capacity building programs for the general public in order to sensitize and mobilize people to join SACCOS.

5.3.1 Establishment of Kishapu SACCOS

Kishapu SACCOS was established in March 2006 as a result of efforts put forward by YADEC and CED student by first promoting grassroots income generating groups in Kishapu, wards in Kishapu Division. Thereafter the groups joined together to form Kishapu SACCOS.

As at 31st December 2006, 58 income generating groups with 296 members had been mobilized. Interim management report presented to the 1st Annual General Meeting indicated that 54 income generating groups with membership of 278 had joined Kishapu SACCOS. Share capital of the SACCOS as at 31st December, 2006 stood at Tshs. 2,850,000.

In order to boost the financial position of the SACCOS, YADEC has donated a total of Tshs. 5,000,000 to be utilized as a revolving fund in the newly established Kishapu SACCOS.

5.3.2 Capacity building

Nine seminars and 3 workshops have been conducted at village and ward levels in the three wards of Kishapu, Mwakipoya and Shagihilu in Kishapu division between January and September 2006. The main theme of these seminars and workshop was to sensitize

the people on importance of pulling together their efforts in a form of income generating groups with ultimate goal of amalgamating those groups into one big unit – the SACCOS. The seminars and workshops were co-funded by YADEC and Kishapu District Council to the tune of Tshs. 15,015,000. The training program had targeted 2400 people; however it managed to reach 1868 equivalent to 78% of the targeted population. During the seminars and workshops participants received knowledge about the general training on the importance and benefits expected from SACCOS.

A three days management and leadership seminar was conducted in March 2006 for elected officer bearers: Chairperson, Secretary and Treasurer. Among topics taught included:

- i) Leadership skills
- ii) Entrepreneurship skills
- iii) Book keeping and Accounting
- iv) Financial Reporting techniques

The funding of the seminar which amounted to Tshs. 1,860,000 came from the Kishapu District Council. The facilitator of the seminar was the District Cooperative Development Officer.

5.4 Project Sustainability

Project sustainability is the capacity of a project to continue functioning, supported by its own resources (human, material and financial) even when external sources of funding have ended. Seibel and Damachi (1982) underscore the fact that project sustainability is build on the self-help capacity of people and on the self-reliance of their self-help institutions, among them local financial institutions owned and managed by the poor.

5.4.1 Sustainability Elements

Essential elements that attribute to sustainability of a project include among others the following:

- i) Financial sustainability
- ii) Institutional sustainability
- iii) Political sustainability

Financial sustainability entails the project ability to initiate viable income generating projects and designing good mechanism for revenue collection and expenditure controls. To be able for such mechanisms to function properly, the project needs to institute a good system of financial management. For a project like the one in question, Kishapu SACCOS in which generation of revenue is directly related to the increase in membership, then growth of outreach to the poor is of paramount importance.

Institutional sustainability refers to the dynamic growth of self-reliant institutions and the self-help capacity of the people (technical competency staff). Achievement of maximum utilization of resources depends on marked competence, commitment, and efficiency within the management and implementing personnel. The major inputs for project sustainability are capacity building, supervision and coordination; credit management and networking with the Financial Institutions. Kishapu SACCOS has looked at sustainability in more detail, and has prepared a business plan, which investigates alternative options for sustainability given the goal of sustainable impact rather than sustainable financing.

Political sustainability denotes the political will of the government and an adequate policy framework of prudential deregulation and the strengthening of market processes which is underpinned in good governance. The project proposes the establishment of a new institution; the SACCOS role in this project is to assist specific project components through capacity enhancement through training, provision of some technical equipment, implementation oversight and technical backstopping. Kishapu SACCOS has made provisions for the project to generate and retain revenue, which helps to ensure institutional continuity.

5.4.2 Sustainability Plan

The project continuity or sustainability refers to the capacity of a project to continue functioning, supported by its own resources (human, material, and financial), even when the external funding have ended. In contrast to donor-funded project, SACCOS is basically a member-based financial arrangement with minimal support from external sources. Thus, for a SACCOS to be strong and sustainable the central focus must be its members. Hence planning for sustainability of Kishapu SACCOS has taken into account coherence of members and the institution as the basic element for the sustainability.

5.4.2.1 Members Empowerment

Members are the engine of cooperative development, hence their capacities need to be built in order to enable them assume their responsibilities of running their cooperative societies. Prior to establishment of Kishapu SACCOS training seminars which centered on general knowledge and benefits accruing from SACCOS were conducted in all 19 villages in Kishapu division. Local people were encouraged to form income generating groups, which technically constituted a step forward forming a SACCOS. Although membership to Kishapu SACCOS is open to the public, yet priority is given to those who are members to these grassroots income generating groups. Training manual in Kiswahili that has been prepared as a joint effort of the CED student, Kishapu SACCOS leadership and the District Cooperative Development Officer will in future be used for

such training. The training manual has emphasized membership training in line with MEMCOOP model¹³ which creates a sense of ownership perceptions to members. Since each member is likely to benefit as the SACCOS progresses it goes without saying that each member will stand to defend and promote growth of their SACCOS.

5.4.2.2 Constitution for Kishapu SACCOS

A draft Constitution for Kishapu SACCOS was prepared and circulated to prospective members (grassroots income generating groups) in December 2005 for rectification, three months before launching of the SACCOS in March 2006. Inputs and corrections received from the prospective members were incorporated in the final draft. The Kishapu SACCOS Constitution is a guide for administering the entity. Among other things it stipulates clearly sources of revenue and how such funds are to be handled; supervision and coordination roles entrusted to elect executive committee; financial products and services that need to be rendered to members; members' rights and responsibilities that will ensure survival of the SACCOS.

¹³ MEMCOOP Model is a member-based cooperative model introduced in Kilimanjaro in 2002 that entails to build capacity of cooperative members so as to have ownership perception regarding their cooperative.

5.4.3 Institutional Plan

5.4.3.1 Growth in size and increased outreach

Revenue flows into the SACCOS largely come from members in form of share capital, savings and deposits. Microfinance is a business and not a charity. With that realization Kishapu SACCOS is to offer attractive interest rates or profit-sharing margins on savings with positive real return. This will prevent erosion of the value of members' savings and as such it is expected to increase its outreach and thereof mobilize more internal resources. Empirical evidence from what is happening in the ground indicates a positive growth in membership. As of December 2006, nine months after launching the SACCOS, membership figure has grown from the projected 150 members in first year to 286 members¹⁴.

5.4.3.2 Income-Generating Projects

Kishapu SACCOS is promoting a Joint-Investment Model that is intended to benefit even the core poor. In joint-investment model members of the SACCOS would after thorough project appraisal decide to implement a joint-project that will accrue mutual benefits. The model requires each member of the SACCOS, whether poor or non-poor to assume liability of the loan/funding of the project to the extent of his or shares percentage in the SACCOS. The Joint-Investment Model entails to uplift the poor

¹⁴ Management Interim report of December 31st 2006 submitted to the 1st Annual General Meeting.

through provision of employment opportunities. The model is in line with what Juan SOMAVIA (Sept. 2003) pointed out *“there is no way we will eradicate poverty without creating jobs. And the co-operative enterprise is a key productive link to make it happen”*. He continued to say that *“one of the most widespread concerns about globalization is that intensified competition is creating social instability in which the weakest are most vulnerable, whether individuals, families or enterprise – cooperative movement provides a way of resolving these dilemmas.”*¹⁵

5.4.3.3 Resources Mobilization

The Government’s commitment to mobilize both decision making mechanism and financial resources direct to the grassroots level through its policy on Decentralization by Devolution (D-by-D) makes the SACCOS stand a better to benefit from this decision due to the fact that one of the key government strategies on poverty alleviation is the development of member-based cooperatives; SACCOS being of no exception.

In implementing its commitment as stated above, the Government of Tanzania through Local Government Capital Grant System has initiated a formula-based allocation of development grants from 2004/05 financial year. Through this system each Local Government Authority is entitled to receive amount equal to Tzs. 1,500 x population figure per year. This means that Kishapu District Council with a population of 239,305

¹⁵ Juan SOMAVIA, Director-General, International Labour Office ILO, in his opening remarks to the ICA General Assembly, “Cooperatives for Democracy, Social and Economic Development” Oslo, Norway (3 – 4 September 2003)

people¹⁶, received development grant of Tzs. 358,957,500 for the financial year 2005/06¹⁷ and the same amount in the current year 2006/07. One of the conditions for the utilization of that grant is that LGAs are compelled to channel 50% of the money to the lower level governments (Village governments).

5.4.3.4 Linked to the National Development Vision 2025

SACCOS are self-help organizations with outreach to the poor majority in the rural areas. They vigorously mobilize savings and diversify their lending to agricultural and micro-enterprises sectors including women traders. The resultant of this approach is empowerment of the poor including women, substantial improvement of food security and income, and enhance institutional sustainability which is in line with the National Vision 2025. In support of these initiatives the government has recently put in place a mechanism to assist the SACCOS financially. The allocation of Tzs. 1.0 billion for each region targeting mostly the SACCOS is yet another push to strengthen the entity. The strategy is in line with its commitment for short term as well as long-term measures to alleviate cooperative financial and capital problems.

¹⁶ National Census of 2002

¹⁷ Kishapu District Council was official established effective 01.07.2005 (2005/06)

CHAPTER VI: CONCLUSIONS AND RECOMMENDATIONS

The new Cooperative Development Policy spells out the new direction of the Cooperative Movement in Tanzania. It says “The Government recognizes and adopts: Cooperative values, which are based on self-help, self-responsibility, democracy, equity, and solidarity and that they have pursued and maintained in all cooperative development efforts within Tanzanian socio-economic environment”. Further the policy puts more emphasis on commercially oriented business minded leadership instead of civil-service oriented management in running the cooperative movement.

6.1 CONCLUSION

The overall study results suggest that the poorest of the poor have very little chance of accessing credit facility from the Micro-Financing Institutions (MFIs) within the current micro-credit arrangements where the MFIs are only targeting a small proportion of the poor whom they have code named “*the economically active poor*”. The MFIs definitions of the economically active poor are those that have businesses and capacity to repay back the loans. From the poverty spectrum, the economically active poor bare the richest of the poor just close to the poverty line. This is a serious policy implication for the poor of the poor (the core poor). The poor are not a homogeneous lot of people; hence the challenge ahead of us is the designing of appropriate financial products that meet their diverse needs. Currently the Micro-financing Institutions (MFIs) are mainly providing

generic products with standardized features. These generic features of the MFIs products have made the client to develop the culture of multiple borrowing from MFIs so as to get commensurate loan amounts and subsequently raise their vulnerability to the debt burden.

The existing micro-credit programs were also found to be inadequate. These programmes had limited scope and many were plagued by serious operational inefficiencies. Lending procedures, conditions, scope and target beneficiaries among different credit programmes differ significantly. While some of these programmes target their credit services to women, others were found to target unemployed youth and organized productive groups. A good example of these is the *Women and Youth Revolving Fund* operated by the Local Government Authorities through the Community Development department.

The current products features of most MFIs are characterized by short loan periods (4 – 12 months), no grace periods, weekly repayments and small loan amounts. These product features may not be suitable especially for agriculture related investments, from which the rural poor mainly derive their livelihoods. MFPED (2000)¹⁸ under the Plan for Modernization of Agriculture (PMA) in Uganda clearly identified the poor farmers' priority as access to credit and financial services so as to improve agricultural production, the MFIs financial products are not tailored to agricultural production.

¹⁸ Ministry of Finance, Planning and Economic Development (2000) *Planning for Modernization of agriculture: Eradication Poverty in Uganda*, Kampala.

Furthermore, the study managed to establish five important socio-economic factors that are influencing individual chances to access credit from formal and informal financial sources. These are age, level of education, gender, income, and degree of awareness on available credit services. The level of education of an individual was found to be an important factor in influencing individual chances to access credit as evidenced by the borrowers group in the study sample that were found to be better educated than the non-borrowers. The findings of this study show that majority of the rural population lack the culture of saving in the banking institutions. Of those interviewed, 74% (n=100) were found to have no bank accounts. Lack of saving implies that the long-term sustainability of the credit institutions is not assured and chances of growth are limited for small producers confirming.

The proposal to establish a micro-credit institution (SACCOS) in Kishapu division is a viable undertaking that is expected to contribute towards poverty eradication in Kishapu division, through active involvement of the beneficiaries, stakeholders and the public at large. Being a self-supported undertaking, but with assistance from other sources (grants from the Government through Kishapu District Council, YADEC and other interested parties), it is expected that it will serve to activate the sense self-responsibility and initiatives towards poverty eradication. The provision of credit facilities to the poor would provide employment opportunities for the young people (both men and women), who constitute over 70% of the population, and therefore attract their active role in the development process.

As a student of the Southern New Hampshire University pursuing Master of Science in Community Economic Development, the project will help the researcher achieve the following among others:

- i) Develop career in project design and management
- ii) Acquire skills in working with the local communities at the grassroots level and thereof enable him to acquire knowledge on how to address the really community needs.
- iii) To facilitate accomplishment of this project report. This is vital requirement for attainment of the Master of Science Degree in Community Economic Development.

6.2 RECOMMENDATIONS

Banturaki (2000) argues that Tanzania recognizes the limitations of the public and private sectors in bringing about socio-economic change for the majority poor. Thus increasing attention is now being drawn to the role of collective self-help initiatives in form of cooperative groups at grassroots level. This is because it has been realized that rural and voluntary organizations, formed by rural people and managed by them that execute participation, self-help initiatives and autonomously managed are important and effective instruments to transform rural development, and thus eradicate rural poverty. Cooperative and formal and informal self-help organizations (SACCOS) constitute an

“associate sector” of the economy, counter-balancing the strong influence of a profit-oriented sector and the state-controlled public sector.

6.2.1 Access to financial facilities

The current lending modalities in most micro-financing institutions, including the SACCOS, target only the economically active poor and as such they do not accommodate the poorest of the poor. Also, the amount of loan given is very little in the sense that it is not enough to make a borrower stand at his/her own. In contemporary liberalized economy coupled with forces of globalization, business of an initial capital of Tshs. 30,000.00 – 50,000.00, the common micro-credit amounts initially provided to borrowers can not guarantee a borrower any business growth. Instead the credit amount is usually spent on domestic matters that do not generate return on capital. Consequently the borrower fails to meet loan obligation (capital plus interest thereon) on time. As the loan progressively compounded due to the factor of time, the poor borrower becomes even poorer than before because the loan obligation has increased.

Thus, in order for the poorest of the poor be uplifted from below the poverty line we recommend the following:

1. The SACCOS should adhere to the principle of solidarity and thereof promote “Joint-Investment model” that will benefit even the core poor. Juan SOMAVIA (Sept. 2003), pointed out that *“there is no way we will eradicate poverty without*

*creating jobs. And the co-operative enterprise is a key productive link to make it happen". He continued to say that "one of the most widespread concerns about globalization is that intensified competition is creating social instability in which the weakest are most vulnerable, whether individuals, families or enterprise – cooperative movement provides a way of resolving these dilemmas."*¹⁹ The cooperative structures we have today was a result of the "Joint-Investment Model" in the then Tanganyika between 1945 and 1966.

2. The government to step in as guarantor for investment of viable income generating projects initiated at the grassroots level. With the Government of Tanzania spearheading Decentralization by Devolution (D - by - D) where powers and resources are to be channeled down to the grassroots – the poor people need to be guaranteed by the government so as to access these monies for their developments.
3. Formalization of informal properties: Land, houses etc already approved by the government under the "MKURUBITA" strategy should be put into practice so that the rural poor use these assets as collaterals for loans/credits from financial institutions. Research results show that most people in Kishapu, though classified as poor, have an average of 20 to 30 cows and 5 and more acres of land. These

¹⁹ Juan SOMAVIA, Director-General, International Labour Office ILO, in his opening remarks to the ICA General Assembly, "Cooperatives for Democracy, Social and Economic Development" Oslo, Norway (3 – 4 September 2003)

properties need to be commercially evaluated and be given title deeds so that they can pledge them as collaterals.

6.2.2 Challenges

The challenges ahead are for the cooperative education and training to contribute to poverty alleviation through:

1. Creating opportunities where members apply participatory democracy as means of creating solutions and resolve economic social problems.
2. Members' innovative application of entrepreneurship skills in searching for product, new markets, technologies and new ways of doing things.
3. Creating development leaders capable of facilitating effective participatory democracy in cooperative to allow members to solve their problems as possible actions against poverty.

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APPENDICES

- A. Project Budget
- B. Survey Questionnaire
- C. Survey Data Analysis (SPSS)