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

**EVALUATION OF VILLAGE COMMUNITY  
BANK GROUPS IN MATOMBO WARD -  
MOROGORO RURAL DISTRICT**

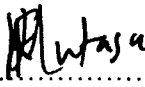
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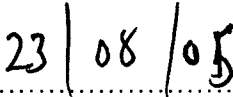


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SUPERVISORS APPROVAL

I Felician Mutasa certify that I have read this work and accept it as a scholarly work and I therefore recommend it to be awarded a Master degree in Community Economic Development.

Supervisors' signature.....

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(ii).

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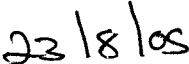


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## DECLARATION

I Agnes David Mkombe declare that this research is my own work and has not been represented to any higher learning institution for these or some same similar award.

Signature-----

Date-----



## DEDICATION

This work is work is dedicated to my dear children Chelu, David and Heri for the love and tolerance they showed me, when I was attending school, really they missed me.

To My father who always encouraged me to keep it up



## ABSTRACT

Village Community Banks (VICOBA) was established in 2003 by District Road Support Program-DRSP to respond to the peoples' problem of income poverty. This scheme is run in a transparent manner and in solidarity by savings and attend capacity building.

The objective of VICOBA was to improve living standard of communities along the road corridor, by enabling them to have their own source of capital, which will enable them to establish income-generating activities and maximise the benefits of improved roads. With direct actions that targeted the poor, DRSP enabled the poor to take advantage of opportunities of improved roads by facilitating access to new economic opportunities.

The baseline data conducted before the program was established showed that, the economic conditions were very poor (below Tshs 9000 per month), which did not meet all the basic needs necessities and makes savings for investment. The evaluation of beyond road project showed that, after one year the income has improved from Tshs 9000 before the program to 30000 per month. Moreover group members managed to distribute profit of an average of 150,000 Tshs as profit, and remained with some amount to start a new cycle.

Therefore savings are among the most important aspects to investment. To come out of income poverty one needs savings to invest in income generating activities.

VICOBA program offers beneficial financial services for low-income people and the capacity of managing scarce household and enterprise resources more efficiently, protection against risks, provision for the future, and taking advantage of investment opportunities, for economic returns.



## AKNOWLEDGEMENT

It is evident that this work would have not been complete without support from other people.

First I would like to extend my gratitude to the following people:- Mr Erwin Schelbert, Resident manager ITECO Engineering Co LTD for enabling me to attend this course; To VICOBA groups in Matombo ward, Morogoro rural district where I did my project assignment and practised what I learned in class.

My sincere thanks should reach Mr Michael Adjibodou CED Program Director and my supervisor Mr Felician Mutasa who helped me heartedly in accomplishing this work.

Eventually, I would not forget to give my full appreciation to CED instructors and student for their assistance and cooperation during the whole process of this work



## LIST OF ACRONYMS

PRS II	Poverty Reduction Strategy Paper II
CED	Community Economic Development
DRSP	District Road Support Program-
VICOBA	Village Community Bank
CV	Curriculum Vitae
IRAP	Integrated Rural Accessibility Planning
FMD	Family Members Discussions
MVIWATA	Muungano wa Vyama Vya Wakulima Tanzania
SPM	Business selection, planning and management
HIV	Hydro deficiency Immune Virus
AIDS	Acquired Immune deficiency Syndrome
GDP	Gross Domestic Product
USD	United States Dollar
TSHS	Tanzanian Shillings
MDGs	Millennium Development Goals
HBS	Household Budget Survey
MTEF	Medium Term Expenditure Framework
NPES	National Poverty Eradication Strategy
PER	Public Expenditure Review
TAS	Tanzania Assistance Strategy
PTF	Presidential Trust Fund
NMB	National Microfinance Bank
DFID	Department for International Development
PRA	Participatory Rural Appraisal
BBC	British Broadcasting Company
IMF	International Monetary Fund
WB	World Bank
HIPC	Highly Indebted Poor Country
VG	Village Government
FGD	Focussed Group discussion
SPSS	Statistical Package for Social Scientists
HH	Household
IGA	Income Generating Activities
SACCOS	Savings and Credit Cooperative Societies
WWF	World Wildlife fund
CBO	Community Based Organization
BRAC	Bangladesh Rural Advancement committee
RD	Rural Development Project



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## CHAPTER 1: INTRODUCTION

### 1.1. Background to the project assignment

This research was done to village community bank groups (VICOBA) in Matombo ward Morogoro rural district. VICOBA groups were found by District Road Support Program (DRSP) in 2003. DRSP is a project funded by SWISS Agency for Development and Cooperation (SDC). DRSP was conceived in the 1990's to provide support on rural road construction with an objective of contributing to poverty reduction through opening rural accessibility.

VICOBA groups originated first in West Africa Mali, where they are populars known as 'Mata maso dibala' and were adapted in Tanzania by Care where the first groups started in Zanzibar and Kisarawe in Cost region. DRSP adopted the model from Care and made some adjustments to meet its targeted beneficiaries requirements.

In 2002 DRSP conducted an evaluation and the result showed that in spite all efforts done the rate of poverty among rural communities was increasing. Therefore DRSP started Beyond Road Program, which were social interventions to make sure that the benefits of improved roads change the lives of the communities along its project support area. DRSP realized that without direct interventions that target the poor, benefits of improved roads would go to traders, politicians and district officials. VICOBA groups are one of DRSP social interventions, which started as a pilot.



As a CED student I was required to attach myself to a CBO in order to practice what I learned in the class. I decided to do my project to VICOBA groups, after hearing the group's success in enabling the communities to have their own source of capital. Also wanted to learn how these groups operated so that I can transfer the best practices to other communities after my studies.

One of the assignments I was given by the groups was to conduct an evaluation to assess relevance and effectiveness of VICOBA in contributing to income poverty to its members. Also recommend accordingly where relevant how to improve the groups and document lessons achieved and how these lessons could be transferred to its new project area.

### **1.2. Project objectives**

The overall objective is to contribute to poverty reduction through opening up rural road accessibility.

The immediate objective is to improve living standard of communities along road corridor, by enabling them to have their own source of capital that will enable them to start income generating activities and maximize the benefits of improved roads.

The project was set to operate a project with a human face of poverty alleviation through capacity building of communities along its support area with the focus on the poor of the poorer to enable them to benefit from the road and hence contribute to poverty reduction.

DRSP learnt that without direct actions that help the poor to take advantage of opportunities of improved roads the main benefits will go to the rich such as



transporters, traders, shopkeepers and commercial farmers. Unless there is specific inputs (e.g. capital, training) that target the poor with the aim of facilitating access to new opportunities brought about by new road access the poor will not benefit with road accessibility.

The project provided capacity building to communities through training, employment through labour based approach, saving and credit through VICOBA groups, and Family Members Discussions, with cross cutting issues of HIV/AIDS and gender to be reflected in each project activity.

### **1.3. Project Activities**

DRSP has three main activities, two road activities and one beyond roads

#### **1.3.1. District and community involvement during road Improvement planning**

Sub activities-

- Select core roads and carry out rapid road condition assessment
- Consult community along the road to identify sections that make the road difficult to pass
- Invite district and village level participants for prioritising roads for rehabilitation
- Discuss core roads network and priorities for rehabilitation in participatory workshop
- Introduce IRAP method to improve planning of provision of goods and services to the rural communities
- Approval of the priority list by District Full Council meeting



- District annual plan for roads improvement is based on approved list

### **1.3.2. District and community involvement in construction and maintenance of roads.**

#### **Sub activities**

- Conduct community meetings to explain roles of different parties involved in road improvement
- Conduct awareness meeting on importance of maintenance

### **1.3.3. Beyond roads activities**

Beyond roads are the social interventions, which have three programs, Family members Discussion (FMD), Road maintenance groups and Village Community Banks (VICOBA)

#### **1.3.3.1. Family Members Discussions- (FMD)**

Capacity building through mobilizing people and formation of family members discussions- (FMD) discussion forums and assess their situations and find solutions to their problems using their local available recourses- (human and physical).

FMD is the branch of education, which is imparted to community-by-community members themselves through discussion in groups of male, females and children-boys and girls.

The objective of FMD is to create an ideal society by improving the situation of the women, men and children through mobilising inactive human resources and transforming knowledge and skills into practice.



### 1.3.3.2. Road maintenance groups

The groups were started for the purpose of imparting skills in road maintenance to enable villagers to take care of their roads. Another purpose was to enable villagers to open some new feeder roads from the village road to their farms and reduce the burden of head loading through intermediate means of transport. The groups are contracted by the village Government to carry out road maintenance activities and get payments. All this was to make maximum use of the road fund and enable the villagers also to benefit economically.

### 1.3.3.3. Village Community Banks -**VICOBA**

The objective of VICOBA is to improve living standard of communities along road corridor, by enabling them to have their own source of capital that will enable them to start income generating activities, maximize the benefits of improved roads and hence contribute to poverty reduction.

VICOBA has three main stages, first is an initial stage, the second is development stage and last is the maturity stage. At the initial stage there are two activities: -

- **Community mobilization and formation of groups;**

Thirty people form one VICOBA group, within those thirty people there are five small groups of five people each. The groups meet once per week. During pilot phase (in August 2003) four groups were formed in three villages, Kifindike and Kiswira has one group each and Tawa has two groups.



- **Development of banking materials**

Intensive training, which has two phases, phase one, is savings and credit management training 1<sup>st</sup> to 6<sup>th</sup> week and phase two is Business selection, planning and management (SPM) from 7<sup>th</sup> to 12<sup>th</sup> week.

At the development stage there are also two activities, which are as follows: -

- **Appropriate skills training activity**

This activity is carried after completing intensive training and graduating for loans. This activity takes three months where project made follow-up and provided skills training according to needs.

- **Market identification and market links development**

Information and linking to other service organization to enable people explore different opportunities.

Groups reach development stage after completing the initial stage and works with minimum supervision. Maturity stage is where the groups can operate without external assistance. They also can facilitate other community members to start their own groups and carry out training. Groups can reach this stage after one year or one and a half years of successful operation

#### **1.4. Project area**

The project is implemented in all districts of Morogoro Region, which are Kilosa, Ulanga, Kilombero and Morogoro Rural. The project is also implemented in Dodoma region in Kongwa district, and Bagamoyo district in Coastal region.



As a pilot, beyond road program was implemented in two wards of Kisemo and Tawa in Matombo division. In these two wards the project works with two villages from Tawa Ward and one village from Kisemo ward.

#### **1.4.1. Population**

Morogoro district has a total population of 255,229; which consists of 125065 men and 130,164 female. The project area has a total population of 7200 of whom 90% of the residents are Luguru ,

Table 1. Population distribution in the three villages

Ward	Village Name	Sex	Age			Total
Tawa	Tawa		0 –5	6 - 18	18 +	
		Female	160	144	625	929
		Men	300	415	640	1355
	Kifindike	Female	260	198	440	700
		Male	216	260	612	1088
Kisemo	Kiswira	Female	331	430	779	1540
		Male	352	419	559	1330
Total						6942

**Source: Village government Offices**

#### **1.4.2. Geographical condition**

The project area has a tropical climate with annual rainfalls of between 800 mm and 2,200 mm, falling largely between November and May.

The greater part of the area includes mountainous areas rising to 2,600 m above sea level in Morogoro district.

#### **1.4.3. Economic activities**

The local economy of most of the area is based upon subsistence agriculture producing cassava, which is a staple food, paddy, millet, maize, yams beans and sorghum. Fruits such as oranges, bananas, pineapple; spices, like black pepper,



Coffee, and vegetables, and coconut. Few people are engaged in animal husbandry like goat keeping but at least every household keeps traditional chickens and ducks.

#### **1.4.3. Social services**

Social services available are one-health centre with mother and child clinic in Tawa village. The other two villages get this service in Tawa. There are also four private owned pharmacies,

Taped water is available from the rich natural springs of Uruguru Mountains and rivers. The ward has 4 primary schools with an average 60 pupils per class.

Technical training is also provided where civil construction, carpeting and tailoring are trained.

In regard to transport, there is a newly constructed district road, which is accessible through out the year; this road is one of the project-funded roads, under support from the District Roads Support project.

There is a market facility, which was constructed by MVIWATA-the association for farmers. This market connects villagers and traders from various places. There are also open markets twice a week. All these markets facilitate buying and selling of various products like agricultural, industrial and household necessities.

#### **1.5. Evaluation question**

The evaluation wanted to find out how far beyond road program has achieved its objective and contributed to poverty reduction.



This study was expected to answer the two key questions of relevance and effectiveness

The first key question in relevancy is, how did the program respond to villagers priority needs and what changes have been effected.

The second key question of Effectiveness was on what the program has contributed towards the overall goal of poverty reduction through improved rural accessibility?

- Main parameters and benchmarks strength and weaknesses of the program
- Comparison of expected results and benefits or outcomes in terms of empowerment
- Increased skills and knowledge to the communities
- Contributions to poverty reduction material and social benefits generated for the poor such as increased income and reduced vulnerability
- Mainstreaming of gender and HIV/AIDS

#### **1.6. Rationale of the study**

This study is important in order to see how Beyond Road Program has been effective and is relevant in maximizing the benefits of the improved roads and contributes to poverty alleviation.

The project intends to enable communities to have their own source of capital and be able to carry out income generating activities hence improve their incomes. Improved income will be facilitated by increased mobility through new roads and access to information and knowledge not only to new products and markets but also to other relevant issues. To meet this objective, beyond road was conceived. The



to other relevant issues. To meet this objective, beyond road was conceived. The program is a direct intervention where poor people participate in road works and income generating activities, which allow them to get skills in various activities and increase their production.

Therefore the results and recommendations of this evaluation will contribute to improvement of activities and also enable the replication of good practices to a new project, which is planned to start in May 2005



## CHAPTER 2: LITERATURE REVIEW

### INTRODUCTION

In this review I am going to do a theoretical and empirical review of microfinance institutions and informal financial institution i.e community groups in order to assess how can contribute to income poverty reduction.

Poverty is a condition of having insufficient resources or income, lack of basic human needs, such as adequate and nutritious food, clothing, housing, clean water, and health services (Robert Chambers, 1983)

This definition includes socio-economic indicators of well being such as high rates of morbidity and mortality, prevalence of malnutrition, illiteracy, high infant and maternal mortality rates, low life expectancy, poor quality housing, inadequate clothing low per capita income and expenditure, poor infrastructure (communication, transport, social services etc.). Others include high fertility, lack of access to basic services such as safe water, food insecurity and poor technology. Entirely, these features can be used to identify the poor and non-poor individual households and societies or communities. Most elements of these aspects of poverty are based mainly on economic considerations.

According to Robert Chambers (1983) 'poverty is a strong determinant of others, poverty contribute to physical weakness, isolation, vulnerability, and to powerlessness'. Poverty is a result of many and often mutually reinforcing factors including lack of productive resources to generate material wealth, illiteracy



prevalence of diseases, natural calamities such as floods, drought and man made calamities such as wars.

At the international level, an unequal economic and political partnership, as reflected in unfavourable terms of trade and other transactions for developing countries is also a major cause of poverty in developing countries. Some causes of poverty are not direct for example, traditions and norms, which hinder effective resource utilization and participation in income generating activities.

According to the World Bank, poverty is said to exist when people lack the means to satisfy their basic needs (World Bank 1998).

Income poverty is a state where one lacks a usual or socially acceptable amount of money or material possessions.

Income poverty is a major cause of other types of poverty like food poverty, basic needs poverty, ill health and handicap poverty. Because of lack or low income people fail to utilize other forces of production that is land, entrepreneurial, and labour.

Therefore the main solution is to enable the poor people come out of poverty by providing them with means and capacity so that they can invest into IGAS and get income. One of the means is capital, but, given the fact that they don't meet conditions (mostly collateral), which have been put by financial institutions, the poor people fail to access capital. Thus establishment of microfinance institutions is important as they can provide loans to the active poor people with soft conditions that take into consideration the need and capacity of the poor.



As part of the solution, different organization has assisted the people in formation of informal/formal groups and associations like SACCOS and community banks like Dar es Salaam community bank and village community banks,

## 2.1. THEORETICAL REVIEW

This review will study the importance of microfinance institutions in poverty alleviation, especially income poverty. How theoretically the issue of income can be reduced using sustainable means of capital formation and investment.

### 2.1.1. Microfinance and poverty reduction

The interest in microfinance has burgeoned during the last two decades: multilateral lending agencies, bilateral donor agencies, developing and developed country governments, and nongovernment organizations (NGOs) all support the development of microfinance. A variety of private banking institutions have also joined this group in recent years. As a result, microfinance services have grown rapidly during the last decade, although from an initial low level, and have come to the forefront of development discussions concerning poverty reduction. The study conducted in Rural Asia Study, "rural financial markets in Asia are ill-prepared for the twenty-first century." (1980) 1 About 95 percent of some 180 million poor households in the Asian and Pacific Region (the Region) still have little access to institutional financial services. Development practitioners, policy makers, and multilateral and bilateral lenders, however, recognize that providing efficient microfinance services for this segment of the population is important for a variety of reasons.



Microfinance can be a critical element of an effective poverty reduction strategy.

Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, build their assets gradually, develop their microenterprises, enhance their income earning capacity, and enjoy an improved quality of life. Microfinance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology; thus, microfinance helps to promote economic growth and development.

### **Definition of Microfinance.**

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises, (Asian Development Bank –ADB, 2000)

### **Background of the rise of microfinance**

Microfinance arose in the 1980s as a response to doubts – supported by research findings - about the capacity of the state to deliver subsidised (i.e. cheap) credit to poor farmers. During the 1970s governments mainly provided subsidised credit to low-income households in rural areas. Governments and international donors assumed that the poor required cheap credit (i.e. credit at lower interest rates) and saw this as a way to promote agricultural production by small landholders. In addition to providing subsidised credit, donors set up credit unions in rural areas, inspired by the Raiffeisen model developed in Germany in 1864. The focus of these co-operative financial institutions was mostly on savings mobilisation in an attempt to 'teach poor farmers how to 'save'.



In the mid-1980s, this model of subsidised, targeted credit supported by many donors was the object of steady criticism, because most programs accumulated large loan losses and required frequent recapitalisation to continue their operations. It became more evident that market-based solutions were required. This led to a new approach that considered microfinance as an integral part of the overall financial system. Emphasis shifted from the rapid disbursement of subsidised loans to target populations towards the building up of local, sustainable institutions to serve the poor. (Ledgerwood, pp.3-4)

Since the 1980s the field of microfinance has grown substantially. Donors actively support and encourage microfinance activities, focusing on MFIs that are committed to achieving substantial outreach and financial sustainability.

### **Reasons why microfinance is growing**

There are various reasons that explain the growth of microfinance. Some of these are the promise of reaching the poor. Microfinance can support income generation for enterprises operated by low-income households.

the promise of financial sustainability. Microfinance activities can help to build financially self-sufficient, subsidy-free, often locally managed institutions.

The potential to build on traditional systems very often MFIs have built their methodologies on traditional mechanisms, which are well known among their clients.



The contribution of microfinance to strengthening and expanding existing formal financial systems. Microfinance activities can strengthen existing formal financial institutions, such as credit union networks, commercial banks and state-run financial institutions by expanding their markets for both savings and credit, and potentially, by increasing their profitability.

The growing number of success stories. There is an increasing number of well-documented success stories of innovative microfinance schemes in settings as diverse as rural Bangladesh, urban Bolivia, and rural Mali. This is in stark contrast to the records of state-run specialised financial institutions, which have received large amounts of funding over the past few decades but have failed in terms of both financial sustainability and outreach to the poor.

The availability of better financial products as a result of experimentation and innovation. The innovations that have shown the most promising are concerned with addressing problems such as :

- lack of collateral by using group-based and character-based approaches;
- repayment discipline through high frequency repayment collection, the use of social peer pressure, and the promise of larger repeat loans;
- transaction costs by moving some of these costs down to group level and by increasing outreach;
- designing staff incentives to achieve greater outreach and high loan repayments;
- providing savings services that meet the needs of small savers.



Large numbers of MFIs have introduced individual lending (1000-5000 USD) as opposed to group lending. Generally the amount involved is higher and repayment periods are longer. In many cases the loans are used to purchase fixed assets.

### **Microfinance Providers**

Microfinance services are provided by three types of sources: formal institutions, such as rural banks and cooperatives; semiformal institutions, such as nongovernment organizations; and informal sources such as money lenders and shopkeepers. Institutional microfinance is defined to include microfinance services provided by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services.

### **Importance of Microfinance in poverty reduction**

Microfinance is often considered as one of the most effective and flexible strategies in the fight against global poverty. It is sustainable and can be implemented on the massive scale necessary to respond to the urgent needs of those living on less than \$1 a day, the World's poorest.

Without permanent access to institutional microfinance, most poor households continue to rely on meager self-finance or informal sources of microfinance, which limits their ability to actively participate in and benefit from the development opportunities.



Microfinance can provide an effective way to assist and empower poor women, who make up a significant proportion of the poor and suffer disproportionately from poverty.

Developing countries in the Asia and Africa have used microfinance services to reduce poverty. About 21 percent of the Grameen Bank borrowers and 11 percent of the borrowers of the Bangladesh Rural Advancement Committee, a microfinance NGO, managed to lift their families out of poverty within about four years of participation. These services also had a significant positive impact on the depth (severity) of poverty among the poor. Extreme poverty declined from 33 percent to 10 percent among Grameen Bank participants, and from 34 percent to 14 percent among Bangladesh Rural Advancement Committee participants. Without exclusively targeting the poor, the unit desas of the Bank Rakyat Indonesia (BRI) have also assisted “hundreds of thousands of households in lifting themselves out of absolute poverty over the past decade.”<sup>5</sup> A 1988 sample survey of unit desa borrowers showed that microcredit has had a major impact on their families' standards of living. The study estimated that net household incomes of borrowers increased by about 76 percent and employment increased by 84 percent with three years of program participation. The studies have, in general, shown that microfinance services have also had a positive impact on specific socioeconomic variables such as children's schooling, household nutrition status, and women's empowerment.



Microfinance institutions (MFIs) have also brought the poor, particularly poor women, into the formal financial system and enabled them to access credit and accumulate small savings in financial assets, reducing their household poverty. However, researchers and practitioners generally agree that the poorest of the poor are yet to benefit from microfinance programs in most countries partly because most MFIs do not offer products and services that are attractive to this category.

Microfinance can contribute to the development of the overall financial system through integration of financial markets.

An equally important part of microfinance is the recycling of funds. As loans are repaid, usually in six months to a year, they are re-loaned. This continual reinvestment multiplies the impact of each dollar loaned.

Microfinance has a positive impact far beyond the individual borrower. The vast majority of the loans go to women because studies have shown that women are more likely to reinvest their earnings in the business and in their families. As families cross the poverty line and micro-businesses expand, their communities benefit. Jobs are created, knowledge is shared, civic participation increases, and women are recognized as valuable members of their families and communities.

#### **Characteristics of Microfinance**

- Microfinance is based on the micro lending methodology, individual lending and solidarity group lending
- Operations generally alter around regions selected by institutions or their donor supporters.



- None of NGOs take voluntary saving, some take mandatory saving and security for microloans extended.
- All depend on donor for loan capital and technical assistance in operations, and
- None has reached a threshold for full financial self sufficiency, in Tanzania only MEDA claims full financial self sufficiency at just over 100%.

### **Microfinance services**

Services generally include savings and credit but some microfinance organisations also provide insurance and payment/Money Transfer Services. services.

Microfinance consists of making small loans, usually less than \$200, to individuals, usually women, to establish or expand a small, self-sustaining business. For example, a woman may borrow \$50 to buy chickens so she can sell eggs. As the chickens multiply, she will have more eggs to sell. Soon she can sell the chicks. Each expansion pulls her further from the devastation of poverty.

In addition to financial mediation, many IMFs provide social mediation services such as group formation, development of self-confidence, literacy training, health care, skills training and marketing, and training in financial literacy and management capabilities. As a result, the definition of microfinance often includes both financial and social mediation. In other words microfinance is not simply banking for the poor; it is also a development approach.

Microfinance, the Grameen way, includes several support systems that contribute greatly to its success. Microfinance institutions offer business advice and counseling,



while borrowers provide peer support for each other through solidarity circles. For example, if a borrower falls ill, her circle helps with her business until she is well. If a borrower gets discouraged, the support group pulls her through. This contributes substantially to the extremely high repayment rate of loans made to microfinance entrepreneurs.

### **Benefits of microfinance services to the poor**

Savings facilities of microfinance institutions (MFIs) reduce need to borrow from money lenders at high interest rates, enable purchase of productive assets and reduce distress of selling of assets, they also improve allocation of resources, increase economic growth, reduce household vulnerability to risks/external shocks, lastly they cause less volatility in household consumption, increase income, reduce severity of poverty and empowerment reduce social exclusion.

Credit allow taking advantage of profitable investment opportunities, lead to adoption of better technology, enable expansion of microenterprises . Diversification of economic activities enable consumption smoothening, promote risk taking, reduce reliance on expensive informal sources, enhance ability to face external shocks, Improve profitability of investments, reduce distress selling of assets, increase economic growth , higher income more, diversified income sources, less volatile income, less volatility in household consumption, increase household consumption, better education for children, severity of poverty is reduced and empowerment reduce social exclusion.



Insurance services facilitates more savings in financial assets, reduce risks and potential losses, reduce distress selling of assets, reduce impact of external shocks and increase investments which later provides greater income with less volatility in consumption and greater security.

Payments/Money Transfer Services facilitate trade and investments, greater income and higher consumption.

Microfinance activities usually involve:

- Small loans, typically for working capital;
- Informal appraisal of borrowers and investments;
- Collateral substitutes, such as group guarantees or compulsory savings;
- Peer pressure to enforce contractual obligations (solidarity groups);
- Access to repeat and larger loans, based on repayment performance;

Streamlining loan disburse

### **Major achievements in microfinance**

The MFIs and other financial institutions (OFIs) providing microfinance services have expanded their outreach from a few thousand clients in the 1970s to over 10 million in the late 1990s. The developments in microfinance in the Region have set in motion a process of change from an activity that was entirely subsidy dependent to one that can be a viable business.

MFIs and OFIs mobilizing voluntary savings have shattered the myth that poor households cannot and do not save, and proved that savings can be successfully



mobilized from poor households. This is perhaps a more important achievement of microfinance in the Region than the expanded outreach in access to credit.

MFIs, OFIs, and their clients have shown that the poor are creditworthy (poor women, in particular) and financial services can be provided to and accessed by the poor on a profitable basis at low transaction costs without relying on physical collateral, if it is done with appropriate financial technology and a commitment to achieve efficiency.

Microfinance services have triggered a process toward broadening and deepening of rural financial markets.

Microfinance services have strengthened the social and human capital of the poor, particularly women, at the household, enterprise, and community level.

Sustainable delivery of microfinance services on a large scale in some countries has generated positive developments in microfinance policies and practices among all stakeholders: governments, central banks, microfinance service providers, and external funding agencies.

### **2.1.2. Poverty situation in Tanzania**

The prevalence of income poverty is still high in Tanzania. According to the Household Budget Survey of 2000/01 the proportion of the population below the national food poverty line is 18.7 percent and that below the national basic needs poverty line is 35.7 percent. There is also a big disparity between urban and rural



poverty for both food and basic needs poverty. Poverty remains overwhelmingly in rural areas where 87 percent of the poor population live, and is the highest among households who depend on agriculture. Comparing these results with those of the 1991/92 Household budget survey (HBS) there has been a small decline in the proportion of the population below poverty lines. However, given the increase in population, the absolute number of the poor has increased. Basic needs poverty decreased from 38.6 percent to 35.7 percent and food poverty from 21.6 percent to 18.7 percent. There are also large regional differences in poverty levels. Size of the household and level of education are among important determinants of poverty. The results of the Household budget Survey (HBS) of 2000/01 also reveal growing income inequality as measured by a rise in the gini-coefficient from 0.34 in 1991/92 to 0.37 in 2000/01.

Per capita income in purchasing power parity, which was estimated at US\$ 570 in 1987, has risen to only US\$ 580 in late 1997, far below an average for sub-Saharan African of US\$ 1,534 although the recent average growth level of GDP now exceeds population growth by a noticeable 2%.

The small decline in poverty is the result of low average per capita real economic growth of only 0.6 percent annually during the decade. However, this low average growth rate masks important economic developments during the period. In the first half of the 1990s, per capita incomes actually declined but picked up in the second half and accelerated to reach overall GDP growth rate of 6.2 percent in 2002 surpassing the PRSP target of 6 percent for the year. The survey findings shows that as per capita income accelerated, poverty declined by approximately 28 percent



between 1994 and 2002. Poverty reduction has been more rapid in urban areas, in particular Dar es Salaam, than in rural areas. Among the poor population the urban poor constitute only 13 percent.

The importance of financial sector development has been given more attention in recent years. It was brought front and center just over 15 years ago with the publication of the World Bank's 1989 World Development Report. The evidence shows that financial sector development is important not only for growth, but also for poverty reduction. Financial sector development has both an indirect and direct impact on poverty alleviation, broadening access to finance has the impact in growth.

The fight against poverty would be given an enormous boost if microfinance facilities were to be extended to the poorest people. The type of microfinance institution required varies from country to country. These institutions are likely to be informal in parts of Africa and Asia, such informal institutions have been successful in mobilizing savings and organizing credit and insurance.

## 2.2. EMPIRICAL REVIEW

Empirically, this study is discussing how poverty income can be overcome by using different experiences from other studies of the same objective on contribution of MFIs in income poverty reduction.

### 2.2.1. Participatory Poverty Assessment (PPA)

As reported in the 1997 World Bank Participatory Poverty Assessment, in Tanzania's rural villages, savings meant putting aside something for emergencies, or for major or special expenses. The survey found that the idea of savings seemed to be



widespread and well understood to “help overcome the bad times in a difficult life.”

If micro finance is to perform its function as one (but not the only) tool in a poverty reduction program, the role of savings and credit in rural village communities – as well as village households’ perception of the financial services – need to be clearly understood by providers of micro finance services.

The principal barriers to the use of savings and credit facilities by rural village households as reported by the survey consisted of high opening and minimum account balances, travel time and transport costs involved in making deposits and withdrawals at the bank branch (in town or market centre), lack of collateral, and lack of familiarity with bank operations and procedures.

According to the survey report, *upatu* was the most prevalent method of savings and credit in 26 % of the villages, and mostly by women. The usage of *upatu* was most common in the Mtwara, Coast, Tanga, Mara, Mwanza and Kagera regions. *Upatu* involve 10 – 20 members who know and trust each other, in a rotating savings and credit association.

In the provision of financial services, one can see an alternating asymmetry of dependence versus independence emerging. Thus, access to a commercial development might give one access to certain financial services, which in turn may increase savings for more investment and increased development of the enterprise.



### **2.2.2. Other studies on microfinance services and poverty reduction**

According to a study conducted by Ana Marr (2000) in Peru, revealed that microfinance cannot reduce poverty as they overemphasize on the institutional objective of financial sustainability of the MFI finances. Though they have managed to overcome the traditional problem of collateral issue which puts most of the poor out of the service, but they rely heavily on penalties rather than rewards and prizes thus excluding the poor or causing the poor to leave the MFIs prematurely resulting in serious negative effects on their wellbeing.

Farbman and Steel (1992) found that there are high proportions of women in many microfinancing programmes, but that their enterprises are found to be the least economically successful. This is because most MFIs concentrate on the repayment rate and how their clients graduate from one level of loan to another they do not consider the changes brought by their loans to the client's economic status.

The issue of gender inequalities is also another contributing factor to poverty reduction. In a Tanzanian context: Kasuga (1998) found that although women own a large proportion of businesses, but they are the least economically viable. Most women are involved in small business like food vending, used clothes, selling bites like (buns and vitumbua), these type of business are run with small capital and in unreliable premises where returns are not promising.



Kashuliza and Kydd (1996) suggest that the cultural climate in rural Tanzania placed women at a disadvantage regarding credit-accessibility. And Schreider (1998), found that. Men monopolize the better informal sector opportunities.

IFAD's Communications and Public Affairs Unit (2001) in its report from field special events had learned that millions of rural poor do not have access to the basic savings and credit services that most people take for granted. And this makes it much harder for the poor to rise out of poverty. Traditional ways of saving, such as putting money into livestock or jewellery, can leave the poor in a weak position when they need funds. Liquid cash is far more convenient.

Other findings are from Tanzanian MFIs which provide credit services. The researcher found that most of them provided credit only there was no element where savings and capital accumulation were emphasised. Even training, which was provided, was on how the clients could recover their loans.

Therefore providing credit only makes the poor work to pay the loan and after repaying they graduate to another bigger amount and so on. This creates dependence on loan, which does not enable one to generate own capital. As compared to VICOBA, these enables people to develop a culture of savings which most of Tanzanians lack. After joining the scheme one has to save for about four months before getting a loan and during this period they continue to receive training. After four months one graduates for loans where one pays a certain amount of money as insurance and another amount as loan interest (these are set by the groups themselves



according to the capacity of members). The insurance amount is saved up to the closure of the cycle (which is one year) and given back to the loaner. During closure the members receive their shares and profit generated from the shares. Therefore, this enables one to generate own capital and raise income and their future is transformed from income poverty to economic wellbeing.

### **2.2.3. Emergence of microfinance institutions in Tanzania**

In Tanzania micro finance emerged in late 80's during the economic crises, the economic crises manifested itself into amongst other things, an erosion of Tanzanians' ability to sustain her social welfare programs and rising inflation, which historically was very high 36% in 1984. In this regard Tanzania has no option but to agree to the International monetary fund (IMF) and the World Bank (WB) proposals for economic Reform Programmes. The government adopted series of Structural Adjustment Programs (SRP 1983-1986), followed by Economic Recovery Program (ERP-of 1986-1989) and Economic and Social Adjustment program (ESRP of 1990). These programs introduced a massive shift in the country's policies for economic management away from centralized economy. The new economy under SAP and ESRP emphasized more on trade and economic liberalization and called for private sector participation and export development.

The Government of Tanzania embarked on financial sector reforms in 1991, in order to create an effective and efficient financial system. The lynchpin of the reforms consisted in the Government's commitment to permit banking institutions to operate on a commercial basis, making their business and management decisions free from outside intervention within the norms of prudential supervision. The principal



elements of the financial sector reforms included liberalization of interest rates, elimination of administrative credit allocation, strengthening the Bank of Tanzania's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing the entry of local and private banks into the market. These elements of the financial sector reform were embodied in the Banking and Financial Institutions Act of 1991. The Cooperative Societies Act of 1991 provided the basis for the development of Savings and Credit Cooperative Societies (SACCOs) as privately owned and –organized equity-based institutions.

#### **2.2.4. Experiences from other micro finance institutions.**

Experience of microfinance institutions from other countries like Grameen bank, Bangladesh Rural Advancement committee (BRAC) and Rural Development Project (RD) in Bangladesh shows that the most effective element of borrowing from microcredit programs is its important impact improved livelihood. According to BRAC micro credit smoothes household consumption and labour supply and this is higher for women's credit than men's credit. This shows that women's access to micro credit seems to reduce men's heavy workload.

Small enterprise development association (SEDA) is a microfinance established by World Vision, its services are targeted to the economically active urban poor. In 2000 87% of loans disbursed were for trade and commerce, 9% for service and only 4% for agriculture and production; women made up 70% of the client base.



SEDA makes group loans between 8-15 individual members; most groups are women only. Loan terms are typically for six months, carry a 30% flat interest rate and 3% one-time commission. All loans need to be guaranteed with a 20% cash deposit before loan disbursement, and repayment is on a weekly basis.

According to the evaluation made by SEDA to its beneficiaries in January 2001, it showed that the support of micro enterprises in the project areas improved health outcomes related to knowledge, attitudes, practices, and results. Second, in a more general sense, the implicit link between micro enterprise and family health is sustained. Even without the inclusion of health education or other health-related activities in the operation of community banks, direct outcomes of micro enterprise development (such as increased income and empowerment) are positive contributions to the well being of poor households.

There are some general statements that may be made about gender and financial services within Tanzania. For example, Mkwizu (1992) points out that Tanzanian women have a trait of saving more than men. She suggests that if this is the case, greater levels of savings could accrue if more incomes were available to women. But Tanzania is still male dominated and this imposes both social and legal disadvantages on women. Women advancement in different fields has been constrained by the multiple roles that they play in the society

Therefore to address the issue of gender equity is important as men have the advantage of accessing financial assistance more than women, this is because women



have limited social and economic mobility and lack of physical collateral due to the fact that women have no right to own some immovable assets like land e.g. The experience shows that women are effective and efficient user of loans. According to the experience from Bangladesh's Grameen bank, 94% of its 2 million members are women, and Bangladesh Rural Advancement committee - BRAC have 88 % women whereas Rural development Project -RD has 70 % women. According to this experience women accounted for overwhelming majority of active borrowers and receive more than 80% annual disbursement in three programs. Most impressive shows that women borrowers repayment rate were all above 90%.

The Most effective element of borrowing from micro credit programs has its important impact on household spending per capita. In all three programs ( Grameen, BRAC and RD) household spending par capita increased by 10% by about 0.40 %. The impact of household consumption borrowed by women was about twice as great as borrowing by men. Women's borrowing also seems to increase children's welfare much more than men.

The empirical review shows that, microfinance institutions in Tanzania have not effectively reached the majority of Tanzanians. Even to those who have been reached the MFIs assisted them on credit, but the poor does not need credit only but they also need other things. The poor need savings that can enable them to invest in income generating activities, they also need training on skills relevant to their income generating activities and capital accumulations techniques to accumulate own capital and make it grow.



#### **2.2.5. Limitations of microfinance.**

MFIs charge high interest that hinders growth of income, the interest rate charged by most of the MFIs ranges at 20% to 30%. Therefore with this rates and the size of loans provided cause most of the working poor to fail to access loans. Even if they get the loans, it becomes a burden as in practice those who took small amount of loan pays much in terms of interest as compared to those who take big loans. Infact these MFIs are not for the people as they do so to generate much profit in order to survive. VICOBA members set interest and insurance according to their capacity and needs.

Coverage is also another shortcoming, coverage does not only mean the number of clients only but also the geographical location, most of the MFIs are in urban areas like Dar es salaam, Kilimanjaro, Arusha, Mwanza, Morogoro and coast region e.g. PRIDE, PTF, FINCA, CARITAS, NMB are all located in regional or district centers. The southern, western and central regions have few services; this contributes to the belief that these regions have people who do not like to do business activities.

Another limitation is that microfinance institutions do not provide loans in rural areas because of the type of activities done that do not guarantee the MFIs to recover their investment. Rural people depend most on rain- fed agriculture and use of rudimentary tools thus it takes a long time until the project can repay the loan. But VICOBA can operate anywhere depending on the needs of that particular group which has started VICOBA.



MFIs also has small coverage as compared to the requirements of most entrepreneur who would like to access this service, this is mainly caused by the size of capital which force them to serve only few and maintain a certain number of client others should wait after repayment.

MFIs have a limitation on diversity of activities, each type of business has its particular need for financial services i.e. size of the business, type, stage of development and the market where it operates. Most of them offer the same products, which do not necessary fit all. People had no choice rather are forced to follow the guidelines and absorb the same product and the same size of loans, which have been fixed without consultation with clients. For example the way PRIDE, PTF, FINCA operates is just the same, all start with a credit of 50,000 Tshs, which in practical sense would be enough to small businesses like food vending and not all the entrepreneurs. In comparison VICOBA can be formed anywhere and on the needs of the members, they can also decide what products to offer and change whenever they feel they need to. In VICOBA the loan size depends on one's business requirements as indicated in the business write-up and ability to pay.

Most of the MFIs in Tanzania are gender specific which target women as the disadvantage group while the men are left out like CARITAS, FINCA, PTF, SELFINA and the government women and youth fund. But, still they don't put in regard the specific needs of the particular women, a study should be conducted to assess the needs of the particular women because each woman have own special requirements.



The above limitations forces poor people to borrow from informal lenders, for example Dodoma region, Tanzania there is a common informal lending system famous in the name of 'SONGOLEDA', where you borrow a hundred Tshs today you will have to pay three hundred Tshs , if you borrow a bag of maize you will have to pay three. This is used mostly during rainy season where there is food shortage in households and people need money to buy inputs for their farms. This system is more exploitative as those who have capital use it to invest from poor people; the poor find it difficult to generate significant income from such loans because interests are high.

Sustainability is very crucial, without sustainability of the activities income poverty reduction is impossible. Poverty reduction will be effective if we have sustainable poverty reduction strategies. In sustainable development there are three interwoven aspects: a growth component, a distributional component and environmental component (Long worth 1992). According to Longwoth, growth aspects are in conflict with the other two: the challenge of development lies in combining the economic progress together with distributional and environmental aspects. In fact, economic growth only becomes economic development when its benefits are widely distributed tending to a social equity and conservation of environment is guaranteed.

The increased availability of microfinance facilities is no 'magic bullet' for poverty reduction. Efforts and strategies to reach the working poor are still needed to enable microfinance institutions make an important contribution to poverty reduction. As we can still see that microfinance services have not been able to enable their



beneficiaries to have economic viable income generating activities and contribute to income poverty reduction. According to the analysis made by this study to PRIDE and FINCA showed that these institutions only support women to graduate to bigger loans and when they reach their maximum amount they link them to higher financial institutions like National bank of commerce, Standard chartered and the like to continue borrowing there.

## 2.3. POLICY REVIEW

### 2.3. 1.The National Microfinance policy

The overall objective of the policy is to establish a basis for the evolution of an efficient and effective micro-financial system that serves the low-income segment of the society, thereby contributing to economic growth and reduction of poverty.

The policy stipulates that, access to financial services offers the possibility of managing scarce household and enterprise resources more efficiently, protection against risks, provision for the future, and taking advantage of investment opportunities, for economic returns.

The overall objective of the policy is to establish a basis for the evolution an efficient and effective micro-financial system in the county that serves the low income segment of the society, thereby contributing to economic growth and reduction of poverty by: -

- Establishing a frame within which micro finance operations will develop;
- Laying out the principal that will guide operations of the system;



- Serve as a guideline for coordinated interventions by the respective participants in the system; and
- Describing the role of the implementing agencies and the tools to be applied to facilitate development.

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

Savings are among the most beneficial financial services for low-income people.

Nearly all households need to save to protect themselves against period of low income or specific emergencies and to cover large anticipated expenses (like school fees)

Section 1.2.3 of the policy continues to explain that credit services perform some of the savings and can allow families to make some investments sooner. Enterprise use credit as a source of working capital and longer-term investment capital. The policy emphasizes the importance of microfinance in addressing the needs of major sectors of the Tanzanian population. They are primary facilitators rather than creators of the underlying economic opportunities that lead to widespread economic prosperity.



#### **2.3.1.1. Policy coverage**

The policy covers the provision of financial services to households; small holders farmers; small and micro-enterprises in rural areas as well as in urban areas. It covers a range of financial services, including savings, credit, payments, and other services. Clients can use these services to support their enterprises and economic activities as well as their household financial management and consumption needs.

#### **2.3.1.2. The policy vision**

The policy has a vision of achieving widespread access to micro-finance throughout the country, made possible by institutions operating on commercial basis.

The policy encourages the use of best practices from around the world, lessons of experiences in providing financial services to low income people have converged in consensus about how to provide such services effectively, efficiently and sustainable. The resulting best practices combined commercial financial permissible with a variety of ways to adapt service delivery techniques to the circumstances of low-income clients.

The policy explains how capacity building is among the tools for policy implementation, the other tools are regulation and supervision and development and application of standards. Most of the microfinance institutions currently operating are small or new. A great deal of capacity building is required to bring them to the level at which they can operate with large out reach, quality services and profitable operations.



### **2.3.1.3. Gender equity**

The policy recognizes the importance of equity in order to bring about a development balance for all its citizens. The policy emphasis access of financial services to be to both men and women. In order to achieve gender equity in the delivery of services it may be necessary to make special efforts to incorporate features that make services available to all.

### **2.3.2. Poverty Reduction Strategy Paper II**

The second PRSP document aims to make adjustment on the first PRSP and use the lessons to improve implementation of the second PRSP. Underlying the strategy are a set of principles, while some are critical during preparation, most apply throughout preparation, implementation and monitoring.

The PRSP II's second objective reflects directly the need of reducing income poverty that; "equity will be pursued through broad-based and sustainable growth, focusing on increasing employment and livelihood opportunities to the poor and improved access to public services, and good governance".

The strategy emphasizes on growth and poverty reduction outcomes, associated priority actions and inter-sector linkages. It seeks to be more inclusive by explicitly taking on board the various contributions of all key players. Related to this the strategy aims to be more comprehensive by taking into account the multi-dimensional nature of poverty; specific sector development strategies and programmes, and, crosscutting issues such as governance, environment, gender, HIV/AIDS, employment, children, youth, the elderly and people with disabilities.



According to PRSP II, the major conditions for poverty reduction is growth, in general, growth depends on the quantity and quality of inputs including land, capital, labour and technology. Improved quality of labour is embodied not only in quality education, training or skills but also in physical well being determined by the status of health or nutrition. All together these are ingredients of human capital. Technology, which is a product of knowledge and innovation, enhances the productivity of all other factors.

Growth that reduces income poverty enables households to acquire human capital inputs such as education, health, nutrition and higher quality of life. Growth also enables the government to collect revenue for provision of public services such as health, education, roads, administration etc. At the same time, social well-being enhances human capital, which is critical for long-term growth. Good governance, on the other hand, provides right conditions within which growth, well-being and poverty reduction take place.

Four qualifications of growth are essential for poverty reduction, first, it must be *broad-based* and equitable. Policies and actions are required to deliberately target resources to poor sections of society, parts of the country and sector(s) to enable them to engage in productive activities, or in the provision of public services. It is recognized however that, adequate support and conditions for proper use of the resources need to be put in place.

Third, the growth strategy will incorporate a trade strategy. PRS II will pursue the National Trade Policy and foster innovative and competitive capacity of domestic producers. Trade development will address supply-side constraints, capacity to



diversify the export basket by stimulating value-added activities and flow of investments.

### **2.3.3. Tanzania's development vision 2025**

The vision 2025 emphasize that Tanzanians should cultivate on their strength, which are national unity, social cohesion, peace and stability and building a mindset and empowering culture. The key elements of this are the development oriented culture of savings and investment, hard working and creativity, developmental community spirit, broad human development strategy, a learning society, incentive system to reward such attributes as excellent, creativity, innovation, and education as a strategic change agent

The vision has the aim to achieve three objectives which are achieving quality and good life for all; good governance and rule of law and resilient economy that can effectively withstand global competition. The objective will not deal with economic issues only but includes social issues such as education, health, the environment and increasing the involvement of people in working for their own development. The planning commission put it clear in the vision that implementation driving forces or pillars includes the need for the Tanzanian society as a whole to treasure and capitalize the development mindset as well as a self reliance culture.

### **2.3.4. Policy limitation**

The policy does not allow the Micro Finance Institutions to accept deposits from their clients but they do take and accumulate funds from the poor in form of loan insurance. The accumulations bear no interest while they charge extremely high interest rates in the loans. This kind of exploitation should be checked by the policy.



Capacity building is also required to bring the institutions to the level at which they can operate with large outreach, quality services and profitable operations. Currently they get super normal or abnormal profits from exploiting the poor by charging extremely high interest rates and other accumulations that bear no interest on the part their customers. They need to be innovative in terms of diversifying risk by having various/ different types of products in order to charge a fair interest rate from the borrowers and still meet the overhead costs and make profits.

#### **2.4. Conclusion.**

The rural poor need access to micro saving facilities in order that they can deposit money when they have it – after selling their harvested crops, for example – and withdraw it in times of need. Such basic facilities could help to smooth out consumption over the year and make the poor less vulnerable.

A deposit account can help the rural poor to obtain insurance, giving a sense of security, and it can help them to take out a loan when they need it. Credit facilities are generally not extended to the rural poor, even for highly productive activities, because they have few or no assets to offer as collateral.

Unless the poor can borrow, they are likely to remain trapped in poverty. The people who have been able to borrow have often seen their incomes rise and their future transformed. And, overwhelmingly, they have repaid their loans.

The last two decades have seen "a rapid growth of microfinance institutions across the world", states the Rural Poverty Report 2001. These include community-run rural banks, savings and credit cooperatives, and grass-roots organizations of indigenous



origin, yet the very poorest households often have not been reached by such initiatives. Their need to borrow small amounts of money is not always recognized and they may find it hard to conform to some of the requirements involved (for example, attending meetings).

Microfinance could do better in helping overcome poverty through direct interaction with the poor. Microfinance-safe savings, different types of loans, capital accumulation and other financial services to poor people, is an effective way to help poor people help themselves to build income and assets, manage risk, and try to work their way out of poverty. Access to financial services increases incomes and helps to build assets, thus meeting the needs of a much greater proportion of a country's population. For poor people, access to financial services means not only increased production, but also protection as the financial sector serves as a cushion in times of crisis. There is clear value in promoting inclusion of the poor; the relative value of direct access, as opposed to financial sector development overall, depends on the country context.

Though there is progress in microfinance sector in Tanzania in terms of number and products they offer, still there are some limitations, which are a hindrance to income poverty reduction. VICOBA program was established in order to overcome the above shortcomings and empower the poor to have their own MFIs, which meet their needs and can reduce income poverty.

The existing weaknesses like high opening and minimum account balances, travel time and transport costs involved in making deposits and withdrawals, location (in



towns or market centers), lack of collateral, high interest and lack of familiarity with bank operations and procedures should be overcome to allow the poor to access services.

From VICOBA experience positive effects on poverty alleviation strategies have been learnt. This scheme is very effective as it is run in a transparent manner the capacity building is practiced from the inception. Saving and credit management is taught from first to sixth week while business undertakings is taught from seventh to twelfth week. The members also receive appropriate skills training. This is done according to the identified needs during operations.

The effectiveness is also brought by the fact that the members own the project and the regulation and by-laws have been set by themselves. Every member knows how to fill the books and the papers meant for record keeping. There is shared responsibility and experience. Most important there is social fund for emergence loan in order to protect the members' capital during emergencies. They also protect productive assets from being sold when a member suffers any risks. Communities in both rural and urban areas can also adopt this.

Positive elements have also been learnt from Kilimanjaro co-operative Bank (KCB). SACCOs and primary marketing co-operative societies have formed KCB. The SACCOs build their members' capacities while KCB builds the SACCOs capacities.



The KCB operate profitably while enjoying less operational costs because it deals with groups of people (grassroots) who are guaranteed by their SACCOs and co-operative societies as opposed to those who deal with individuals.

Therefore, self-help groups intermediated by micro credit has shown positive effects. They have played valuable roles in reducing vulnerability of the poor through asset creation, income and consumption smoothing, provision of emergency assistance and empowering by giving the poor control over assets and increased self esteem and knowledge.



## CHAPTER 3: - RESEARCH METHODOLOGIES

### 3.1. RESEARCH DESIGN

The research was designed to obtain relevant information by involving beneficiaries, village leaders, project staff and non-beneficiaries as control groups

### 3.2. RESEARCH APPROACH

The research involved beneficiaries and non-beneficiaries and was done by using participatory data collection analysis methods.

### 3.3. SAMPLING TECHNIQUES

For the purpose of this evaluation, the sample was defined as a randomly selected sample of project clients. Similarly, the comparison of non-beneficiaries groups was defined as a random sample selected from the same area served by the project so that the population would be similar in all relevant respects.

- Questionnaires were administered to 100 respondents, 50 being VICOBA beneficiaries and 50 non-beneficiaries. The 50 non- beneficiaries were used as control group.
- Fourty representatives from 4 groups, each group was represented by ten members who were involved in focused group discussions
- Fourty non beneficiaries were interviewed
- Three Village government leaders from villages where VICOBA program are carried i.e. Kiswira, Kifindike and Tawa
- One project staff



- 3.4. UNIT OF INQUIRY
- 50 group members and 50 non members were involved in answering the questionnaires
- Village government leaders
- Project staff

### 3.5. DATA COLLECTION METHODS

For the purpose of accuracy the evaluator applied different qualitative and quantities methodologies. The information required was on improved income, training and participation

#### 3.5.1 PRIMARY DATA

##### **Questionnaires**

Two types of questionnaire were prepared, the first questionnaire to the village government aimed at collecting secondary data, the second questionnaire was answered by beneficiaries and non-beneficiaries to collect primary data.

The specific questions to the village government (VG) sought to find generic information while those to the beneficiaries sought to see whether the program has brought any changes to their lives.

Self-administered questionnaires were administered to 50 beneficiaries and non-beneficiaries. The non-beneficiaries acted as a control group, which was used to compare the difference between those who participated in the program and those who did not.



### **Focused Discussions**

The evaluators prepared a checklist, which was used in conducting focused discussion with groups. The FGD conducted to VICOBA groups was geared to know how program responded to the priority needs and what changes has occurred. The questions in the questionnaires were also used as in focused discussions

### **Interviews**

The evaluator used unstructured interviews when collecting data from both beneficiaries and non-beneficiaries.

The questions asked were in respect to why they decided to join the groups, what have they achieved and whether they have observed any changes before and after joining the program.

### **Observations**

The evaluator applied participatory observation by attending group activities to see how actively all members participated (women and men) and observe decision making process, for example participation of group members in decision-making, and how leaders are elected and replaced.

### **3.5.2. SECONDARY DATA**

#### **Documentary sources**

Different documents from the groups and project office were used. The evaluator used reports, records, letters and manuals, which provided a good inventory of information for the secondary data.



## **Photographs**

The evaluator used photographs and videotapes to see how the project started and how it was operating e.g. training, road works, meeting of savings and credit e.g. these brought the evaluators to the situation seeing how the project and groups conducted their activities.

## **3.6. DATA ANALYSIS METHODOLOGIES**

The evaluator used both qualitative and quantitative methodologies in analyzing and interpreting the data

### **Primary data**

The research used computer software SPSS and excel to analyse qualitative and quantitative primary data, and also the following three qualitative methods were used:-

- **Illustrative**

This method analyses the data to illustrate the degree of validity of an assumption about a project, in this case to see if people are given loans and training to start income generating activity, will improve their social economic lives and contribute to income poverty reduction.

- **Method of Agreement**

- i) Look for commonalities
- ii) Concentrate on cases that have a common outcome/effects, e.g. some beneficiaries have realized change while others have not



- Method of difference
  - i) Compare sets of cases that are similar in some ways and different in other way for example 100 beneficiaries have changes but not in the same ways
  - ii) Use the comparisons to draw important conclusions

**Secondary data**

For analysing secondary data the computer packages (SPSS and Excel) was used,



## **CHAPTER 4: ANALYSIS AND DISCUSION OF THE FINDINGS**

### **4.1. INTRODUCTION**

This chapter presents the findings based on the evaluation question, which wanted to assess the relevance, and effectiveness of the project in improving the income and contributing to poverty alleviation. The evaluator used various methods as explained in chapter three in order to get information which will help to do the analysis and see the whether the project has realized its objective.

### **4.2. FINDINGS**

#### **4.2.1. Relevancy**

How did the program respond to villagers' priority needs and what changes has been brought.

To answer the above evaluation question the evaluator consulted office and groups reports, discussed with groups and visited some income generating activities.

As an entry point in 2002, DRSP conducted Participatory Rural Appraisal in three villages along its project area to assess factors which hinder development and find development potentials, (and in a gender sensitive way) the objectives of this exercise was: -

- To create community awareness, ownership and maintenance by identifying development gaps and mobilize efforts to overcome them within DRSP area of influence.
- Assess potential resources and gaps which affect development and,
- Promote economic activities



#### 4.2.2. PRA findings

The table below shows the different economic levels. The villagers were asked to name people of different economic status and they said they have three classes those with good economic status were termed as **the rich- matajiri**, or the **abled-wenye uwezo**. And for the middle class they have the **Fakarai**, or the **average** and the third was **the poor**.

According to the livelihood analysis done during PRA the richer was about 15% of the village population with 5 female headed households. Those with average income/wenye uwezo form about 75% of the village population with 95 female-headed households and the poor make 10% of the village population.

From this analysis the target populations were the middle class, which have the working poor. The third group comprises the widows, physical handicapped, the aged and those with long-term illness

#### General problems identified were:

- Poor production due to the fact that farmers did not apply agriculture principles e.g. coffee are left in bushes, orange trees are old and cant afford to pay agricultural inputs
- Lack of capital to start other income generating activities
- Lack of markets for their products this is caused by low quality of crops, no cooperation among farmers in setting prices and time to sell,
- Poor education to school children, few equipments, few teachers, and parents do not see the importance of education

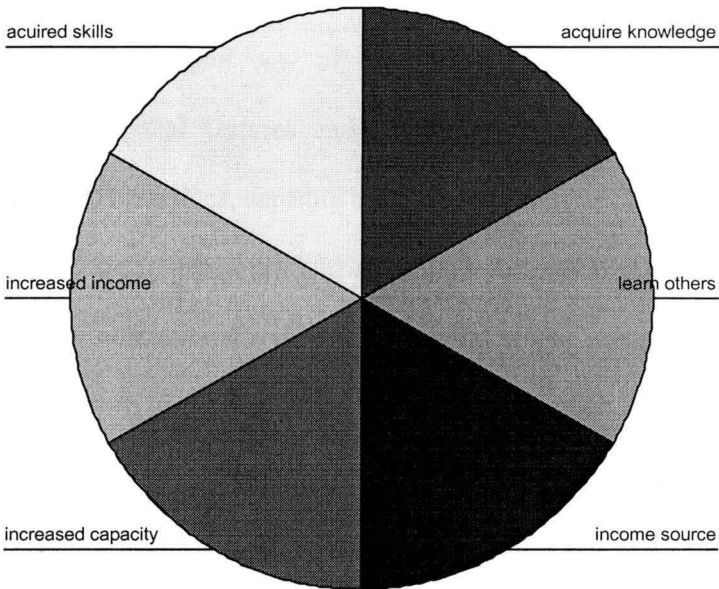


- Transportation problems especially from their farms to the market they use head loading.
- Cultural practices are given priority number one in household expenditure for example Unyago i.e. about 2/3 of the small income they generate per year is spent in this practice.
- Poor livelihood conditions, poor houses, can't afford a balanced diet.

After the analysis, the PRA exercise concluded that the root cause of all problems was poor economic conditions (income poverty) and which was caused by lack of knowledge e.g. entrepreneurial skills and lack of capital to start income generating activities. In evaluating the relevance of VICOBA the evaluator interviewed and made participatory observation to their income generating activities. The purpose was to learn what was their income before and after joining the groups, and ask them what were the benefits, their responses are depicted in the chart below.



Chart number 1: beneficiaries’ response on benefits acquired after joining the groups



Source: Evaluator’s findings

Computer SPSS software was also used to analyse quantitative data as it is shown in the table below. Before joining the groups the mean income was 1.00 while after joining the mean raised to 4.33. The standard deviation for income before and after was 0.000 and 0.816 respectively.

**Table 2:- Descriptive Statistics for Participants income before and after joining the group**

	N	Minimu m	Maximu m	Mean	Std. Deviation
Income before joining the group	6	1	1	1.00	.000
Income/month after joining the group	6	3	5	4.33	.816
Valid N (listwise)	6				

Source: Evaluator’s findings.



Therefore valuation found the question of relevance was answered positively because the project has started VICOBA program that has enabled the community to have a sustainable and self managed way of income generating. VICOBA groups are relevant due to its special features and operational system which emphasize on elements of self-help initiatives, capacity building, resources mobilization, ownership and joint Management, transparency and effective information sharing, promotion of volunteerism (equal obligations) and benefits sharing among the group members.

## **4.2. Effectiveness**

Effectiveness was measured in terms of increased incomes and knowledge

### **4.2.1. Increased income**

The evaluation found that the income level has improved from an average of 9000 Tshs per month before the project to 40,000+. According 100 respondents, (50 beneficiaries and 50 non beneficiaries) interviewed on what was their average monthly income before and after the project.

The response showed that after intervention those who have average income less than 9000 are 35; all of them non-beneficiaries and among them 17 are female.

There are more women than men in income level 21000-30000 and 31000 – 40000.

This shows that a woman who joined the program her income improved as compared to non-beneficiaries. 10 respondents all beneficiaries have average income of 40,000+ per month. The table below shows the different income levels after project intervention.



Table 3: Income levels after project intervention.

Income level	Number of beneficiaries	Number of non beneficiaries
Less than 9000	0	35
10,000-20,000	6	12
21,000-39,000	12	2
31,000-40,000	22	1
40+	10	0

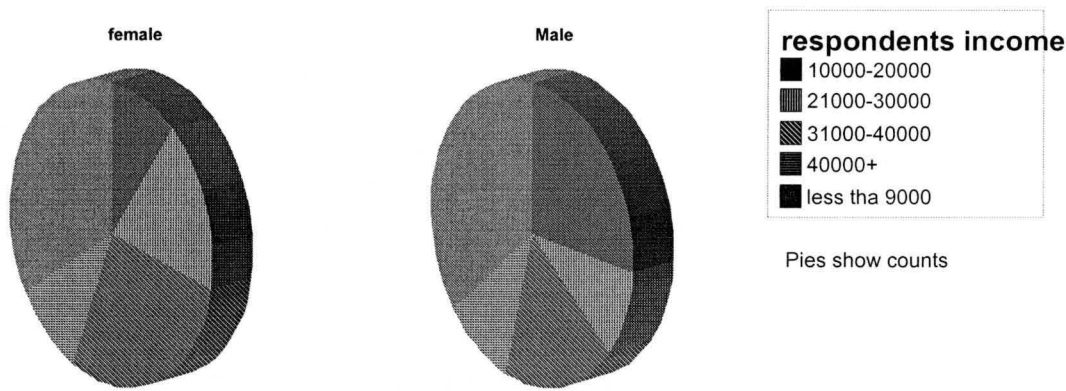
Source: Evaluators' data from questioners

According the statistics the mean of income is 3.3 and the standard deviation from the mean is 1.5, this shows that the beneficiaries income are increasing at a reasonable rate as the deviation is less than the mean.

The analysis showed that the program has enabled beneficiaries to get loans, which they now use to buy farm inputs and hence production has increased. The increase in income has allowed diversification of activities. Formally people depended on agriculture only as we have seen in base line data (refer page 42) this was caused by lack of capital, but now they can do business and other type of income generating activities.



Chart number 2: Different income levels according to Gender



Source: Evaluator’s findings

VICOBA program has enabled people to develop a culture of savings, which enabled them to give loans four months. These loans were given according to conditions set by themselves taking stock their ability and needs.

The groups started by a share valued at 1000 Tshs per share, which was compulsory, but a member was allowed to buy up to three shares per week. In the first meeting the group managed to collect 121 shares equivalent to Tshs 121,000.



Table 4: Group savings at the beginning of the intervention in August 2003

Group number	Group name	Group location	No of Members			Value of 1 share	Total shares sold at the 1 <sup>st</sup> meeting
			Female	Men	Total		
GN 01	Ukombozi	Kiswira	8	16	24	1000	27 =27000 Tshs
GN 02	Mshikamao	Tawa	11	12	23	1000	24=24000 Tshs
GN 03	Jikomboe	Tawa	8	8	16	1000	21=21000 Tshs
GN 04	Upendo	Kifindike	7	20	27	1000	38=38,000 Tshs
<b>Total</b>			<b>34</b>	<b>56</b>	<b>90</b>		<b>121,000 Tshs</b>

Source: documentary

After one year the groups collected shares from its members worth 5, 715, 000. The groups issued 191 loans worth 20,127,000 millions, and at the end of the year the groups made a profit of 1,715,000 millions (refer to table 5 bellow). The interest rate charged to each loaner was 10%; this together with 10% insurance (each loaner was required to pay 10%) contributed the above profit. The amount paid, as insurance to the loan was left to circulate and it was paid to loaner at the end of the cycle, which is after one year, this was also one way of capital accumulation.

At the end of the cycle the groups paid dividends worth **1,822,611** millions and a profit of **1,715,000** million was distributed to members according to the number of shares one has. The members also were paid back their contributions from insurance, and social fund worth **2,012,700** and **290,300** respectively. Along with banking activities a social fund was started which was intended to help when they are faced with family problems like sickness, deaths or need to pay education expenses for their children. A member can borrow and repay it after a certain time without interest, at the end of the cycle each member received his/her contribution.



Each group remained with some **468, 410** from penalty and gifts. The groups set different amounts of money, which was paid when one violated the by-laws, this money was used to take care of running expenses like fare to the bank and buy stationeries. According to their agreement, this money was not distributed to the members but it was put aside as a group money which was used to start again another cycle which started immediately after breaking the first cycle.

Before closure of the cycle the member should first agree how many shares should be left in order to start a new cycle and what would be a value of share. They also go through the regulations and make improvement if necessary.

Each group agreed to leave shares worth **270,000** to be carried forward in next cycle. The value of one share has been changed from **1000** during the first cycle to **2000** this means every week a group of thirty members can collect **180**

The table 5 below presents the status of VICOBA groups after one year. This calculation was one of my assignments, which the group asked me to help them in the evaluation. According to the regulations one cycle takes is one year, after one year the groups have to do an evaluation and distribute profit, dividends and shares so that members can use this money in expanding their IGAs.



Table 5: Group savings at after one year of intervention

<b>Group Name</b>	<b>No of loans</b>	<b>Loan phases</b>	<b>Loans disbursed</b>	<b>Insurance</b>	<b>Interest</b>	<b>Social fund</b>	<b># Of share</b>	<b>Multipli cation factor</b>	<b>Dividends</b>	<b>Profit</b>	<b>Gifts</b>	<b>Penalty</b>
Jikomboe	44	8	4083000	408300	408300	69500	2253	309	696177	511200	101700	17500
Upendo	50	9	5918000	591800	591800	113500	1107	407	450549	592800	40750	6440
Mshikamano	44	9	4703000	470300	470300	107300	2355	287	675885	675000	19600	1760
Ukombozi	53	9	5423000	542300	542300							
Totals			20127000	2012700	2012700	290300	5715		1822611	1779000	162050	25700

Source: evaluators facilitated calculations using group record



The researcher made discussions with the groups and interviewed individuals to know what achievement they have since they joined the group. The group members acknowledged that the program has enabled beneficiaries to get loans, which now they use to buy farm inputs and hence production has increased. The increase in income has allowed diversification of activities. Formally people depended on agriculture only as we have seen in base line data this was caused by lack of capital, but now they can do business and other type of income generating activities.

Therefore according to these findings the evaluator found that VICOPA have been effective in improving incomes, enabled savings, facilitated investments and helped in creating own capital accumulation.

#### **4.2.2. Increased knowledge**

The groups received training on group management and organization and how to run savings and credit from the 1<sup>st</sup> week up the sixth week. Phase two of the training was in business selection, planning and management (SPM) started from 7<sup>th</sup> to 12<sup>th</sup> week.

This training was aimed to ensure that beneficiaries are able to operate savings and credit and run income-generating activities. After the intensive training the project continued to provide follow-up and on the job training.

The groups also received skills in order to enable them run their IGA. The skills provided were on beekeeping, poultry, milk goat, and soap manufacturing, batik and tie and dye, gardening and business skill. The training was conducted to answer the



members different needs according to the type of IGA operated, see picture of members during tie and dye and batik training in annex 5.

### **How useful the training has been**

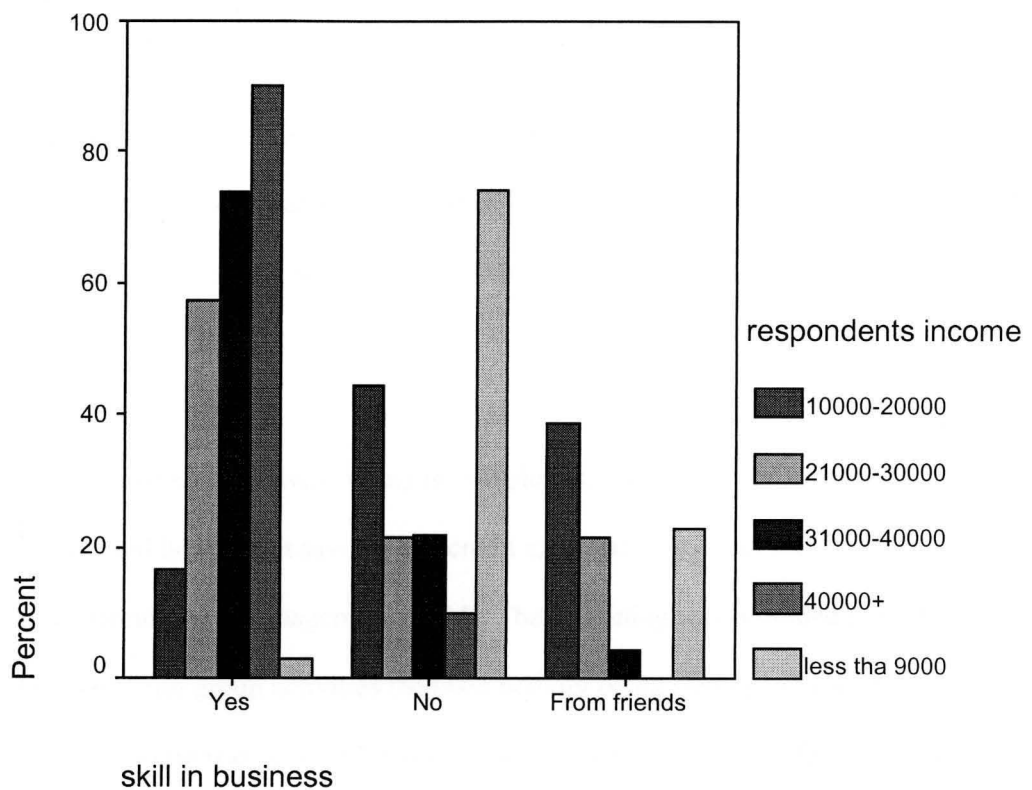
Training has enabled the groups to improve their income generating activities, to undertake market identification and develop market links within the groups themselves in the village even outside the village. Also groups formed informal associations in which they assisted each other in transporting products and controlling price of products (people are now selling their products in other regions like spices to Zanzibar and fruits to Dar es salaam and Dodoma).

It is evident that training and skills are related to increased incomes. The evaluator made interviews with both beneficiaries and non-beneficiaries. The response showed that those who are not beneficiaries and have not received any training and depend on agriculture only have low income, also some do operate business activities but due to lack of skills they end up from hand to mouth every day. When the two respondents were compared, those who received training and those who didn't, the later have higher income.

The table below shows the percentage of income for those who have received training is higher income as compared to those who have not. The income of those received training is between Tshs 9000 to 30000 per month; those with no training have income below 9000 Tshs per month. Those who received knowledge from



friends and family members operate business though not so successful but most of them have income of 10,000 to 20,000 per month.



Source: -Evaluators' findings

#### 4.3. Sustainability

Sustainability of the project was assessed in terms of the skills imparted, which will enable the beneficiaries to continue with the program even after the project has phased out.

The project adopted VICOBA program and its concept and approach was modified and applied it according to the real needs and requirements of the people. The training provided took in consideration the needs and ability and level of education



of the beneficiaries. A manual on VICOBA was produced which assists in organizing and operating day today activities. This could also assist in forming grouped and train them.

To ensure sustainability training has been provided to all members regardless of their sex this training is a compulsory. According to the by-laws set a member does not qualify to get a loan unless he/she has attended fully the training and participated in other group's activities.

The groups received intensive training in two phases, phase one was on group organization and how to run savings and credit and phase two were on business selection, planning and management (SPM). These training was provided to enable them be able to run group activities the main activity being saving and credit operations. Training was provided to all members not leaders only so that all can be able to operate the group and the SPM training was geared to enable them to use the loans received from their group to start income generating activities.

During focus group discussions one of the beneficiaries who is also a ward councilor responded how he has benefited from the program, his remarks are presented here as:-

“---- I have seen donors coming to our villages conducting many seminars and giving people allowances, taking some of them to various study tours but after leaving nothing remains to remember them, DRSP does not give people money but they have given skills which will not be taken away unless we ourselves decide so, this has



made us confident that we can use our skills and available resources to increase our income without depending much on donors. Always our cry was on the Government that they don't give us loans but even the few who managed to get loans have failed even to repay the loans and have been force to run away from their families----".

For sustainability of the program the project facilitated establishment of market links with other institutions like, the association for farmers (MVIWATA) and a SACCOS in Matombo division where they can get information and business advisory services. The project also has linked the groups with government's Community development and cooperative departments where they can get technical assistance, loans or grants, information and business advisory services.

#### **4.3.1. Gender**

In order to be sustainable the issue of gender was addressed, making sure that women participate in the program, as women are disadvantaged and isolated even in getting loans from other financial institutions due to lack of collateral and information. According to the culture of most tribe's valuable assets in the society belongs to the men lack this is a main cause to women's lack of collateral.

The evaluation found that participation of women in the groups was encouraged by ensuring that training, loans, leadership, decision making and ownership of the group is by all members regardless of their sex.



#### **4.3.2. Participation-**

The program combines both male and female and treats them equally in training, buying shares, in taking loans and getting dividends. The training conducted in a participatory way and they are trained according to their needs.

#### **4.3.3. Decision making-**

A group decides on how to run group activities, women and men regularly participate in decision making. All members have equal right to decision making, if they want something then 2/3 of the members should agree

#### **4.3.4. Leadership**

Leaders are elected according to their capacity and gender and not their sex , each groups is run by an implementation committee of nine people. In this program women have been occupying the positions of treasurer and accountant may be this is because of the traditional belief that women are smart than men in financial issues. Most men have been elected in the position of guards and secretary. Both women and men share the position of chairperson.

In the beginning, temporary leaders were elected and after finishing lessons on group organization and internal regulations and setting by-laws, the group elected permanent leaders who will stay for one year. Members can change the leadership where necessary and 2/3 should vote for change, and if at the end of the year they want the same leaders to continue 2/3 of the members should agree. The members can now run group activities without external assistance.



#### 4.4. Cost benefit analysis

The researcher made a cost-benefit analysis to both , beneficiaries and the project to compare the cost incurred and achievement.

Table 4: Beneficiaries cost-benefit analysis

Activity	Cost incurred /Time spent in hours
Attending training for 4 months	16
Forgoing other expenditure in order to buy shares	96000 Tshs
Time spent to attend skills training	15
Attending weekly meetings	32
Total	141000

Beneficiaries spent time to attend training and other group activities. The time spent was 63 hours which when one works in casual labor is paid 500 Tshs per hour. Therefore 500 times 63 hours equals to Tshs 31500. Also beneficiaries spend an average of 96000 Tshs for buying shares every week for 12 months. Average cost therefore is 127, 500 Tshs. At the end of the cycle the average profit for one beneficiary was 150,000 (refer appendix 4). Other benefits are as listed in point 4.4.1 below: -



Table 5: Project cost- benefit analysis

Activity performed	When	Cost
Study visit to kisarawe to learn how VICOBA works	April 2003	340000
Consultant	August to December 2003	12000000
VICOBA tool kits	10 kits	1000000
Familiarization and mobilization visits	August 2003	340000
TOT to 2 project staff and 1 field Agent		1350000
Transport including drivers allowance	Aug 03 – Oct 04	3040000
Video shooting and still pictures	Three times	300000
Top-up loan to groups	December 2003	320000
Skills training	July-September 2004	2070000
Monthly follow –ups	January to October2004	416000
Field Agent’s allowance	July 2003 to September 2004	960000
Total		22136000

Source: Evaluators findings from the focused discussions

#### 4.4.1. Achievements

The project spent some Tshs 22136000 and has achieved the following benefits:-

- Enabled beneficiaries to below 9000 a month to 38,000 a month. These results have enabled the project to transfer the knowledge and experience to new areas in Kongwa District, Dodoma region. The project started with 4 groups of 90 members but after one year the group has ten new groups with 300 beneficiaries and group savings of over **15,000,000** million Tshs.
- Imparted skills, which have assisted in diversification of activities as the people in rural areas only depend on the rain fed agriculture and they lack capital and skill to start other income generating activities



- Shared the knowledge with other projects engaged in micro-credit in other regions like ORGOT of Simanjiro, WWF from Iringa and Mbeya, MVIWATA-the association for farmers; District councils of Songea, Masasi, all five districts of Morogorro region and Kongwa.
- Started programs, which are self-sustainable, through training and savings, which enables the group to continue on their own. Group by laws, which are set in a participatory way make implementation possible and effective.
- Enable people to reflect their conditions and assess themselves what they want to be in the future and built a self-motivation to reach the objectives.
- Acquire knowledge which can be shared with other development practitioners
- Get experience in working with the poor in mobilizing the skills, experiences and scarce resource they have and up grading them to qualify to borrow from other micro finance institution or register their own SACCOS. The project assisted the groups to start their own Community Based Organization (CBO) which will be responsible to supervise the groups and make links with different organization according to the group needs

#### **4.5. Shortcomings**

Though the program is effective but there were some shortcomings, which the evaluator found during her project engagement, and some during the evaluation exercise.

The regulations for loans were not clear on the formula for calculating profit. The loan application forms have nowhere the loner could declare assets which can be taken to cover the loan if one fails to repay the loan. There was also a conflict that was solved immediately and the constitutions on this issue were reviewed. The



conflict was on the money paid as insurance before taking the loan; the regulation showed that it should be included in the profit calculations. Members wanted this money to be paid back to lender at the end of the cycle.

#### 4.6. RECOMMENDATION

##### **To groups, village council and extension workers**

First the evaluator recommends that it is very important to support even the small informal programs like VICOBA because they have proven to be source of capital to many poor people and can be formed in both rural and urban area.

Second, the poor can come out of poverty through savings and when facilitated to start with what they have and provided them information and training. Financial assistance should be made on loan bases, which encourages responsibility and commitment and not grants as it is like spoon-feeding.

Third, encourage a culture savings, which is sacrifice of certain expenditure for some time, but in the future, be able to get what one has postponed instead of donors depending on loans as loans have interests that does not enable one to accumulate own capital.

Fourthly, seriousness in turning up plans to actions and set regulations that govern day today operations.

Fifth, beneficiaries should receive equal pay and treatment for equal job/contribution and operate in a transparent manner, gender balance and equity.



Seventh, Savings and credit groups, SACCOS and Micro finance institutions should emphasize training, savings accumulation, active participation, and capital formation techniques and establish a rewarding system that encourages people to be entrepreneurs.

Eighth, The District Councils should adopt this VICOBA model and train its Community Development staffs. This is because VICOBA has proved to be effective way of capacity building and a way of enabling people to have their own source of capital

Ninth, Microfinance institutions though favor women as the disadvantaged, should conduct a study to assess the needs of the particular women because each women have own special requirements for example most IMFs provides same product and size of loan and training.

**To VICOBA groups,**

Before closing the cycle, the groups should review the formula for calculating profit and for resigning members and for those who wish to continue with the group.

The guarantor's form should be improved to incorporate what type of assets the loaner declares as security. The group should make a follow-up to ascertain asserts declared by a loaner (not assets like land, buildings), which can be taken to recover the guarantors shares after a lonee fails to repay the loan.



Group should be registered to the relevant sources so that they can get legal recognition, be able to get services from other organizations and attract more people.

## 5.2. CONCLUSIONS

Micro finance can play a greater role in reducing poverty and vulnerability when it is complemented by non-financial services. The poor does not only need credit but they also need other things. The experience gained from VICOBA shows that, the poor need training, savings, participation, capital formation techniques, a rewarding system, and abiding to internal regulations. Training is very important in building the capacity of the poor. The evaluation noted that even before graduating for loans the group members were able to start IGAs by just using the training they have received. It was also observed that the group members' income was low when compared before and after training; there were obvious changes in their income.

VICOBA have capital formation techniques that provides capital through its rewarding system i.e. at the end of the cycle a member receives their shares plus a profit according to the number of shares one owned. Also the money paid as insurance is returned accordingly.

Participation on group activities creates a sense of ownership, self-esteem and dignity and ensures sustainability and self help.



The secret to the effectiveness is discipline and abiding to internal regulations.

People are used to set laws and regulation, even make plans on certain things they should remember to turn those in to actions to be effective.

VICOBA lending model is a unique and most effective tool for development of rural communities. This is due to its special features and operational system which emphasis on elements of self-help initiatives, capacity building, resources mobilization, ownership and joint management, transparency and effective information sharing, promotion of volunteerism (equal obligations) and benefits sharing among the group members.



## CHAPTER 5: IMPLEMENTATION OF RECOMMENDATIONS

### IMPLEMENTATION

After going through the recommendations, the groups decided to implement the following recommendation; reviewing the formula for calculating profit, review of the section 5 of their constitution and, establishing a CBO.

First, they started with reviewing the formula for calculating profit for resigning members and for those who wish to continue with the group after breaking of a cycle. The formula had mistakes on the multiplication factor for calculating the value of one shilling; it gave the profit to be very high than the true total profit. The group asked the field agent and the CED student to help with the calculations. The process started by going through the formula again and reviewing it, auditing the group accounts and calculating the profit, then making correction to the multiplication factor and multiplying it to the number of shares one has. Before distributing profit the group agreed how much shares should be left for starting again another cycle. The tables below present the profit distribution during closure of the cycle.

Mshikamano group Individual pay at the end of the cycle

Members number	# of shares	Dividends	Education	Health	Insurance
1	173	49,651	3800	7800	
2	70	20,090	200	800	
3	186	53,382	2900	6000	88000
4	0	0	2400	1200	36000
5	40	11,480	100	400	
6	99	28,413	2600	5200	
7	58	16,646	100	200	
8	30	8,610	2300	4400	10000
9		0			
10	97	27,839	800	2000	18000
11	96	27,552	1000	2800	32000
12	33	9,471		1400	5000



13	44	<b>12,628</b>	100	200	
14	82	<b>23,534</b>	100	200	22000
15	3	<b>861</b>	200	600	15000
16	73	<b>20,951</b>	700	1600	3000
17	3	<b>861</b>	100	200	6000
18	163	<b>46,781</b>	2900	6000	62000
19	180	<b>51,660</b>	3900	8200	54000
20	70	<b>20,090</b>	2500	4200	
21	121	<b>34,727</b>	3900	8000	15000
22		<b>0</b>			
23	144	<b>41,328</b>	600	1400	58000
24	186	<b>53,382</b>	2400	4800	54000
25	85	<b>24,395</b>	800	1200	
26	74	<b>21,238</b>	200	600	33000
27	62	<b>17,794</b>	100	200	35000
28	73	<b>20,951</b>	600	1400	24000
29	72	<b>20,664</b>	200	600	
30	38	<b>10,906</b>		200	34000

Jikomboe group Individual pay at the end of the cycle

# Members	Insurance	Social fund	# OF SHARES	DIVIDENDS	Interest
1	11000		17	<b>5,253</b>	12000
2	6000	6900	106	<b>32,754</b>	5000
3	10000		112	<b>34,608</b>	49300
4			0	<b>0</b>	
5	3000	1200	48	<b>14,832</b>	32000
6	13000	4200	89	<b>27,501</b>	4000
7	5000	3900	105	<b>32,445</b>	3000
8	16500	6000	119	<b>36,771</b>	
	15000				
9	17300	5100	89	<b>27,501</b>	2000
10	4000		57	<b>17,613</b>	22000
11	6500	5100	153	<b>47,277</b>	
12					
13	12200		48	<b>14,832</b>	18000
14				<b>0</b>	43000
15				<b>0</b>	15000
16				<b>0</b>	
17	14000	4500	63	<b>19,467</b>	16000
18	15000	2900	67	<b>20,703</b>	6000
19				<b>0</b>	14900
20		6300	202	<b>62,418</b>	
21				<b>0</b>	32000
22	35500	5500	175	<b>54,075</b>	23000



23				<b>0</b>	72000
24	50000	5800	178	<b>55,002</b>	21000
25	80000	1200	81	<b>25,029</b>	14000
26	26000	300	129	<b>39,861</b>	6000
27	44000	900	82	<b>25,338</b>	17000
28	45000	4200	104	<b>32,136</b>	45000
29	15000	5500	144	<b>44,496</b>	12000
30	22000		85	<b>26,265</b>	27000

Upendo group Individual pay at the end of the cycle

Members No	Social fund	# OF SHARES	DIVIDENDS	Interest
1	9000	34	<b>13,838</b>	12000
2	82000	9	<b>3,663</b>	5000
3	82000	169	<b>68,783</b>	12000
4	7800	4	<b>1,628</b>	32000
5	7000	11	<b>4,477</b>	4000
6	7800	60	<b>24,420</b>	3000
7		21	<b>8,547</b>	
8	7800	182	<b>74,074</b>	2000
9		12	<b>4,884</b>	22000
10	7800	155	<b>63,085</b>	2500
11			<b>2,035</b>	18000
12		5		
13	7600	104	<b>42,328</b>	43000
14	660	5	<b>2,035</b>	15000
15			<b>0</b>	
16	7400	45	<b>18,315</b>	16000
17	7600	24	<b>9,768</b>	6000
18	800	0	<b>0</b>	14900
19	8000	6	<b>2,442</b>	32000
20	7200		<b>0</b>	23000
21		1	<b>407</b>	21000
22		2	<b>814</b>	14000
23		4	<b>1,628</b>	6000
24		3	<b>1,221</b>	17000
25	8600	38	<b>15,466</b>	45000
26	8200	73	<b>29,711</b>	12000
27	7200	87	<b>35,409</b>	27000



Secondly, the groups made review on their constitution; there were some weaknesses on the section 5 c of the constitution about insurance, which was required to be paid by the lonee before getting a loan. It was shown that insurance was included in profit and has to be divided equally to all members even those who did not take loans.

After review it was agreed that only members who took loans and paid insurance should get the money back at the end of the cycle the money should not be included to the profit.

And also section 6 of the constitution regarding assets declared by the loaner was amended, members agreed to make some addition to the loan application form, they added a line saying that ‘ the four members should inspect the declared assets if they worth the money taken’.

Lastly, group leaders in collaboration with the village governments and the ward councilor agreed to a recommendation of uniting all groups to form a CBO which will act as an umbrella to VICOBA groups and facilitate other development activities in the ward. The groups will continue with their regular activities and the CBO will deal with community issues, which will be decided by the community members.

Following this decision the group organized some meetings to mobilize VICOBA members and non-members and conducted the first general assembly where together they agreed to form a CBO. Following this decisions a caretaker committee was elected and were given following roles: -



First to organize election of temporary leaders, who will implement take a lead in preparation of a activities and draft constitution. A copy of the constitution is annexed at the end.

Second to conduct a needs assessment in collaboration with the evaluator, groups and village council leaders to identify specific activities of the CBO. After need analysis groups agreed that this CBO should be registered and act as an umbrella to other groups instead of registering each group separate. The CBO also will be responsible for developmental issues in the ward like designing, planning and implementing projects like maintenance of infrastructures e.g. road and public buildings like schools, dispensaries, markets e.t.c

The third task was to find a house for CBO's office and office equipments. The ward council volunteered to give a room for office for one year. And contributions were made to all community members, leaders and other well-wishers to facilitate CBO activities and buy office equipments. The project (DRSP) contributed office stationeries.

And lastly the temporally leaders organized a first general assembly to elect CBO leaders and approve the constitution. The election was conducted where 11 people were elected in the following positions: -chair person and assistant chairperson, secretary and assistant secretary, treasurer and assistant treasurer, and five committee members. The general assembly also approved the CBO constitution after making some few corrections and a three-person committee was formed to make registration



procedures under the guidance of the project officer and ward community development officer.

Before I finished my project assignment the groups maintained about five kilometers of road in segments (where the road was impassable due to mud). And started contributing burnt bricks for the construction of a secondary school.



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