

THE ROLE OF INFORMAL MICROFINANCE INSTITUTIONS IN SAVING
MOBILIZATION, INVESTMENT AND POVERTY REDUCTION. A CASE OF
SAVINGS AND CREDIT COOPERATIVE SOCIETIES (SACCOs) IN TANZANIA
FROM 1961-2008.

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THESIS SUBMITTED AS FULL REQUIREMENTS FOR THE AWARD OF DOCTOR
OF PHILOSOPHY DEGREE (PhD) OF St. CLEMENTS UNIVERSITY, TURKS AND
CAICOS ISLANDS OF BRITISH WEST
INDIES, 2011.

St. CLEMENT UNIVERSITY, TURKS AND CAICOS ISLANDS 2011.

ABSTRACT

Financial development is playing an important role in Tanzania's economic progress. Financial failures, particularly insufficient institutions and high transactions costs limit poor people's access to formal finance and prevent low income of people from borrowing, and saving. In this essay the importance of mobilizing savings through providing low-income to people from financial services **in** Tanzania is emphasized.

Last decade of microfinance practice, particularly in Tanzania, has neglected rural finance. Support to the sector has concentrated on turning credit programmes into suitable microfinance institutions (MFIs). This emphasis has produced a small number of MFIs that have either achieved financial sustainability or are close to achieving this. In Tanzania this includes organizations such as SELF, PRIDE, MEDA.

SACCOs, Savings and Credit Cooperative Societies as an alternative to formal banks are discussed as a way to increase savings. Furthermore, SACCOs –Members preferences are studied.

Developing and improving occupational SACCOs, saving and credit cooperatives, can be effective alternative to formal banks. The safety-issue is the basic problem, where education plays an important role to improve security. With improvements SACCOs could in the long run function as a way to connect informal savings with the formal financial sector.

Finally, it is imperative for the formulation of an appropriate MFIs policy which should reflect the views and aspirations of MFIs and also aim at improving business culture, promote trust, transparency, accountability and good governance, considered as hallmarks for building a strong MFIs sector.

DECLARATION

I, Mwakajumilo, Stephen Laurent Isaac, do hereby declare that this dissertation is entirely my own composition. All references made to works of other person have been dully acknowledged.

APPROVAL

This is to certify that this research work was carried out under strict supervision and has been approved for submission to the St. Clements University in partial fulfillment of the requirements for the award of the Degree of Doctor of Philosophy in Finance.

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CERTIFICATION

This is to certify that this dissertation entitled, “The Role of Informal Micro finance Institutions in Savings Mobilization, Investment, and Poverty Reduction”. The case of Savings and Credit Cooperatives Societies (SACCOs) in Tanzania Mainland from 1961-2008 by Mwakajumilo, Stephen Laurent Isaac (Matriculation no 8295) was carried out under my supervision and guidance. I also certify that this dissertation has been approved for submission to St. Clements University for the award of the Degree of Doctor of Philosophy (PhD) in Finance.....Professor Dr. Simon Grima.

DEDICATION

To Almighty God, to whom I return all the Glory and Honor; and Professor Dr. Simon Grima, my research Supervisor who bore the burden of seeing the English grammar through my research work managed properly.

Also my dedication of this research work to my wife Judith Maria Mwakajumilo (Teacher) whom God used to touch my life positively and my children whom my vision of acquiring a PhD would not have been possible without all their contributions one way or the other.

ACKNOWLEDGEMENTS

Many thanks go to Almighty God for His invaluable and inestimable favors, especially for blessing me with good health, wisdom, a broader thinking capacity and other essential ingredients of life to undertake this PhD research work. I acknowledge with immense gratitude and respect all the support given to me by Professor Dr David Iornem a St. Clements University Consultancy Services expert for his excellent guidelines and commendable remarks.

Aim motivated and encouraged by the support and immense contributions made by My Research Supervisor, Professor Dr Simon Grima (Professor of Banking Studies) for his encouragement and constructive critics of the draft document who devoted time to read the research work thoroughly from the beginning up to the end.

I also gratefully thank and appreciate profoundly the contributions made by Dr. Ramadhan Selestine Wilson of the Teophil Kisanji University (TEKU) for his painstaking critic of all entire document and very useful comments made.

I wish to put on record the fatherly role of the Bank of Tanzania Management and staff for their moral and material support during the whole entire period of my research. Made a great challenge to my endeavour life.

I want to acknowledge with my appreciation the support I received from Shadrack Joshua Mwakibete, the Monitoring and Evaluation Officer of the Rural Financial Services Programme (RFSP), a good and reliable friend of mine for his encouragement and contributions towards the realization of this PhD project.

Thanks are also well due to Advoncia Kilufi, Sophia Mwalupya and Lester Mulagha who diligently typed the work and for sparing their private time to do justice to my research work.

Finally, I thank immensely my wife Judith Maria Mwakajumilo and all my wonderful and excellent sons namely Boesak, Bismarck and daughter Eudosia (my soldiers of hope) for their support during the period of this research work was being undertaken.

ACRONYMS AND ABBREVIATIONS

AGOA	= African Growth Opportunity Act
AIA	= Arusha Institute of Accountancy
BOT	= Bank of Tanzania
CBOs	= Community Based Organizations
CIDA	= Canadian International Development Agency
CMSA	= Capital Markets and Security Authority
CRDB	= Cooperative and Rural Development Bank
DFS	= Decentralized Financial System
DID	= Desjardins International Development
DSE	= Dares-Salaam Stock Exchange
EAC	= East African Cooperation
GDP	= Gross Domestic Product
GESS	= Government Expenditure on Social Services
GTZ	= German Agency for Technical Cooperation
IFAD	= International Funds for Agricultural Development
IFM	= Institute of Finance Management
MEDA	= Mennonite Economic Development Associations
MFIs	= Micro finance Institutions
MIGA	= Multinational Investment Guarantee Agency
MUCCOBS	= Moshi University College of Cooperative and Business Studies
NBC	= National Bank of Commerce
NMB	= National Micro finance Bank
NGOs	= Non Government Associations
PRIDE	= Promotion of Rural Initiatives Development Economy
PTA	= Preference Trade Area
PTF	= Private Trust Fund
R& D	= Research and Development
ROSCA	= Rotating Savings and Credit Associations
RFSP	= Rural Financial Services Programme
SACAs	= Savings and Credit Associations

SACCOs	= Savings and Credit Cooperative Societies
SADC	= Southern African Development Community
SCCULT	= Savings and Credit Cooperatives Union League of Tanzania
SEDA	= Small Enterprise Development Agency
SELF	= Small Entrepreneurs Loan Facility
TAMFI	= Tanzania Association of Micro finance Institutions
TIC	= Tanzania Investment Centre
TPB	= Tanzania Postal Bank
Tzs	= Tanzania shillings, A Tanzanian currency
Tshs	= Tanzania shillings, A Tanzanian currency.
VOP	= Vice President Office

TABLE OF CONTENTS

Title Page	i
Abstract	ii
Declaration	iii
Approval	iv
Certification	v
Dedication	vi
Acknowledgements	vii
List of Tables	viii
List of figures	ix
List of Appendices	x
Chapters	xi

CHAPTER 1

1.0: INTRODUCTION.....	16
1.1.0 Background of the study.....	16-23
1.1.1. Factors Limiting Indigenous having low households to get credit from Formal Financial Institutions in Tanzania in the Post 1990 Period.....	23-24
1.1.2 History of cooperatives movement in Tanzania Mainland.....	24-26
1.1.3 Why is thesis undertaken.....	26-28
1.1.4 Statement of the research problem.....	33-35
1.1.5 Research Objectives.....	35-39
1.1.6 Research Questions.....	39-40
1.1.7 Development of SACCOs in the world.....	40-42
1.1.8 The following are the development of SACCOs in the World.....	42-45
1.1.9 Emergence of Modern Cooperation in Africa Countries	45-47
1.1.10 African SACCOS and their Environment	47-49
1.1.11 Experiences of financial systems in Africa	49-50
1.1.12 History perspective of SACCOs in Tanzania	50-51
1.1.13 Banks of Non-Bank Financial providing Rural Finance	53-58
1.1.14.1. SACCOs	58-59
1.1.14.2 NGOs	59-61

1.1.14.3 Donor Community	61-68
1.1.15 How Foreign Banks may assist the development of SACCOs in Tanzania ...	74-82
1.1.16 How are Foreign Banks attracted to come to Tanzania	82
1.1.17 Income distribution	82-84
1.1.18 Hypothesis statement	87-88
1.1.19 Rationale.....	88-89
1.1.20 Expected beneficiaries	89-90
1.1.21 Assumptions	90-91
1.1.22 Limitations and Scope of the study	91-92
1.1.23 Definitions of key concepts	92-94

CHAPTER 2.

LITERATURE REVIEW.

2.1.0 Introduction.....	94-96
2.1.1 Theoretical Literature.....	96
2.1.2 The concept of portfolio investment.....	96-98
2.1.3 Portfolio investment in the context of Tanzania.....	98-99
2.1.4 Good reasons for investing in Tanzania.....	99-100
2.1.5 Areas to invest in.....	100-101
2.1.6 Investment incentives.....	101-102
2.1.7 The role of Stock Market in Promoting Investment in Tanzania.....	102-103
2.1.8 The need for Stock Markets.....	103-104
2.1.9 Benefits and Costs of Stock Markets in Africa.....	104-108
2.1.10 Conclusion on Stock Market.....	108-109
2.2.0 Empirical Literature.....	109
2.2.1 Empirical Literature from Tanzania.....	109-111
2.2.2 Empirical studies from outside Tanzania.....	111-116
2.2.3 The role of SACCOs in the Economy.....	116-117
2.2.4 Significance of the SACCOs in Tanzania.....	117
2.2.5 Problems of SACCOs in Tanzania.....	117-120
2.2.6 Discussion of the factors affecting Microfinance Institutions Competitiveness in Tanzania.....	120-130

2.2.7 The prospects of SACCOs in Tanzania Economy.....	131-132
2.2.8 The role played by the Government in boosting the SACCOs.....	132-134
2.2.9 The role played by the Bank of Tanzania in boosting the SACCOs in Tanzania.....	135
2.2.10 The role played by increasing of by women participation in SACCOs.....	136
2.2.10.1 Advantages for the SACCOs by increasing participation of by women....	136-137
2.2.10.2 Main constraints on women's access to financial services.....	137
2.2.10.3 The comparative analysis between Tanzania's SACCOs and Kenya's SACCOs.....	138-139
2.2.10.4 Importance of savings mobilization and management in Economic development	139-141
2.2.10.5 Institutional providers of microfinance services	141-145
2.2.10.6 Strategies for Savings, Mobilization and Management in Tanzania	145-148
2.2.10.7 The challenges facing the East Africa SACCOs	148-151

CHAPTER 3

METHODOLOGY OF THE STUDY.

3.1.0 Measurement of household in living standard	153
3.1.1 Data Type.....	153-154
3.1.2 Research Design.....	154-155
3.1.3 Structure of Questionnaire	155-157
3.1.4 Methods of Data Collection and sampling.....	158
3.1.5 Data Collections.....	158-161
3.1.6 Examination of Micro Sect oral distribution of Loans from savings and Credit cooperatives Societies (SACCOs in Tanzania).....	161
3.1.7 Quality of research Data.....	161-162
3.1.8 Data Processing.....	163
3.1.9 Final model used in Registration.....	163-164
3.1.10 Tools of data analysis.....	164
3.1.11 Type of Research.....	164
3.1.12 Limitations.....	164-165

3.1.13 The reason for using a particular research philosophy and methodology in the proposed research design	165
3.1.14 Phenomenological elements	165-166
3.1.15 Qualitative data gathering	166
3.1.16 The research study is action	166
3.1.17 What are the specifics of the study	169-177

CHAPTER 4

PRESENTATION AND DATA ANALYSIS

4.1.0	Introduction.....	177
4.1.1	Results from questionnaires, interviews and reservation methods	178
4.1.2	Responses to Questionnaire.....	179
4.1.3	Business Environment	179-181
4.1.4	Research and Development support.....	192-196
4.1.4 (i)	Questionnaire on Research and Development	196-197
4.1.4 (ii)	Questionnaire on Legal from work	197
4.1.4 (iii)	General Questions on Research Information	197-198
4.1.5	Suggestion on improvement of legal frame work for SACCOs Development in Tanzania	198
4.1.6	Business Regulation.....	198-199
4.1.7	Finance support service	199-200
4.1.8	Legal framework	200-201
4.1.9	Member Borrowing Behavior	201
4.1.10	General Services	202
4.1.11	Financial Services	202
4.1.12	What members like Best about SACCOs	202
4.1.13	What members like Least about SACCOs	203
4.1.14	New services	203-204
4.1.15	Summary of research findings and Recommendation	204
4.1.16	Saving Services	204-205
4.1.17	Lending services	205-206

CHAPTER 5.

CONCLUSSIONS AND RECOMMENDATIONS.

5.1	Conclusions.....	232-236
5.2	Measures taken by the Tanzania Government to Strengthen savings and Credit Cooperatives societies (SACCOs)	236-237
5.3.	Questionnaire on Institutional support to SACCOs Growth	237
5.4.	Supports to SACCOs Development	237-239
5.5.	Recommendations	239-240

TABLE PAGES

TABLE 1:	Performance of SACCOs in Tanzania: 1960-1989.....	28
TABLE 2:	Performance of SACCOs in Tanzania: 1990-2005.....	29-30
TABLE 3:	SACCOs profile as at 31 st May, 2005.....	30-31
TABLE 4:	Number of Savings and Credit Cooperatives Societies (SACCOs) in Tanzania.....	31
TABLE 5:	The Trend of Households Consumption and Disposable Income in Tanzania 1961-2002.....	33
TABLE 6:	Providers of Microfinance Services in Tanzania.....	51-53
TABLE 7:	The summary of the activities and Programs of Various Donors.....	68-74
TABLE 8:	Formal Sector Distribution of Wages and Salaries in Tanzania: 1965-1990...	84-85
TABLE 9:	Percentage of Income and Consumption Received by Lowest 20% households In Tanzania: 1961-1988.....	85
TABLE 10:	Total USA Trade with some selected AGOAS Countries (Million US\$.....	148
TABLE 11:	Profile of Selected Microfinance NGOs in Tanzania.....	146
TABLE 12:	The distribution of micro financial institutions in Tanzania in 1996.....	182
TABLE 13:	Analysis of Customers accounts by products (figures in percentage).....	184
TABLE 14:	Average Loans size per Borrower (Tanzania Shillings).....	185
TABLE 15:	Percentage of Non-performing loans.....	186-187
TABLE 16:	Average Effectiveness and Efficiency performance measures of Institutions...	190
TABLE 17:	Total number of cooperatives up to May 30 th , 2004.....	221
TABLE 18A:	Situation for the SACCOs Development up to May, 2004.....	222

TABLE 18B: Value of loan from SACCOs funded Micro projects of Members.....	223
TABLE 19: Situation for the Audited Cooperatives up to May, 2004.....	224
TABLE 20: Audited Cooperatives up to May, 2004.....	224
TABLE 21: Traditional Export Crops in Tone.....	225

APPENDEX PAGE

A: Trend of Government expenditure on Social Services and SACCOs Lending Rate in Tanzania.....	206-207
B: Data used in Regression Analysis.....	208-209
C: General Results of Regressions.....	209-212
D: Graphs and Charts.....	213-216
E: Questionnaires used to collect Primary data.....	217-228
F: Results from the used Regression Data analysis.....	231-232

CHAPTER 1

1.0: INTRODUCTION

1.1.0: BACK GROUND INFORMATION TO THE RESEARCH PROBLEM

Savings and Credit Cooperative Societies (SACCOs) are important in the provision of financial and banking services to low income households who for economic reasons cannot be covered by the activities of formal banks and financial institutions.

SACCOs performs three major functions in relations to its members and general economic development of the country. In particular, these functions are collecting savings from its members, giving loans to its member's borrowers and giving financial and non financial advice to its members in order to facilitate SACCOs members utilize well the micro loans they have borrowed from SACCOs. In some cases, some government and private institutions may also give financial assistance to SACCOs in order to enable them (SACCOs) give micro loans to more SACCOs members.

In turn members of SACCOs are expected to use the borrowed funds for the intended projects. These are mainly financing of microeconomic members activities such as trade, agriculture, small scale manufacturing industries, service sectors such as saloon etc and in few cases; some Sacco's members borrow SACCOs loans to finance their non economic activities such as payment of school fees, payment of medical fees etc. Since members borrow Sacco's funds to finance their respective micro investments. It is important that there should be a close cooperation between SACCOs, Sacco's borrowers and professional experts in various fields such as banking, marketing, commerce, economics, finance, agriculture, trade, engineering etc. These professionals will provide valuable advice to Sacco's members on how to run their micro projects financed by micro loans borrowed by members. At the same time, the government is also expected to establish a conducive monetary policy, fiscal policy, trade investment policy, wage-income redistribution policy, etc which will in general facilitate better performance of SACCOs member's micro projects financed by SACCOs loans.

To SACCOs, they (SACCOs) are also expected to establish better management and loan recovery policies which will enable them (SACCOs) advance loans to members at affordable low interest rates. The economy consist people of different categories such as rural households, urban households, rural food and cash crop producers, rural cattle keepers, rural micro traders and few personnel employed in the Government and private social and economic sectors. In urban areas, most people are employees in the formal Government and private sectors and few are urban farmers. Also some people in urban areas practice trading at both large and small scales in both urban and rural areas, we find a significant number of people being dependant though more dependants are found in urban areas than in rural areas due to the nature of occupations done there, since activities in rural areas allows employment of many active working people than in urban areas where major activities are formal office employment, employment in manufacturing industries and trading which can not employ many more people as in the case of rural areas.

The differing of activities and employment in both rural and urban areas also cause these to be differences in income inequality and poverty trends between rural and urban areas. In urban areas we find high level of income inequality among different categories of households than in rural areas. However, low income inequality in rural areas may be also caused by low level of monetary income received by most people in rural areas.

The different activities done by households in both urban and rural areas also mean the existence of different SACCOs. Thus we have SACCOs for food crop producers, cash crops SACCOs, traders SACCOs, fishermen SACCOs, Teachers SACCOs, Armies (e.g. Police) SACCOs etc. All having the aim of assisting the Government to reduce high level of poverty and income inequality in the society.

Thus, the role of SACCOs to reduce poverty among its members depends on how and where the borrowers' funds are invested, and also how well the formulated Government policies will facilitate performance improvements of members' micro activities.

For example, to rural community, most people engage in food and cash crops production, few in cattle keeping and some combine both crops production and animal keeping. In most developing countries such as Tanzania, most food crops are produced by small scale farmers

using poor farming technology and mainly depending on weather, cash crops are produced by both small scale and big scale farmers. Thus poverty reduction strategies among different occupation groups are not the same, but will differ following the type of activities done and the place /areas where the activities are done.

To crop producers the common strategy will be to increase the quality and quantity of crops produced while also expecting to sell them at higher price value than the cost of production hence getting profits. To animal keepers in developing countries the strategy could be to increase the number and quality of animals produced and sold.

To traders, the strategy could be to expand business size, sales and profits. To employees in the formal sectors, the strategy could be to invest the borrowed funds in the ventures which will supplement their earned salary income.

Still in terms of investment, there are wide ventures where investment could take place. These are like physical investment i.e. investment in physical projects such as livestock, farming, manufacturing industries, or investing in financial assets of the companies listed in stock exchange i.e. shares and stock of private companies or treasury bills, treasury bonds of the Government. Such investments in financial assets have several policy implications such as increasing the number of people owning companies, while also increasing participation of households in monetary policy and fiscal policy operations of the country whereby monetary policy is defined as actions of the Central Bank to change the volume of money supply in order to achieve certain predetermined objectives such as employment, poverty reduction, stable balance of payment etc. On the other hand, fiscal policy aims at achieving the same objectives through changing the composition and rates of government expenditures and government revenues, in terms of domestic and external/foreign resources.

The contribution of Savings and Credit Cooperative Societies (SACCOs) and other organized microfinance institutions to reduce poverty and income inequality in the country is the combination of policy and non policy factors, the role of the Government, the number of households joining SACCOs, the amount of loans given to SACCOs members, the amount of loan used for intended investment purposes by SACCOs members, the rate of interest rate charged on micro loans given to SACCOs members, taxation policy of the government on

micro projects, general entrepreneurial education among SACCOs members, general level of disposable income of the population, the level of the country's population to consume locally manufactured goods etc.

More consumption of locally manufactured goods by local population has several direct and indirect roles to employment creation, income generation, poverty reduction and general reduction of income inequality among different categories of population in the country. If more people in the country are increasingly consuming more locally manufactured goods, this act will expand the size of local economic sectors which in turn will be able to increase the number of locally people employed and also be able to increase the amount of wages and salaries paid to the people employed there.

On the other hand, the taxation policy is also important to combine with Sacco's role in poverty reduction. High company and personal income taxes leaves little amount of disposable income which people can use to buy different kinds of goods and services in order to improve their living standard. Likewise high rate of indirect taxes means higher prices in the economy, so that this will make a larger volume of money to buy few goods hence reducing efforts of households to improve their overall living standard through the use of their own personal disposable income.

Moreover, for other specialized investment activities done by SACCOs members such as trade, farming, livestock keeping, small scale manufacturing etc, SACCOs members also need the advice/consultancy of selective experts such as economists, marketing officers, accountants, financial analysts, engineers, agricultural experts, livestock professionals etc who will advise SACCOs members on how to run well their micro projects financed by SACCOs loans in order to increase the performance of their projects for the purpose of making these micro projects to realize maximum possible profits.

This will make SACCOs members be able to repay their loans₅ they took from their respective SACCOs plus their interest rates attached to such loans, while leaving a significant amount of money from their projects for their personal use to buy different types of goods and services to finance their general personal consumption expenditures.

Also the usual noted problem among increasing SACCOs members has been the fact that some members have been using their loans from SACCOs for non intended purposes such as payment of past debts, payment of bride price etc. This has caused a lot of problems such as increasing the number of members unable to repay SACCOs loan, under funding by SACCOs loans for members micro projects. Also this has increased weakening of financial capacity of some SACCOs.

In order to reduce the high level of Poverty and income inequality among Tanzanians, a significant number of Savings and Credit Cooperative Societies (SACCOs) were formed in different parts of Tanzania by the end of 1960s. By 1975, they had become very instrumental in savings mobilizations, provision of micro loans to their respective members in both rural and urban areas. In rural areas, they also worked as important organs in development of agriculture through provision of credit to farmers to purchase agriculture inputs. In this case, their activities supplemented the activities of formal farmer's cooperative unions.

However, villagization policy of the middle 1970s led to the closure of these informal micro finance institutions and their activities were incorporated in the farmer's cooperative unions and later into crop boards. But this then created a gap of provision of financial services to low income households as the formal financial institutions could not handle this function well. This resulted into low-income households being thrown out of formal banking services and thus contributed an increase in the level of poverty among them.

After adoption of the market economy in 1985, the Government, with donor partners, realized the need of informal financial groups in the country as one way of reducing poverty among households; and also as a gateway for the Government and donors to channel their respective poverty reduction funds. This led to the formation of many Savings and Credit Cooperative Societies (SACCOs) in Tanzania, with the Southern highlands Zone of Tanzania (Rukwa, Iringa, Mbeya and Ruvuma Regions) having a larger number of these informal financial institutions than other Regions.

With regard to financial sector liberalization and poverty reduction strategy in Tanzania, about 90% of Tanzanians depend on agriculture and small scale productions; the out reach of Micro finance services in Tanzania has been very limited. Furthermore, the Liberalization of financial sector in the country has had a crowd out effect on delivery of financial services in rural areas,

which are viewed as not credit worthy by traditional banks. After economic reforms, commercial banks have remained concentrated mainly in urban areas, lending preferably to richer clients. As a result, majority of Tanzanians who live in rural areas do not have much more access to financial services from formal financial institutions.

On the other hand, the demand for small loans has grown dramatically under the impact of economic restructuring and Liberalization. This has made the gap to widen between the demands and supply of Micro finance services; with demand of micro-finance exceeding the supply of it.

The government of Tanzania, together with external support, formulated the strategies of reviving the availability of financial services in the country. International Funds for Agriculture Development (IFAD) is one of the international organizations that are assisting Tanzania to establish effective rural financial system. IFAD provides assistance to the government of Tanzania for the implementation of rural financial service program aimed to improve the access of rural households to sustainable micro-finance services in the country which will increase rural households income and hence their per capita consumption and savings.

In order to access the performance and the role of formal financial institutions, and rural micro-finance institutions (SACCOs and other informal financial groups) sectors which are; public and commercial banks, financial NGOs, Savings and Credit Cooperative Societies (SACCOs, and other informal financial groups like ROSCAs.

The Micro Finance institutions have a more crucial role to play in reducing poverty in the country compared to traditional banks because do not demand collateral.

After the liberalization of financial sector in 1990, micro finance has gained an increased recognition as an effective means to alleviate poverty and promote micro-enterprises development. Experience of some micro-finance institutions shows that poor entrepreneurs possess the same survival skills as affluent business operators; so that in general, it is mainly access rather than capability which prevents poorer section of the society from purchasing formal financial services. Many micro-finance institutions have managed to recover a large part of their cost, and loan repayment respectively;

The Gross Domestic product (GDP) has been increasing by 5% since early 2000, resulting in a small increase in per capita income while inflation declined from 30% during 1990s to below 5%. The economic improvements accomplished are primarily explained by the economic reforms that were initiated in 1980s, [which](#) involved the transformation of a centralized economy (economy controlled and governed by the state) towards free market economy mode (economy in which the production and distribution of goods and services take place through the mechanism of free markets guided by free price system).

Despite the economic and financial reforms, Tanzania's economy still remains unsustainable, poverty is extensive and growth has been constrained by structural obstacles, governance related problems, rigidities in the financial sector and serious capacity constraints.

Poor performance in income growth for countries like Tanzania [is frequently attributed partly to low savings](#), as a result of the economic reforms which have been geared towards increase of savings and easy the mobilization of savings, this has caused the Government of Tanzania to create an effective and implementable financial system where people have access to secure financial services which facilitates economic development/transactions, stimulates savings and channels savings to productive investment activities by mobilizing resources and improving their allocation.

Tanzania has poorly developed financial sectors, which according to its financial structure are described as dualistic with a formal and informal sector. Very few people, especially those living in the urban centers, have access to the financial services offered by the formal financial sector to a small wealthier part of the population. Hence, the great majority of the population has to turn to the informal sector for saving and /or borrowing.

Currently the informal sector is a vital part of Tanzania's economy (financial development as an instrument for economic development reaches the majority of the population with a lower income, often residing in the rural areas).

An interesting alternative to formal banking that has emerged within the semi-formal sector is the saving and Credit Cooperative Societies (SACCOs) [which have a](#) wide outreach in most

parts of Tanzania. They are member driven and democratically organized. SACCOs have developed and become a tool for mobilizing and increasing savings in Tanzania [which can](#) be improved to become a sustainable part of Tanzania financial development.

Although the Government formulated the SACCOs as a basis of poverty reduction in the rural/urban areas having low income households, and they have encountered various problems such as: SACCOs face short of funds for necessary investments in education and technological resources such as computers, building offices, knowledge in operation the SACCOs and financing savings differs among SACCOs. Poor internal control which is a result of the system failure to prevent and detect fraud or error, corruption and nepotism caused by granting loans to unworthy borrowers, risky investment done without making the fully required analysis, lack of training amongst the members and the Board of Directors and lack of the decentralized financial system which can provide financial services to the SACCOs.

1.1.1. FACTORS LIMITING INDIGENEOUS HAVING LOW HOUSEHOLDS TO GET CREDIT FROM FORMAL FINANCIAL INSTITUTIONS IN TANZANIA IN THE POST 1990 PERIOD.

This is the period when the government had implemented economic reforms in the country. This among others led to the restructuring and privatization of most state owned financial institution. However, while this increased efficiency and competition in the financial sector, it had detrimental effects to the provision of credits to small and medium sizes enterprises (which are owned by local people) compared to the pre 1990 period. These factors that have made commercial banks to hesitate to provide credits to indigenous owned small and medium size entrepreneurs in the post reform period are:

[1: Lack or inadequate collateral securities demanded by banks. Most small and medium sizes local entrepreneurs do not have the type of collaterals demanded by banks as one of the conditions of getting loans. Plans to allow land title to be regarded as collateral may help to reduce such a problem.](#)

2. Some banks have been restricting lending operations while giving more priority to loan recovery.

3. Most activities operated by local entrepreneurs are viewed as not bankable projects by banks. This makes them to be considered too risky. Furthermore, these enterprises owned by local people are viewed to be unable to provide proper accounting records as needed by banks.
4. In most cases, small and medium scale entrepreneurs are viewed to have low credibility by banks.
5. Lack of proper legal framework in the country for settlements of commercial disputes. However, this is expected to be reduced after the commencement of the commercial court.
6. Information for credit analysis is still very limited. In most cases, SACCOs find it difficult to access credits from banks since banks lack proper customers credit information. Furthermore, this makes the discipline of credit analysis to be lost, as banks are forcing themselves to rely too much on collateral to mitigate their collateral risks.

1.1.2: HISTORY OF COOPERATIVES MOVEMENT IN TANZANIA.

The United Republic of Tanzania covers a surface area of 945,203 square kilometers. It has a population of 36 million with 80% of the population living in the rural areas and solely depending on small-scale farming. Its per capital GDP stands at \$279 and more than 51% of the populations live below the poverty line. The GDP growth as of December 2002 was 6.5% was 4.2 by March 2003.

Agriculture dominates the economy, accounting for 55% of the GDP and 80% of the recorded total foreign exchange earners while providing employment for 70% of the labor force. Out of labor force of 13 million, 30% of the workforce is either underemployed or unemployed.

Cooperatives were introduced in Tanzania in the early 1930s and developed to remarkable prominence especially during the first decade of independence (1960s). The movement declined sharply during the early of 1980s owing, in large measure to excessive control and political interference.

The enactment of a new Cooperative Societies Act in 1991 signaled the beginning of the reforms that the cooperative movement has been going through for more than a decade. These reforms were further enhanced by the formulation of a cooperative development policy in 1997; today both registration and policy are undergoing further revision as part of the efforts by government to create a favorable environment for cooperative development. The revised policy takes into full account the Tanzania Development Vision 2025 and the Poverty Reduction Strategy paper.

The Government of Tanzania acknowledges cooperatives as a major means of ameliorating the poverty status of the majority of the population. This is well documented in recent government policy statements, not least among them being the poverty reduction strategy paper and the agriculture sector development strategy. In the rural sector, cooperatives are seen as important institutions that will play a significant role in providing rural credit, carrying out a host of other initiatives to bolster output and raise the quality and quantity of the products of their members.

More specifically, cooperatives will, in future play an increasing role in reducing poverty by:-

- Widening their scope of operation by establishing cooperatives in various sectors of economy-for example: energy, transport, communication, insurance, water, finance, trade, etc.
- Encouraging and supporting, through policies and affirmative action, the participation of women in cooperatives (as active members, leaders, professional managers and employees);
- Researching, gathering and disseminating vital information to cooperatives in particular, and to farmers generally, on internal and international markets.

- Establishment of a national cooperative bank that, working in unison with the expanding savings and credit cooperatives societies (SACCOs), will provide credit to cooperatives at favorable rates and also help keep finances mobilized by cooperators within the cooperative movement.
- Strengthen the capacity of the cooperative member through empowerment, education and training in this respect the Member Empowerment Programme managed by the Moshi University College of Cooperative and Business Studies will play a leading role.
- Challenges to the poverty reduction strategies include the HIV/AIDS pandemic and its devastating impact on young, able people, and globalization and liberalization the advent of which the cooperative movement was ill prepared.

Footnote: The word Tanzania as referred in this study means Tanzania Mainland, which is part of The United Republic of Tanzania This is formed by Tanzania Mainland and Tanzania Zanzibar.

During the 1995-2005 periods, the Government of Tanzania undertook the following measures to strengthen the performance of primary education sector:

- (i) It prepared the education sector programme which laid a basic foundation of improving the performance of primary and secondary education in Tanzania. This made the number of primary schools to increase from 10,927 in 1995 to 14,257 in 2005. The number of secondary schools increased from 595 in 1995 to 1755 in 2005. The figures are for both Government and private secondary schools. The Government also increased subsidies to students from poor families in order to enable more children from poor families in Tanzania get the basic Primary and Secondary school education
- (ii) It facilitates the completion of the IMF, World Bank conditions of Highly Indebted Poor Countries (HIPC), which among others, enabled international financial institutions such as World Bank and International Monetary Fund (IMF) and other donor countries to extend poverty eradication credits facilitated to Tanzania.

1.1.3: WHY IS THIS THESIS UNDERTAKEN?

This thesis targets Savings Mobilization, Investment and poverty reduction in Tanzania and other places where income for households are low. The thesis plays a great role in diversify production and services where financial and banking sector reforms are undertaken for economic development.

The Bank's experience from its interventions in the financial sectors of the country has shown that targeting the use of resources of technical assistance for financial intermediaries, including microfinance institutions (MFI'S) can improve their institutional performance and the social-economic impact on the clients they serve.

Greater capacity allows MFIs to expand the outreach of needed financial enterprise development services to the poor. Such assistance also permits the same institutions to become autonomous and financially self-sufficient. Outreach in providing MFIs services such as loans, savings and business development support are likely to increase the performance and growth prospects of the enterprise served and consequently, raise the incomes, social welfare and wealth of the poor(improve the standard of living).

From this fact, Savings and Credit Cooperative Society (SACCOs) were used to designate institutions and networks that developed as alternatives to commercial banks and the informal structures for offering financial services close to the people.

Delivering financial services through Savings and Credit Cooperatives Society (SACCOs), may essentially classify the needs to grant loans oriented towards social needs and small business. The members become the beneficiaries, sole savers and sole decision makers, which makes them integrated and effective tools for rural development.

The establishment and growth of SACCOs should be regarded as one of the important instruments for economic, social and cultural development as well as human advancement in Tanzania and other developing countries.

Table 1: Performance of SACCOs in Tanzania: 1960-1989.

Year	Number of SACCOs	Number of Members	Cumulative Value of Shares TZS	Cumulative Savings and Deposits .TZS	Cumulative Loan Issued TZS	Average Interest rate (%)Charged on Loan Advanced to Members and Non Members
1960	53	5,897	60,235	985,644	145,263	1
1961	56	6,859	76,144	1,128,963	175,842	1
1962	63	6,975	98,669	1,328,674	269,435	1
1963	79	7,086	145,889	1,568,942	425,812	1
1964	115	7,118	186,534	1,987,568	752,661	1
1965	116	7,226	246,879	2,199,856	978,662	1
1966	122	7,318	289,321	3,312,457	17,953,380	1
1967	126	7,185	689,457	3,568,924	24,589,634	3
1968	268	8,004	5,638,942	7,569,852	38,469,527	3
1969	325	8,645	7,256,382	8,965,238	40,258,347	5
1970	325	8,789	11,056,828	21,228,965	46,273,110	4
1971	334	5,594	15,889,624	23,553,624	58,324,710	3
1972	386	6,697	18,446,756	27,561,428	76,398,543	7
1973	406	7,655	21,563,920	33,856,985	88,693,547	6
1974	0	0	0	0	0	0
1975	0	0	0	0	0	0
1976	0	0	0	0	0	0
1977	0	0	0	0	0	0
1978	0	0	0	0	0	0
1979	0	0	0	0	0	0
1980	0	0	0	0	0	0
1981	0	0	0	0	0	0
1982	0	0	0	0	0	0
1983	0	0	0	0	0	0
1984	0	0	0	0	0	0
1985	0	0	0	0	0	0
1986	0	0	0	0	0	0
1987	0	0	0	0	0	0
1988	0	0	0	0	0	0

Year	Number of SACCOs	Number of Members	Cumulative Value of Shares TZS	Cumulative Savings and Deposits .TZS	Cumulative Loan Issued TZS	Average Interest rate (%)Charged on Loan Advanced to Members and Non Members
1989	0	0	0	0	0	0

Source: Ministry of Agriculture and Cooperatives.

Table 2: Performance of SACCOs in Tanzania: 1990-2005.

Year	Number of SACCOs	Number of Members	Cumulative Value of Shares TZS	Cumulative Savings and Deposits. TZS	Cumulative Loan Issued TZS	Average Interest rate (%)Charged on Loan Advanced to Members and Non Members
1990	89	15,225	1,345,628,975	1,032,256,895	30,258,667	14
1991	156	19,884	1,526,987,543	1,423,624,538	47,861,110	18
1992	198	23,017	1,745,638,952	1,625,897,743	108,566,284	11
1993	289	45,889	1,925,630,147	1,986,598,946	112,389,627	9
1994	306	68,993	2,105,300,475	2,895,563,217	134,225,864	7
1995	306	73,218	2,563,472,981	3,000,456,898	1,586,428,745	19
1996	306	76,113	2,896,335,504	3,114,225,869	1,978,532,675	21
1997	514	79,645	3,118,468,774	3,568,965,447	2,063,458,970	21
1998	769	98,762	3,416,287,150	5,114,210,000	2,189,676,458	21
1999	825	125,880	5,569,331,623	8,336,221,471	13,210,988,463	11
2000	803	133,134	5,618,112,584	8,425,553,970	11,524,329,388	13
2001	927	137,305	6,610,362,757	8,599,154,791	12,362,207,570	10
2002	974	189,497	7,856,143,091	8,790,644,251	18,226,975,968	24
2003	982	245,633	8,956,231,470	9,995,476,215	28,966,328,974	25
2004	1,104	781,162	12,589,632,045	19,045,600,289	36,922,418,964	27
2005	1,553	863,348	13,697,662,335	25,425,630,789	46,895,237,810	27

Source: Ministry of Agriculture and Cooperatives.

In Tanzania the following presents the profile of savings and cooperatives as at 31st May, 2005

TABLE 3: SACCOS PROFILE AS AT 31st MAY, 2005

Tshs in thousands

S/No	Regions	No. of SACC Os	No. of members		Total	Shares (Tshs)	Deposits (Tshs)	Savings (Tshs)	Loans issues (Tshs)	Loan Outstanding (Tshs)
			M	F						
1	Arusha	87	3,962	3,715	7,677	1,293,200	370,100	1280,800.	2,898,898.9	1,466,161.3
2	DSM	237	21,989	14,648	36,637	3,662,550.	318,437.6	18,842,187.	25,236,427.	16,624,206.1
3	Dodoma	99	8,367	5,525	13,892	1,639,546.	210,704	254,874.6	3,363,935.	1,537,935.
4	Iringa	116	7,828	5,306	13,134	850,604	232,270	757,134.	2,149,550	1,097,272.
5	Kagera	151	9,237	4,112	13,349	196,442.3	195.5	61,237.2	219,683.6	91,637.4
6	Kigoma	34	1,295	606	1,901	26,614	4,718	63,036.5	79,274.6	40,850.1
7	Kilimanjaro	134	52,991	10,056	63,047	657,503.0	521,404.3	320,193.8	1,196,381.9	604,250.9
8	Lindi	24	1,673	615	2,288	242,269.8		184,638.2	567,183.4	364,675.7
9	Manyara	47	3,383	1,678	5,061	32,500.77	90,993.8	293,389.7	584,179.3	450,147.
10	Mara	101	4,880	3,141	8,021	86,725.99	50,498.4	366,978.3	496,254.4	229,759.1
11	Mbeya	159	11,643	9,018	20,661	1,172,974.	551,430.8	2,165,605.	2,417,713.	372,319.15
12	Morogoro	99	9,310	3,910	13,220	858,789.9	61,500.9	1,097,510.5	2885,006.7	1,173,784.1
13	Mtwara	41	3,445	1,161	4,606	421,841.5	61,520.4	116,616.3	604,821.4	323,434.2
14	Mwanza	217	10,063	5,926	15,989	621,592.6	-	122,983.2	1,129,468.6	269,484.1
15	Pwani	47	1,870	1,251	3,121	199,980.8	32,368.1	693,757.9	5,773,326.6	817,670.3
16	Rukwa	23	1,122	352	1,474	39,231.1	2,570.4	53,580.9	209,668.8	73,451.2
17	Ruvuma	38	4,110	8,998	13,108	245,197.5	237,468.7	704,207.0	789,972.4	277,507.9
18	Shinyanga	66	3,782	1,606	5,388	310,566.1	13,474.9	249,788.4	649,098.7	293,296.6
19	Singida	40	2,293	1,158	3,451	175,617.6	13,000	147,256.1	545,473.7	279,375.3
20	Tabor a	64	2,990	574	3,564	75,681.5	82,745.6	5,343.7	277,999.9	132,277.0
21	Tanga	51	2,962	2,100	5,062	360,072.5	8,959.2	748,321.3	2,065,743.5	711,596.3
	Total	1876	169,195	85,456	254,651	13,169,500.	28,529,439.	28,529,43.	54,140,057.5	27,231,087.5

Source: Ministry of Cooperatives and Marketing July, 2005

Table 4: NUMBER OF SAVINGS AND CREDIT COOPERATIVES SOCIETIES (SACCOS) IN TANZANIA

Year	Number of Members	Value of Shares (Tshs)	Saving Mobilized (Tshs)	Loan Issued (Tshs)	Loan Outstanding (Tshs)
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Year	Number of Members	Value of Shares (Tshs)	Saving Mobilized (Tshs)	Loan Issued (Tshs)	Loan Outstanding (Tshs)
1998	769	3,416,287,150	15,110,306,195	2,189,676,458	7,525,734,886
1999	825	5,569,331,623	16,335,545,178	1 3,210,988,463	10,435,176,565
2000	803	5,618,112,584	18,225,778,112	11,524,329,388	13,330,113,198
2001	927	6,610,362,757	20,925,360,250	12,362,207,570	15,903,883,173
2002	987	6,853,113,256	21,533,441,775	12,789,115,620	16,111,987,412
2003	1,700	7,213,114,315	23,427,116,352	20,115,963,119	18,679,568,132
2004	1,760	11,567,507,110	26,345,947,252	30,112,570,630	20,635,446,127
2005	1,875	13,169,502,709	28,529,439,054	54,140,056,528	27,231,087,502

Source: Ministry of Agriculture and Cooperatives.

Table 5: The Trend of Households Consumption and Disposable Income in Tanzania 1961 – 2002

Year	Percentage of Consumption of lowest 20 Percent households	Percentage of income Received by lowest 20 Percent households	Total Normal Household Consumption expenditure. (Mill TZS)	Inflation	Normal Households Disposable Income (Mill. TZS)	Real Consumption Expenditure of lowest 20 Percent households (Mill. TZS)	Real Private Disposable Income of lowest 20 Percent households (Mill. TZS)
1961	1.8	1.1	3617	1.0	3,439.2	65.1	38.2
1962	1.8	1.1	3987	1.1	4,503.2	65.2	45.5
1963	2.5	1.3	4126	1.5	5,367.6	68.3	45.1
1964	2.5	1.7	4785	1.9	5,422.6	63.5	48.9

Year	Percentage of Consumption of lowest 20 Percent households	Percentage of income Received by lowest 20 Percent households	Total Normal Household Consumption expenditure. (Mill TZS)	Inflation	Normal Households Disposable Income (Mill. TZS)	Real Consumption Expenditure of lowest 20 Percent households (Mill. TZS)	Real Private Disposable Income of lowest 20 Percent households (Mill. TZS)
1965	2.7	1.8	5127	2.1	5,079.3	65.4	42.3
1966	3.7	2.0	5288	2.5	5,894.1	78.1	47.2
1967	3.7	2.3	5425	2.8	6,827.4	71.5	56.1
1968	4.8	2.3	5674	3.0	7,481.7	90	57.4
1969	5.6	2.3	5829	3.1	7,706.7	105.9	57.2
1970	5.7	2.9	6396	3.4	8,165.3	106.7	69.7
1971	5.7	3.8	6726	3.8	8,621.5	100.9	86.2
1972	5.9	3.8	7822	8.0	9,132.1	57.5	43.8
1973	6.0	4.0	9259	10.5	11,320.1	53.2	42.6
1974	6.4	4.7	11818	19.5	33,581.3	38.8	33.9
1975	8.5	4.9	14171	26.1	35,112.6	46.2	31.7
1976	8.9	6.6	15377	6.9	21,290.3	197.4	203.7
1977	8.9	6.7	17929	11.6	24,925.0	137.9	144
1978	8.9	6.4	21231	12.2	28,762.7	155.2	150.9
1979	9.0	6.6	24220	12.8	31,394.0	169.4	161.9
1980	9.0	6.6	33556	30.8	37,694.6	98.3	80.8
1981	9.1	7.4	37596	25.6	43,402.5	133.3	125.5
1982	9.0	7.6	43639	28.9	54,363.2	137.6	143
1983	9.2	7.7	51,282.0	27.1	61,854.4	173.7	176.0
1984	9.2	5.3	68,652.0	36.1	75,063.1	175.0	109.6
1985	9.6	5.3	93,490.0	33.3	101,417.5	270.1	160.5
1986	9.6	5.3	124,307.0	32.4	133,564.5	369.1	217.3
1987	9.7	5.3	175,049.0	29.9	180,742.5	569.1	318.6
1988	9.8	5.4	304,515.0	31.2	308,809.5	952.6	535.5
1989	8.5	5.7	428,576.0	25.8	491,804.5	1,407.00	1,094.6
1990	8.1	5.5	687,706.0	35.1	1,392,411.4	1,590.90	2,186.6
1991	9.9	5.1	887,124.0	32.3	814,007.5	2,741.80	1,288.1
1992	9.3	5.1	1,133,195.0	20.1	891,409.5	4,969.00	2,266.2
1993	7.8	5.0	1,445,366.0	39.1	2,295,206.4	5,608.90	2,935.1
1994	7.8	4.9	1,931,976.0	20.4	807,801.2	3,844.20	1,940.3
1995	6.8	4.9	2,532,841.0	17.4	1,577,823.6	8,442.80	4,443.3
1996	6.8	4.9	3,130,072.0	14.7	2,466,259.6	12,232.50	8,133.7
1997	6.5	4.9	3,968,072.0	9.2	2,216,229.7	17,545.90	11,683.4
1998	6.0	4.9	4,909,250.0	5.8	1,880,759.7	32,016.80	15,727.0
1999	5.7	3.9	5,667,437.0	5.6	3,514,295.9	55,990.40	24,474.6

Year	Percentage of Consumption of lowest 20 Percent households	Percentage of income Received by lowest 20 Percent households	Total Normal Household Consumption expenditure. (Mill TZS)	Inflation	Normal Households Disposable Income (Mill. TZS)	Real Consumption Expenditure of lowest 20 Percent households (Mill. TZS)	Real Private Disposable Income of lowest 20 Percent households (Mill. TZS)
2000	5.4	3.9	6,069,576.0	4.9	5,247,878.0	58,636.30	41,768.8

Source: *National Bureau of Statistics: Tanzania Statistical Abstracts and National Accounts of Tanzania (Various Issues)*

Source: National Bureau of statistics: Tanzania Statistical Abstracts (Various Issues) for total Household Consumption Expenditure and national Disposable Income; World Bank Development Indicators (Various Issues); Wagao, J (19

1.1.4: STATEMENT OF THE RESEARCH PROBLEM

Savings and Credit Cooperatives Society (SACCOs) in Tanzania have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Tanzania. This situation has been of great concern to the government, citizens, operators and the organized private sector groups. Year in year out, the government of Tanzania and even local levels through budgetary allocations, policies have signified interest and acknowledgement of the crucial role of the SACCOs sub-sector of the economy and hence made policies for energizing the same.

Just as it has been a great concern to all and sundry to promote the welfare of SACCOs, it has also been a great cause of concern to all, the fact that the vital sub-sector has fallen short of expectation. The situation is more disturbing and worrying when compared with what other developing and developed countries have been able to achieve with their Micro-finance institutions. It has been shown that there is a high correlation between the degree of poverty, hunger, unemployment, and economic well being (standard of living) of the citizens of countries and the degree of vibrancy of the respective country's micro-finance. If Tanzania was to achieve an appreciable success towards attaining the Millennium Development Goals for 2015, one of the sure ways would be to vigorously pursue the development of its SACCOs. Some of the key Millennium Development Goals like having the proportion of people living in extreme poverty, suffering from hunger, without access to safe water, reducing maternal and

infant mortality by three-quarter and two thirds respectively and enrolment of all children in primary school by 2015 may be a mirage unless there is a turnaround of our SACCOs' fortunes sooner than later. The time is now to do something surgical to the situation of our SACCOs given the aggravating level of poverty in Tanzania and the need to meet up with the Millennium Development Goals.

1. In spite of the fact that Savings and Credit Cooperatives Society (SACCOs) have been regarded as the bulwark for employment generation and technological development in Tanzania, the sector nevertheless has had its own fair share of neglect with concomitant unsavory impacts on the economy. The following are the main problems of SACCOs, which are however not insurmountable:

History.

Politicians oppose the autonomy of co-operatives since the politicians play part in co-operative decision-making body.

- Planners are not aware of the role of cooperatives;
- Lack of a clear cooperative development policy, the government department responsible for promoting cooperatives is weak and does not have the capacity to cope with the demand for support and supervisory services.
- It is also hampered by lack of business management skills and entrepreneurship among the staff and elected leaders,
- Weak cooperatives financially which cannot meet the cost of rising hiring caliber staff and training the members, elected leaders.
- Poor Governance in administering the formulated principles

- Bureaucratic constraints, lack of advocacy skills in cooperatives/cooperative departments, leaders in cooperatives are uneducated and hence not easily recognized by stakeholders.
- Poor industrial technology extension services to SACCOs in Tanzania.
- Financial support to SACCOs in terms of long-term loans as well as leading rate is quite limited. SACCOs do not participate in the stock market, which limits the equity capital formation. Poor infrastructure in most parts of the country; especially water and electricity supply limits the operation of SACCOs. The business culture is very limited with low entrepreneurial capacity of micro enterprises and inadequate reference in the national policies and awareness of global changes and policies related to the microfinance sector.
- Low equity participation from promoters because of unconfident personal savings due to their level of poverty and low return on investment.
- Constrained access to money and capital markets.
- Lack of access to information given that it is costly, time consuming and complicated at times.
- The problem and challenges that SACCOs contend with are enormous no doubt but it is curious to know that some SACCOs are to overcome them. This gives hope and should provide a basis for optimism that there is a way out. There must be some survival strategies, which are not known to many SACCOs promoters .This research is also intended to explore and unravel some of key business survival strategies, which have worked for a few thriving SACCOs. The benefits of this could be tremendous in that other SACCOs facing threats of extermination as well as new and proposed new ones could also borrow a leaf from them.

1.1.5: RESEARCH OBJECTIVES

The general Objective of the study is to investigate the extent to which savings and credit cooperatives societies (SACCOs) have succeeded in savings mobilization and poverty reduction to their members and non members, to access the inherent weaknesses in the development of the financial institutions. Thus, the study traces the problems of the financial sector in historical context, analyzes policies, regulatory and supervisory framework as implemented by the government institutions. Within the context of the formal financial institutions sector reforms implemented as part of the wider socio-economic reform measures. Also to investigate the extent to which the economic reforms initiated in the country in 1986 (and consequently the removal of subsidies extended to rural sector (and other economic sectors) has contributed to the rise of poverty in rural areas compared to the pre-1985 period; and to remedy the situation in this area of market economy.

The following are the specific objectives of the study:

1. To investigate how savings and credit cooperatives societies (SACCOs) mobilize savings from members and non-members in Tanzania.
2. To examine distribution of loans from savings and credit cooperatives societies (SACCOs) in Tanzania.
3. To identify the list of models/methods used in practice, in the assessment of proposed portfolio investment in Tanzania.
4. To identify factors considered most important in assessing/reviewing the performance of existing SACCOs' system.
5. To identify the frequency of assessing/reviewing the performance of the tangible, intangible benefits and the human elements if they are considered in appraising the SACCOs' Investment Proposals.

6. To identify gaps/shortfalls (i.e. lack of consideration of intangible benefits and costs, lack of consideration of the human element or other important factors which lead to adequate SACCOs' assessment models.
7. Identify the extent to which different cooperatives' managers at different management levels are satisfied with the existing SACCOs operating system.
8. To suggest measures that can be adopted by savings and credit cooperatives societies (SACCOs) to improve their overall operations in Tanzania.
9. To come up with the suggestions on how to design and driven rural financial service programs that will help finance rural activities in Tanzania.
10. To assess the how gender issue will be integrated in the proposed rural Financial service program, in order to gender issue and poverty situation in rural areas of Tanzania.
11. To propose an effective mechanism in which apart from extending micro loans collaborative rural micro-finance institutions in Tanzania
12. To propose a mechanism that will facilitate non-financial NGOs, financial NGOs, formal banks and other organizations to involve fully in the Provision of financial services in rural areas.
13. To design the program that will offer micro-finance business undertaking Training to rural population.

The high degree of poverty and unemployment with their attendant high crime rate in Tanzania has been of great concern to the various governments (central and local) as well as the civil society. All and sundry have been seriously agitated as to what to do in order to reduce the crippling poverty, high level of ignorance, disease, high infant-mortality rate, and the rather embarrassing high unemployment rate in Tanzania. Given the vital and salutary role and contributions, which Micro finance institutions play in other developed and developing economies, and considering the on-going reforms by the government of Tanzania, which are

primarily aimed at creating wealth, reducing poverty, generating employment, re-orienting values, and stimulating real economic growth, it becomes compelling for the Micro finance institutions sub-sector to be revamped, overhauled and energized towards playing its expected roles. The Micro-finance institutions remain a veritable vehicle for such an expected complete turnaround in the economy of Tanzania.

This research is thus intended to identify all the problems, challenges, and constraints militating against the success of Micro finance institutions and also make appropriate recommendations for readdressing and eliminating them so that the Micro finance institutions could occupy their pride of place in the Tanzanian economy and hence play the vital role they are expected to play in the economic growth and development in Tanzania.

The overall objective of this research is to identify ways and means, which will establish and sustain the vibrancy for Tanzanian Micro finance institutions so that they can play the expected vital role as the engine of growth in our economic development efforts. In order to achieve this, the research will attempt the following:

1. To identify the major problems, challenges and constraints, which have militated against the Micro finance institutions from playing the vital role in the Tanzanian economic growth and development; many Micro finance institutions promoters are claiming that the government is not doing enough to encourage, stimulate and protect the Tanzanian that they(MFI promoters) are not only un business-like in their approach but are also lacking in several aspects of managing or running a profitable business or an enterprise.
2. To find out the key causes of the low utilization or patronage by Micro-finance institutions of the Savings and Credit Cooperative Societies (SACCOs). Some Micro finance institutions operators are saying that banks are demanding unattainable conditions and terms for approval, the banks are claiming among other things that Micro finance institutions operators are not presenting bankable projects. The research shall attempt to find out the true position.
3. To ascertain first hand, the opinions, feelings, and the pulse of some key Micro finance institutions operators as well as professionals in the MFI sub-sector of the

economy with respect to the unhealthy state of MFIs in Tanzania. Opinions have been as varied as the number of people one interview as to why MFIs in Tanzania have not been thriving in spite of all incentives and support policies and pronouncements by both the central and local governments. Year in, year out, there have been a lot of emphasis on and budgetary allocations to that sub-sector of the economy.

Many have argued that the MFI sub-sector in Tanzania has not been thriving largely due to poor implementation of several government policies as well as frequent policy changes or what they call policy inconsistencies. The poor policy implementation is also said to be deeply rooted in poor corporate governance and unethical practices, which abound in the Tanzanian public service. The overwhelming control and management of most business-supporting structures and facilities by government departments and agencies also aggravate the situation.

4. To make appropriate recommendations for solving or at least alleviating the identified problems and challenges of the MFIs. The study will attempt to identify all the challenges and militating factors against the success of MFIs, analyze them and then proceed to make appropriate recommendations towards alleviating them. It is said that a clear and precise definition of a problem represents half the solution-hence, identifying and crystallizing the key problems of the MFIs would lay a solid foundation for mitigating if not solving them out rightly.

1.1.6: RESEARCH QUESTIONS

The following is a list of PhD research questions for which the research project is expected to come up with answers.

1. Does the performance of SACCOs facilitate the country economic development and sustainability?
2. What factors are considered the most important in appraising the performance of SACCOs in Tanzania?

3. What is the role of the financial regulator in supporting the development of SACCOs?
4. How do the SACCOs help the poor?
5. Are there gaps/short falls in the models/methods used in the assessment of the performance of SACCOs?
6. What are the products and services offered by SACCOs and how can they satisfy members, customers, suppliers, competitors and facilitators?
7. What technology and business changes can be used to evaluate the performance of a SACCOs?
8. What types of information systems can be used in the marketing of the products and services of the SACCOs in Tanzania?
9. Who are the clients of SACCOs?
10. What is the role of the microfinance information exchange (Mix) in meeting the microfinance activities?

1.1.7: DEVELOPMENT OF SACCOs IN THE WORLD

Over a period of about 150 years, cooperatives have spread into 100 various sectors and activities encompassing agriculture and fishing. Cooperatives, as self-advancement

organizations, help members achieve their social and economic needs and goals through the establishment and operation of autonomous, member-owned businesses, which generate income and employment by pooling limited resources and reducing risks while simultaneously promoting social integration and cohesion in communities. These business enterprises operate in the private sector but with democratic forms of stakeholder accountability. Unlike other types of private sector business organizations, cooperatives subscribe to a set of core values and principles, as summarized in Box 1 below, which emphasize social responsibility and community development.

Box 1. Cooperative Values and Principles

What is a Cooperative?

A Cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Cooperatives values

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Seven principles of Cooperatives

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Cooperation among cooperatives
7. Concern for the community

Source: “Making a Difference Cooperative solution to global poverty, edited by Andrew Bibby and Linda Shaw, The Coop College. 2005, p. 11.

Cooperatives traditionally have a strong presence in the provision of financial services through credit unions and microfinance entities which encourage voluntary savings and provide affordable loans and insurance. In many developing countries, credit unions have become the largest source of small savings account and loan services, especially for poor people and the working poor in rural areas, where traditional banks or insurance services are beyond the reach of many.

Credit unions currently serve an estimated 120 million members in 87 countries around the world and help members increase their incomes, build wealth and security and provide homes for their families. To enable the very poor who lack resources to become individual credit union members, credit union associations. Members initially join as a group and eventually become individual members with their own savings accounts and loans.

The growth of micro credit and microfinance services offered by cooperatives has had significant success in empowering poor people, especially women, to fully realize their productive potential. Access to credit, in particular credit policies and programmes that have been adapted to rural environments and for agriculture, have been at the centre of efforts to empower rural women. The ability of rural women to access such financial services has helped to increase agricultural productivity and promote food security. Moreover, such access by rural women to financial services helps to give them voice and this is increasingly an important factor in implementing rural policies and defending the interest of all farmers, both women and men. As a result, barriers to rural women's participation and representation in agricultural organizations are increasingly being eliminated.

1.1.8: THE FOLLOWING ARE THE DEVELOPMENT OF SACCOs IN THE WORLD.

The first generation of pioneers of modern cooperation emerged in certain working- class environments in European Industrial cities of the 19th Century. In 1840s, the first industrialized countries (Great Britain and France), the pioneer's of co-operative invented models of the consumer cooperative and the labor cooperative to defend and promote the interests of working –class families in the face of the social disasters engendered by the phenomena of industrial revolution.

The cooperative formula was then conceived and became a solution to capitalist exploitation and in this sense; it became the sister of the labor union movement. The second generation of the pioneers of modern cooperation emerged, not in cities, but in certain European rural environments in the late 19th century. In the 1860s, these pioneers invented the formula of agricultural cooperatives and savings and credit cooperatives inspired by the success of the consumer cooperatives formula in Great Britain and based on old traditions of rural solidarity- aimed to meet the foremost economic needs, that went unsatisfied as a result two things happened:

Agricultural cooperatives enabled families of farmers and livestock raisers to organize their own supply systems of agricultural inputs and market their products and to no longer depend on merchants and businessmen in the cities.

.The SACCOs enabled them cease longer depending on moneylenders and to find the credit necessary to modernize their agricultural cooperatives. In Europe, in the late 19th century, especially in Italy, there were peoples' banks with none of the characteristics of the SACCOs named as mutual benefit societies or cooperative syndicates.

Almost all of the industrialized countries of the North, especially the United States of America, used agricultural cooperatives (for savings) that enabled rural families (farming and handicraft) to become integrated into national and international markets and constantly raised their living-standards until they attained a level comparable to that of the urban environment.

In Europe of the 19th century, the promoters, i.e. those at the origin of the first cooperative experiences, were primarily part of a particular ideological current, which can be qualified generally as "Christian democratic socialism" and came from the new industrial, commercial and clerical bourgeoisie and petty bourgeoisie.

The following are the different SACCOs models in the European and American SACCOs models:

Four models influenced the development of SACCOs throughout the world, each related to the founder of these types of savings and credit organizations.

- **The Raiffeisen model**

Raiffeisen is a German who developed a type of organization that operated primarily in the rural world. He wanted to make credit accessible to farmers based on Christian morals.

The participation of the rich would enable them to help the poorest; however, the control of the organizations remained in the hands of the best off. One of his principles was: Loans are granted to members only and funded by their savings.

- **The Schulze-Delitzsch model**

Was also a German who developed organizations for craftsmen, small merchants and independent employers?. He used the principle of subscriptions (The banks offered remunerations on capital). His principle was that “the members are bound to participate in the administration and management and make decisions as a whole in the last instance”.

- **The Luzzati model**

The Luzzati model developed the first “people’s banks” around 1860s located in the cities offering services to the rural environment. The model stressed the moral side of cooperative action, evaluating the borrowers’ morals. A Reserve fund funded by annual profits and low-cost and transferable equity shares are some of the Luzzati’s principles.

- **The Desjardins model.**

In Quebec, in the early 20th century, Alphonso Desjardins developed his project of

savings and credit cooperatives that relied on their values of justice and self-help. Desjardins wanted to fight the usury that victimized the common people. The savings accumulated in the cases would make it possible to meet the credit needs of sectors of the population ignored by the traditional banks or exploited by the practices of loan sharks. Democratic authority and open-ended capital was among the principles of Desjardins.

However, one can claim that African SACCOs are purely and simply reproductions of European or North American models. In fact, the SACCOs experiences, at least for the most part, are still built on traditional Africans models. A dynamic group or association preceded the set up of a SACCOs, in most cases.

1.1.9: EMMERGENCE OF MODERN COOPERATION IN AFRICAN COUNTRIES:

The swarm of European models of modern cooperation in African countries occurred in two historical phases with very different characteristics:

- A first colonial stage in which the model was imported;
- A second post-colonial phase of adaptation or Africanization of the cooperative model.

In the colonial phase, until the major period of decolonization of Francophone African in the early 1960s, the cooperative formula was especially implanted as such by European colonials. Consumer cooperatives and agricultural cooperatives were thus created in certain areas of colonization.

Dominique Gentile and Yes Fournier, in this book entitled *Les pay sans peuvntils devenir banquiers?* ["Can peasants Become Bankers?" (Editions Syros) said: "Indigenous provident societies (SIP) were tried in Senegal starting in 1907 before being governed by a decree (1910) and extended to all the colonies with many variations: African provident societies (SAP) in

1964, rural production mutual benefit societies (SMR) in 1953 and rural development mutual benefit societies (SMDR) in 1956.

“For the administrators of the provident societies, the essential thing was to develop the infrastructures and intensify export agriculture by the dissemination of inputs and hardware. This was also to maintain social peace by distributing loans to purchase pre-harvest gap foodstuffs in order to mitigate the imbalances caused by the growth of cash crops to the detriment of food crops.

“Agricultural credit then appeared as a simple means in the service of an overall policy. Despite numerous cases of delinquency, these provident societies operated for several decades and injected billions into the rural world”.

It should be observed, as confirmed by the words of these researchers, that the experiences of pre-cooperative organizations under colonial regime used the mutual benefit approach in name only and failed to apply practically any of its principles. The first true experiences in the area of savings and credit cooperatives in sub-Saharan Africa were to a large degree the work of foreign missionaries. These initiatives were supported subsequently by the governments of these countries. The bibliographical sources that the first savings and credit cooperatives emerged in the English-speaking countries, primarily in Ghana, Nigeria and Uganda. In Ghana, they were the work of Father J. McNulty in 1995 in Mirada, in the northwest part of the country. The cooperative were sustained afterwards by the governmental structure through special legislation (ACCOSCA, 1978). In Uganda, according to the same sources, in 1946 there were already savings and credit cooperatives. Individuals with the help of the government founded these.

These initiatives, in the case of Nigeria, dated back to 1951-1953. In Tanzania, they date back to 1954. All these experiences progressed after independence was achieved in the other English-speaking countries before taking root in the French-speaking regions of Africa. Their expansion was only particularly significant in the 1970s.

In 1960, Mauritius became the first French-speaking country to have SACCOs installed. One year later, it was Lesotho's turn and Malawi's in 1962. Cooperative credit unions appeared in

Cameroon in its English-speaking area (Boyo department, northwest province) in 1964 and Liberia in 1965. The second Francophone country to have SACCOs was Togo in 1969 under the initiative of a New York Church, the United Church Board of World Ministries, with the missionary James Winter in the southwest region of the country (ACI-BRAO/UCI/DES: 1992, ACCOSCA, 1978).

From the outset, this emergence of new cooperatives in Africa depended on premises and an approach to cooperative challenges quite unlike those of the first two cooperative generations in Europe. These differences can be summarized in two main features:

1. The Government, practically entirely absent in the case of the first European experiences, was, from the start of decolonization, the primary promoter of the cooperative formula in practically all of the Francophone countries of Africa; the cooperative formula was considered first and foremost a means of economic development.
2. Non-African promoters began to get involved and were very active in organizing the creation of new cooperatives, then in consolidating them into networks; these were first of all Catholic and Protestant missions (Kivu in Zaire, Centre-Sud in Cameroon) and numerous NGOs and NGIs from Northern-hemisphere countries, which show their solidarity with the populations of the Southern hemisphere by financing the start-up of cooperative or by offering to share their experience in this area.

The involvement of these two new categories of players in the phenomena of emergence and development of cooperatives in developing countries differentiates it from the European experiences in three important as follows:-

1. Structured financial assistance;
2. Involvement of significant government administrative mechanisms;
3. Expertise acquired by generations of European and North American pioneers.

1.1.10: AFRICAN SACCOs AND THEIR ENVIRONMENT

THE THREE SYSTEMS FOR OFFERING SAVINGS AND CREDIT SERVICES

In most African countries, three systems for offering savings and credit services rub shoulders, sometimes, in competition with one another, but most often without their being a true competition among them to the extent that they offer different types of service or service different clienteles as follows:

- **Centralized Financial Systems:** - This refers to commercial and/or business banks that operate primarily in an urban environment and the financial institutions under more or less direct control of the Government. They are subjected not only to general commercial laws, but also to specific banking regulations and central bank supervision. The institutions operating under this system are sometimes referred to as Formal Financial Institutions/system.
- **Decentralized Financial Systems:** - This denomination is used to designate institutions and networks that were developed as alternatives to commercial banks and the informal structures for offering financial services close to the people. It comprises, in particular, the different networks of SACCOs (rural cooperatives, mutual credit societies, people's banks), but also different alternative experiences introduced by NGOs. The institutions under this system are registered, but are not subjected to specific banking regulations and central bank supervision. In Tanzania, for examples, SACCOs are registered under the Cooperative Act and are supervised by the Government department of Cooperative Department.
- **Informal Financial Systems:** - This refers to the range ROSCAs (Rotating Savings and Credit Associations) of the tontine type and door-to-door bankers, in particular. Since these are not registered nor are supervised by government machineries. Often loans are granted based on the familiarity with the borrower. In Tanzania they operate as “Upatu” or “Kibati”, and other features as family or localized groups such as “Ifogong’ho” in Shinyanga and Mwanza regions.

Since they have appeared on the scene recently, SACCOs are still newcomers in the African landscape of financial systems offering savings and credit services. They still only occupy a small share of the market in comparison with the other two. They are sometimes midway between both extremes.

In fact, the emergence and development of centralized financial systems (DFS) has resulted in part from the failures and limitations of the other two systems.

1.1.11: EXPERIENCES OF FINANCIAL SYSTEMS IN AFRICA

The Tontine: - The tontine meets the needs of domestic economy where income is weak and irregular. The system depends on extending contributions over time and on the following principle: the group pays dues and the sums thus collected are paid out in turn to one of the dues-payers. The dues are collected, as many times as there are dues-payers, so that each one receives the same capital.

The tontine in no case is a means for accumulating capital for an economically profitable investment. It makes it possible to meet primary and family needs and operates because each of the dues-payers. Practically at the same time, wants to provide a definite response through a short-term savings effort. The success of the tontine, therefore, relies on the principle of strict equality, trust and non-hierarchical control.

Door-to- Door Bankers

Is what a person go every day to their clients to receive a preset sum of money on the agreed-upon due date (at the end of 31 or 62 days), the door-to- door banker returns the amounts collected with the exception of one payment out of 31, which represents the interest or the price of safety service provided to each saver.

Village Banks

Village savings and credit banks are true banks used by villagers to make their savings safe and productive by granting loans to individuals or groups who belonging to them.

The villagers jointly establish the operating rules of their bank by appointing one or several managers, while a credit committee reviews and decides how to grant loans, provides monitoring and the assisted collection of the manager. On the principle, the village bank mobilizes local savings ton recycle it into the village economy.

Savings and Credit Cooperative Societies

Savings and credit cooperatives societies, for their part, channel their members' savings, essentially classifying needs to grant loans oriented toward social needs, handcrafts and small business. The members are the sole beneficiaries, sole savers and sole decision-makers.

Their association or proximity with other production- or consumer-based cooperatives makes them integrated and effective tools for rural development.

1.1.12: HISTORY PERSPERCTIVE OF SACCOs IN TANZANIA

Although studies by Jack Dublin and Selma Dublin in 1978 show that Savings and Credit Societies were initially introduced by missionaries working with the Nyegezi Social Training Centre in 1960, current evidence shows that the first SACCOs in Tanzania was established in Moshi Town by the Ismailia Group in 1938. From there, the Catholic Church picked the idea when the Late Cardinal Laurean Rugambwa (then a Bishop) visited Michigan Credit Unions in the late 1950's to learn more about SACCOs. Other people to be exposed to Credit Unions were Father Amanita, Father Mutashaba and Mr. Mutayoba. These were trained first in the USA and then in Canada in 1962. Mr. Mutayoba later on became the first president of the Savings and Credit Cooperatives Unions League of Tanganyika (SCCULT) and also the first President of ACCOSCA (Dublin, J. et al, 1983). From this humble beginning SACCOs moved from being organized and promoted by religious organizations to become secular organizations.

Tanzania was the first country in Africa to have a National Association of Credit Unions. The Savings and Credit Union League of Tanganyika (SCCULT) Ltd was registered in 1964.

TABLE 6: PROVIDERS OF MICROFINANCE SERVICES IN TANZANIA.

Type / Name of institution	Microfinance Products Offered	Organizational Format	Basis for Status as Legal Entity	Registration Authority	External Regulation	Licensing/Prudential Supervision	Minimum Capitalization	Main Source of Funds
COMMERCIAL BANKS								
National Microfinance Bank	Savings deposits	Stock corporation	Act of Parliament	Companies Registrar: BOT	Companies Registrar: BOT	Bank of Tanzania	Tsh 1.0 billion [*Note*]	Deposits /capital
Akiba Commercial Bank	Savings deposits; Group and individual micro enterprise loans	Stock corporation	Companies' Act; BOT	Companies Registrar: BOT	Companies Registrar: BOT	Bank of Tanzania	Tsh 1.0 billion [*Note*]	Deposits /capital
CRDB Bank	Newly - organized microfinance dept.	Stock corporation	Companies' Act; BoT	Companies Registrar: BOT	Companies Registrar: BOT	Bank of Tanzania	Tsh 1.0 billion [*Note*]	DANIDA
Tanzania postal Bank	Savings/Fixed deposits	Stock corporation	Act of Parliament	Companies Registrar: BOT	Companies Registrar: BOT	Bank of Tanzania	Tsh 1.0 billion [*Note*]	Deposits /capital
REGIONAL BANKS								
Kilimanjaro Cooperative Bank	Savings deposits and micro enterprise loans	Stock corporation	Companies' Act; BoT	Companies Registrar: BOT	Companies Registrar: BOT	Bank of Tanzania	Tsh 200 million	Deposits /capital
Mufindi Community Bank	Savings deposits and micro	Stock corporation	Companies' Act; BoT	Companies Registrar: BOT	Companies Registrar: BOT	Bank of Tanzania	Tshs 50 million	Deposits /capital

Type / Name of institution	Microfinance Products Offered	Organizational Format	Basis for Status as Legal Entity	Registration Authority	External Regulation	Licensing/Prudential Supervision	Minimum Capitalization	Main Source of Funds
	enterprise loans							
Mwanga Rural Community Bank	Savings deposits and micro enterprise loans	Stock corporation	Companies' Act; BoT	Companies Registrar: BOT	Companies Registrar: BOT	Bank of Tanzania	Tshs 50 million	Deposits /capital
SAVINGS & CREDIT COOPERATIVE SOCIETY								
Urban SACCOs	Members loans only	Coop Society	Coop Societies Act	Min of Coops and Marketing	Min of Coops and Marketing	None	No Minimum	Share capital and donor grants
Rural SACCOs	Member savings deposits & loans	Coop Society	Coop Societies Act	Min of Coops and Marketing	Min of Coops and Marketing	None	No Minimum	Share capital and donor grants
Other (savings-based) SACCOs	Voluntary savings and withdrawals only	Coop Society	Coop Societies Act	Min of Coops and Marketing	Min of Coops and Marketing	None	No Minimum	Share capital and donor grants
<u>VILLAGE SAVINGS & CREDIT ASSOCIATIONS (SACAs)</u>	Individual savings & group-based loans	Coop Society	Societies Act	Home Affairs Ministry	None	None	No Minimum	Donors grants
FINANCIAL NGOs								
Solidarity/Group - based microfinance loans	Mandatory savings & group-based loans	Non-profit trust; Co. limited by guarantee (NGO)	Societies Act; Trust	Companies Registrar	None	None	No Minimum	Donors grants
Individual microfinance loans	Mandatory savings & group-based loans	Non-profit trust; Co. limited by guarantee	Societies Act; Trust	Companies Registrar	None	None	No Minimum	Donors grants

Type / Name of institution	Microfinance Products Offered	Organizational Format	Basis for Status as Legal Entity	Registration Authority	External Regulation	Licensing/Prudential Supervision	Minimum Capitalization	Main Source of Funds
		(NGO)						

The institutions that provide microfinance services are the real driving force behind the achievement of the ultimate goal stated in this policy statement. The Government's will accomplish little without the effort and commitment of financial institutions, NGOs, SACCOs, and other service providers. Such institutions are free to develop microfinance services on the basis of their own internal objectives, whether profit, poverty alleviation, self-help, or other motivations.

They will be encouraged to learn about such services, to make informed choices about the fit between their organizational objectives and services to the rural sector and micro enterprises. The Government expects institutions that decide to become microfinance service providers to fulfill their responsibility to learn best practices and to apply sound financial principles in the delivery of their services.

1.1.13: Banks and Non-Bank Financial Institutions providing Rural Finance

A variety of licensed regulated and supervised financial institutions currently operating in the country, include commercial banks, non-bank financial institutions, community banks, a cooperative bank, and a microfinance bank (the recently established National Microfinance Bank-NMB). As deposits-taking institutions, these entities are required to meet prudential norms. Where possible, the Government might provide incentives to enter the microfinance markets.

Some banks within Tanzania have started providing financial services to a majority of the low-income population either directly or indirectly through linkages with NGOs or savings and credit institutions as a viable poverty reduction.

One bank that has taken up this initiative is Exim Bank. The bank is specializing in pre-export crop financing as well as trade and financial services to small and medium enterprises and has

specifically been used as an agent for managing the agricultural inputs fund. Exim Bank has to its credit a financial tie-up with International Finance Corporation IFC, Washington which is the commercial arm of the World Bank and PROPARCO, and a French Financial Agency which is dedicated to private investment financing. The mission of IFC is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives where as PROPARCO tries to stimulate private sector investors and markets. IFC aims to try and do this through financing private sector investments, mobilizing capital in the international financial markets, helping clients improve social and environmental sustainability, and providing technical assistance and advice to governments and businesses.

In addition to this IFC also thrives on training local staff and management and by transferring best practice Micro finance banking skills through a twinning arrangement with a top- tier. With its 'outreach' strategy the bank hopes to reach vast areas in the country to fetch in more business opportunities.

Lessons that can be drawn from the experience of commercial banks like Exim Bank are as follows:

- Networking and forming linkages with international financial institutions can give access to best practices.
- Security in rural areas is problematic in the absence of formal registration of assets that could function as collateral titles and even when they are registered their market value is low. There is need to innovatively search for alternative ways of managing to provide financial services without necessarily demanding physical collateral.
- Short term lending is not appropriate for most of production activities in the rural areas. Longer term credit is needed.
- Linking with intermediate institutions which are closer to the farmer clients reduce the cost of collecting and processing information about potential borrowers. Linkage to SACCOs and community Banks has proved useful in cutting down administrative costs,

enhancing loan recovery and improving reach without having to physically locate branches in all areas of operation.

MEMBER- BASED ORGANIZATION- SACCOs

The most dominant member-based organizations in Tanzania are the Savings and Credit Co-operative Societies. These Savings and Credit Co-operatives (SACCOs) are categorized into urban SACCOs and rural SACCOs. Of interest in the context of this paper are rural SACCOs.

Owing to the poor access of formal financial services in the rural areas, the formation of SACCOs was advocated and encouraged by the Government as one way of promoting access to financial services. The rural SACCOs, have a common bond in residences and associations. Members of these schemes usually reside in the same village, and rely on the same primary cooperative society for crop sales.

In SACCOs savings are linked to credit. The SACCOs have helped to address the bias that often prevails against individual borrowers who are located in the rural areas which are sometimes not easy to reach. The SACCOs have functioned as a bridge between individual borrowers' particularly small borrowers and the formal financial institutions. SACCOs have had a substantial role in the mobilization and allocation of otherwise untapped resources. Like the formal financial institutions, SACCOs are found in both rural and urban areas. These societies are willing to offer even small sized loans to members which are something that the formal financial institutions will not do in view of the high costs of administration, and lengthy procedures involved in processing information before a decision is made to give out a loan. The high transactions costs, inadequate information and the associated perception of high risk associated with rural finance have limited the growth and development of rural financial services in the country. The financial institutions that have utilized the knowledge and proximity of established institutions in the rural areas have tended to do better. Through SACCOs these institutions have extended credit to small borrowers in the rural some of which are otherwise not easily accessible. Unlike banks that experience low loan repayment rates from peasant borrowers, Sacco's loans have lower default rates. Borrowers know that the loans come from savings of the community.

Community pressure, access to information and close follow up all have been combined to enhance access even without having to use conventional forms of collateral.

A number of rural schemes operate under a saving-first arrangement whereby potential borrowers have to pay cash deposit before they can apply to borrow a maximum of twice the amount they have saved with the programme, or at times the borrower would have to save up to 25% of the loan requested. Thus, loan size is linked to level of savings. With the high borrowing transactions costs associated with the loans, farmers who can deposit only small amount of money can hardly participate in the programmes. As such, linking the amount of loan to the level of savings, in trying to minimize risk costs, prevents poor people to enhance their credit worthiness by demonstrating their savings abilities to lenders. Thus the regulation limits access to loans by their poor farmers. Under these circumstances, poor savings through institutional arrangements such as SACCOs helps to address this problem.

The case of the linkage between SACCOs and Kilimanjaro Community Development Bank (KCB) can be used here to draw useful lessons. With failures of rural financial institutions within the region the SACCOs together with the office marketing primary cooperatives and their unions joined up to form what is currently known as Kilimanjaro Community Bank. Having developed from the grassroots it has given the people of the region a sense of ownership and a belief that KCB represents the local community and has contributed to its sustainability. The bank has also strategically tapped into the coffee economy by providing farmers with direct deposit facilities for the proceeds earned from coffee sales, since the people of the region have a long history of community activities based around coffee economy.

By having a clear organizational structure, objectives, key tasks and restricting share holding to primary rural co-operative societies and particular SACCOs the bank has made considerable strides since its establishment.

Although the main focus of the bank is rural development the bank has only managed to open its main office and customer service desk in Moshi town. But this has not deterred the bank from pursuing its main objective of reaching the rural areas. In this regard, it

embarked on building links with Sacco's groups as part of its rural penetration agenda. The bank has taken up the effort to support capacity building through training, management and supervisory assistance to SACCOs.

Various factors explain the progress that KCB has made with the SACCOs that have links with the community bank; first, they have catered for a local and well known limited population. Second, they have taken up the promotion of thrift attitude towards saving as their primary task. Third, they have developed convenient savings products for low income small holders. Fourth, they have provided an assured source of credit as a secondary activity. Fifth, they have provided training opportunities to members as part of capacity building. Sixth, they have promoted efficient management of resources.

In contrast to the top down initiative used by past rural finance institutions which pumped large volumes of externally generated finances as credit, SACCOs have been cautious about lending and they have treated it as a secondary rather a primary or core activity during the formative stage. The main challenge that KCB and its SACCOs are facing is that of managing the transition from aid dependence towards sustainability.

Lessons to be drawn from the experience of SACCOs to date are as follows:

- Poor infrastructure poses a challenge to the spread of rural financial services by NGOs in the country.
- The financial institutions that have utilized the knowledge and proximity of established institutions in the rural areas such as SACCOs have managed to enhance reach and loan recovery.
- Unlike banks that experience low loan repayment rates from peasant borrowers, Sacco's loans have lower default rates. Borrowers know that the loans come from savings of the community. Community pressure, access to information and close follow up all have been combined to enhance access to credit even without having to use conventional forms of collateral.

- Building competence in SACCOs through capacity building initiatives deserves priority to enable these institutions operate more efficiently and competitively. SACCOs and community banks will need assistance in acquiring technical and managerial competence and institutional capacity building. However, the main challenge that these institutions will face is that of managing the transition from that kind of dependence towards sustainability.

1.1.14.1: SACCOs

These institutions operate under the co-operative Societies Act, 1991 in offering savings and credit services to members. They are also covered under the Banking and Financial institutions Act, 1991 as financial intermediaries but the Bank of Tanzania does not supervise them.

The Government recognizes the following important guidelines for efficient sustainable operations of SACCOs:

- As savings-based institutions, regulation and supervision are necessary once the institutions reach more than a small group of members.
- As savings –based institutions, it is important to ensure that lines of credit for loanable funds to not undermine incentives to promote savings.
- Pricing policies for SACCOs should promote savings and allow sufficient interest rate spread for the profitable operations of the SACCOs.
- Promotion of SACCOs is best separated from their supervision in order to ensure that supervisors apply standards objectively.
- Widening the scope of operation by establishing cooperatives in various sectors of the economy-for example energy, transport, communication, insurance, water fisheries, housing, trade, industry, finance and forestry.

- Encouraging and supporting, through policies and affirmatives action, the participation of women in cooperatives (as active members, leaders, professional managers and employees).
- Researching, gathering and disseminating vital information to cooperatives in particular, and to farmers generally, on internal and international markets.
- Establishment of a national cooperative bank that, working in unionism with the expanding savings and credit cooperatives (SACCOs), will provide credit to cooperatives at favorable rates and also help keep finance mobilizes by cooperatives within the cooperative movement.
- Strengthen the capacity of the cooperative member through empowerment, education and training; in this respect the Member Empowerment Programme managed by the Moshi University College of Cooperative and Business Studies (MUCCOBS) will play a leading role.

Challenges to the poverty reduction strategies include the HIV/AIDS pandemic and its devastating impact on young people, and globalization the advent of which the cooperative movement was ill prepared.

To date the responsibility for the supervision of SACCOs has been placed in the hands of the Ministry of Agriculture and Cooperatives. The Banking and Financial Institutions ACT, 1991 provides for the Bank of Tanzania to have overall responsibility for financial sector regulation. The Bank of Tanzania, therefore, has the authority to ensure that SACCOs are supervised in accordance with prudential financial norms. In the process of strengthening SACCOs, it is important that they either become or are linked to professionally manage financial institutions. Thus, it is envisaged that stronger SACCOs will evolve into community banks, join together to form cooperative banks or form alliances with other financial institutions.

1.1.14.2: NGOs

NGOs are particularly important in reaching very poor or difficult-to serve clients and in developing and testing innovative products and service delivery mechanisms. NGOs will not be subject to financial regulation and supervision as long as they do not accept voluntary deposits. NGOs wishing to gain permission to accept deposits will have to become licensed regulated institutions with appropriate shareholding and governance structures, adequate capitalization and profitable operations. This will require their transformation from NGOs into other organizational forms. It is their responsibility to learn and apply best practices in microfinance, and to structure their operations so as to reduce and eliminate their dependence on subsidies and donor funds, to the maximum degree compatible with reaching their targeted population. This responsibility includes the provision of accurate and complete financial information.

Currently, NGO's are financing approximately 18,000 micro-entrepreneurs. The two largest programmes are run by Pride Africa, with 9,000 members and "Juhudi ya Akina Mama Scheme" managed by MEDA, with 4,000 members. Financial NGOs have been very instrumental in pushing the frontiers of financial services to the poor and remote areas although most of them have operated mainly in urban and semi-urban centers.

PRIDE Tanzania is one of the largest financial non governmental organizations in Tanzania since it was founded in 1994 with a dedication to microfinance in.

As part of a nation wide initiative for poverty reduction, PRIDE Tanzania has been pursuing its objective of assisting micro entrepreneurs by providing loans and technical skills.

However, there are indications that poor infrastructure poses a challenge to the spread of rural financial services in the country. For instance, the policy of PRIDE is that "branch offices must be placed in locations where there are basic infrastructure requirements to support both branch operating requirements and the relative comfort of PRIDE officers".

This shows the true nature of a majority of organizations that claim to cater for the poor rural population. Because of its commercial orientation, PRIDE has a target group mainly comprising of the lower middle income and non-poor population.

Elsewhere in the developing countries, micro-finance was launched by Non-Government Organizations and banks such as, Grameen Bank (Bangladesh, 1976), Kenyan Rural Enterprise Programme, Banco Solidario (Bolivia, 1992), Bank Rakyat Indonesia (BRI, 1984), among others. In these countries, the experiences shows that, with new methods of lending, which included providing very small loans without collateral at full cost interest rates that were repayable in frequent installments, the vast majority repaid on time. Myriad benefits have been attributed to micro-finance programs. The Grameen Bank has been credited with addressing the structural determinants of poverty, economic and social status of women, and sources of vulnerability.

Lessons that can be learned from NGO-Microfinance institutions include the following:

- Working through groups has helped to introduce peer pressure in loan recovery and in providing information about borrowers at low cost. Experience has shown that new and appropriate methods of lending, have been used which included providing very small loans without collateral at full cost interest rates that were repayable in frequent installments and that the vast majority repaid on time.
- Staffing of the financial institutions needs to give weight to competence, incentives and monitoring performance on a continuous basis. Capacity building deserves high priority.
- Collaboration with foreign entities helps in starting up and building capacity that is needed initially. However, the challenge of reducing dependence and attaining sustainability is facing many NGOs-MFIs.

1.1.14.3: DONOR COMMUNITY

Currently donors are the main sources of capital, particularly start-up capital, for the provision of microfinance services to NGOs. They also provide funds for capacity building. The Government expects all donor programs supporting microfinance in the country to comply with this policy. Donors will coordinate with each other and with the Government to ensure that their programs embody common standards and complement other Government and donor activities. Care will be taken by donors to ensure that NGOs that they support develop sustainable operations so as to ensure the latter's existence after donor support ends.

The International donor agencies will provide not only substantial financial resources to serve as loan investment capital for microfinance NGOs but, even more importantly, technical assistance for staff capacity building and technology transfer of regional and global best practice in microfinance to an even broader range of institutional providers of microfinance services. In this context they comprise a significant and influential stakeholder group in Tanzania microfinance.

The Tanzania microfinance industry continues reliance and dependence on donor funds and assistance is not viable, and that this particular resource is more likely to dwindle down and be exhausted at an earlier period rather than later. While it may be true that, in a comparative sense, microfinance under private initiative is a relatively new development in Tanzania (in comparison to other countries), it may be prudent for the different stakeholders in the private sector, in government and among the donor community to take on a sense of urgency with respect from putting into action the different components that are available to place microfinance development on a sustainable path. For instance, advisers and consultants can assist in the construction and crafting of a legal and regulatory framework for microfinance but the primary responsibility for understanding the requirements and incorporating these into the design of the framework must belong to local stakeholders, and cannot be assigned to advisers and consultants.

Savings mobilization

The potential for saving mobilization in the rural areas is substantial. The survey results showed that about 72% of grassroots associations actually saved and that other 80% of the respondents were willing to utilize the services of grassroots associations in order to access both credit and savings (K-REP, September, 1997). It was found that 83% of the household indicated that at times they had surplus income they could save. The challenge is to provide for appropriate forms of instruments which are consistent with enhanced financial intermediation (VPO, 2000).

The common trend in grassroots associations have been instrumental in instilling a saving behavior and provide an opportunity for promoting loan repayment based on pressure from peer monitoring as a substitute for conventional collateral. Group initiatives in various forms (e.g. self help groups) are becoming an innovative link between their members and banks and other providers of financial services. The groups take credit from the banks for on-lending to their members. This has become an innovative method of financial intermediation.

Conclusion and Recommendations

Rural finance has positive impact on household economic conditions.

At household level in the rural areas it is often difficult to separate financial needs of enterprise/business households' activities from other financial needs of individual households. This presents itself as a challenge for financial service providers to formulate appropriate instruments which can address both enterprise and individual households' needs such as school fees and costs associated with health care.

Experience has shown that, financing even small amounts has a very positive impact on the family's economic development as it helps to unlock productive potential. Micro-finance facilities can provide a great range of financial services including credit, savings, and insurance to poor enterprises and households, offers the potential for growth and helps safeguard poor households against extreme vulnerability. Loans, savings, and insurance help even out income fluctuations and maintain consumption levels during lean periods. Evidence from rural finance clients demonstrates that, access to financial services enables poor people to increase their

incomes, build assets, and reduce vulnerability. It also translates to better nutrition and improved health and improved health outcomes. These experiences suggest that providing affordable financial services to the rural population deserves high priority in development.

Direct interventions have failed

Direct interventions in rural finance to stimulate growth and reduce poverty through a blend of targeted credit programmes, interest subsidies, and other government policies became widespread in the 1950s, when Keynesian economics inspired many governments to design fiscal interventions at the macroeconomic level. But these direct interventions have generally been disappointing and have tended to retard, rather than promote the development of financial services in the rural areas.

Institutional and policy Design stands a better chance of success

A recent development in the provision of rural financial services (Both savings and credit) have demonstrated that proper institutional design and adherence to appropriate policies pays off handsomely and have the potential to generate substantial achievements in terms of both sustainability and greater institutional outreach. There are an increasing numbers of successful micro-finance institutions that provide financial services in a sustainable manner. Various quantitative and qualitative studies indicate increase in income and assets and decrease in vulnerability of micro-finance clients.

Although the new approach focuses on income expansion and poverty reduction, the perceived challenges and ways of addressing them are strikingly different. The principal change involves promoting deep and efficient rural financial markets by creating a favorable policy environment, improving the legal and regulatory framework that supports rural financial markets and addressing specific market failures in cost effective ways through well designed, self sustaining interventions. Successful rural finance institutions are all located near their clients; utilize lending technologies that are simple and inexpensive for both the client and lender and most include savings.

It has been argued that the formal financial sector in most developing countries has failed to serve the rural communities due to collateral, credit rationing, preference for high-income clients and large loans, and bureaucratic and lengthy procedures of providing loan.

On the other hand, the informal financial sector has also failed to help farmers due to monopolistic power, excessive high interest rates and exploitation through under valuation of collateral. (Rweyemamu et al, 2000). It is important to focus on semi-formal institutions that are filling gaps left by both the informal and formal financial institutions supporting agricultural sector development. These can form viable links between the formal financial institutions and the borrowers.

Improving the Environment for Rural Financial Services

The new approach continues to focus on income expansion and poverty reduction but makes the case for cost effective alternatives, such as increased investment in rural infrastructure or in human development, to reach these goals. Advocates of this approach propose that governments concentrate on establishing a favorable policy environment that facilitates the smooth functioning of rural financial markets while playing a more limited and efficient role in the direct provision of rural financial services. The factors that prevent rural financial markets from operating efficiently are recognized to be broader and include macroeconomic policies, weakly regulated financial sectors, institutional features (legal and regulatory), and specific constraints related to intermediation in rural areas. The approach sees the government's main task as creating a conducive environment for private intermediaries in rural financial markets.

Cost of transport and infrastructure

Transportation expenses tend to be high due the fact that many borrowers are located at long distances from the loan offices. When the opportunity cost of labor in-terms of the work time lost is considered in the total borrower transaction cost computations, the loans tend to be very expensive to the borrowers as the total transaction costs amount to a substantial part of the loan received.

Numerous studies have shown that the provision of roads reduces transaction costs of inputs and outputs, leading to an increase in agricultural output, crop area and yield. Agricultural output itself is limited by inadequate off-farm, “upstream” and down-stream” facilities. Better infrastructure can stimulate rural income by lowering the costs of trade with the country’s urban areas and foreign markets.

Infrastructure helps make the more remote rural areas part of a broader market, contributing to the marketization and profitability of agriculture. It also promotes information flows between communities and rural and urban areas, thus linking farmers to markets for goods, inputs supplies, and agricultural extension services.

Electrification can improve access to information and networks. Thus, rural infrastructure plays a vital role in empowering people, connecting isolated communities and providing rural people with access to the political and decision-making entities.

Partnership in promoting and developing rural finance

Micro-finance, thus offers the potential for sustainability and growth. Due to their demonstrated success in providing benefits to the poor, international donors and governments are more willing to support micro-finance institution. Many governments have set up facilities that channel funds from multilateral agencies to Micro-finance institutions.

Scaling up this successful approach will require partnership between civil society, government and its institutions and donors to provide seed resources for expansion of these services. Scaling up may also require commitment of grant resources to help offset the overhead cost associated with operating these facilities, as experiences has shown that even in these case of Grameen Bank, the pioneer in this field, the bank remains constrained by high expenses per unit transacted and relies on donors and socially conscious investors.

Experience has shown that the development of rural finance requires action by several actors in the public, private as well as the civil society sectors. The public sector should work with the micro finance institutions through investing in infrastructure, market services and extension of the rural areas as a way of developing the agricultural sector.

It is suggested that governments, in partnership with NGOs and the private sector, particularly those involved in provision of agricultural inputs, marketing or agro-industry, with support from international donor agencies, establish Farmer Support Services (FSS) in rural areas to assist farmers in accessing credit that could be available through micro-finance facility, technical assistance available from government or NGOs, training-capacity building, marketing information including new standards for exports, and assistance with crop and product diversification. In fact, it is advisable that diversification be pursued beyond agriculture into non-farm activities in order to adequately address the challenges of seasonality and vulnerability.

Putting in place low cost and tailor-made delivery systems

- Innovative, low-cost delivery systems and mobile banking services.
- Innovative and flexible loan terms and conditions adapted to social, economic and cultural circumstances. For example, all offer weekly or monthly repayments schedules tailored to the client's cash flow.
- Control over administrative expenses and effective use of economies of scale.
- Where the volume of business is relatively small, mobile offices provide limited services to clients in outlying areas once or twice a week.
- The small average size of loans and relatively high cost of legal procedures make foreclosure prohibitively expensive (although warranted in certain cases to achieve a demonstration effect). Thus the focus is on quality at entry and appropriate incentives for repayment.

Close monitoring including using established institutions in rural areas.

- Close monitoring of loan performance; high on-time collection rates and low loan losses.
- Applicants are prescreened based on readily available information (gathered from peers and from village leaders), and proposed investments are evaluated.

- Advanced management information system that facilitate effective planning, control and timely monitoring of loan repayments.

Management autonomy and incentives structures

A variety of mechanisms have enhanced the efficiency of these institutions, some of the important are:

- High degree of management autonomy in formulating operational policies.
- Policies that provide for staff accountability, investment in human capital, and rewards (monetary incentives and promotions) that are related to sound financial performance and sustainability. Staff incentives are linked to the performance of the loan portfolio, so clients are monitored more closely than is usual.
- Appropriate financial ratios for measuring a financial institution's performance should be designed and put in place. For instance, return on equity and return on assets has become more common in recent years. In addition, the use of the subsidy dependence index is recommended to evaluate those providers who depend on their access to subsidies.

Table 8: The Summary of the Activities and Programs of Various Donors.

Local Counterpart	Program Amount	Region	Program Description
Local NGOs and Community Based Organizations (CBOs)	\$ 10.8 million	Coast Region, mtwara, Lindi, Morogoro, Singida	Small Entrepreneurs Loan Facility (SELF)
SIDO, Poverty Africa, SCCULT, CREW, PTF	\$ 20 million, among 10 countries	Counterpart MFIs have differing coverage of the entire country	Capacity building for MFIs, Policy dialogue with Government agencies, Coordination with other donors

Local Counterpart	Program Amount	Region	Program Description
Local MF NGOs working with Mennonite Economic development Association	\$ 0.8 million	Nationwide	National income Generation Programme Umbrella Credit Project - capacity building, training, technology transfer, financing
Local MF NGOs working with Mennonite Economic development Association	\$.05 million	Kagera, Dodoma Region	Belgian Micro Intervention Programme: group-based micro credits to support house - hold - based income generating, financing
Huduma ya Maendeleo (HYM)	\$2.8 million	Dares-Salaam, Mbeya (Urban areas)	Mennonite Economic Development Association Micro enterprise Business Development Program - capacity building, training, financing
To be identified	\$0.35 million	Dodoma, Iringa, Mwanza, Dar es Salaam, Shinyanga, Morogoro	CARE Canada Imara - capacity building, marketing, financing
Government of Tanzania - Ministry of Agriculture	\$50,000	Tabora (Nzega)	World Vision Soft Loan, for Food Security - capacity building, marketing, training, financing, studies
SACCOs Needs Assessment for BOT Donors Microfinance Update Survey for use by BOT	\$70,000		Microfinance Related Studies - capacity building, technology transfer, training financing, studies
CRDB	\$ 15 million total for BSSP	Dodoma, Iringa, Mbeya, Morogoro	Business Sector Support Programme - Microfinance Component targeted at households, smallholder farmers and small and micro enterprises through CRDB Bank
High Court of Tanzania	\$15 million	Nationwide	Business Sector Support Programme - Commercial Court
Microfinance Capacity Building Programme in Africa (AFCAP)	\$.6.6 million total for multi - country program		Microfinance Capacity Building Programme in Africa (AFCAP), a joint initiative with CGAP for capacity building of MFIs in East, Central and Southern Africa

Local Counterpart	Program Amount	Region	Program Description
Micro Save Africa	0.660 million		Micro Save is a joint initiative with UNDP, to provide TA to organizations to strengthen their development of savings services
SCCULT, Ministry of Cooperatives & Marketing, BOT	\$40,000 million		Study of Rural Savings and Credit Cooperatives (SACCOs) in Tanzania
FINCA Tanzania	\$ 2.2 million		FINCA Village Banking Network micro-finance program for low-income women entrepreneurs
Akiba Commercial Bank	\$0.312 million		TA to build institutional capacity for banking services to micro and small enterprises
Small Enterprise Development Agency (SEDA)	\$1.4million		TA to build institutional capacity for self- managed sustainable provider of financial services to women micro entrepreneurs
Sero Leasing and Finance (SELFINA)	\$0.772 million		Increase access to financial services of women operation small businesses
SNV Health Projects Abroad, AFRICARE	\$3.0 million	Dodoma, Singida, Kigoma, Tabora	Micro Project programme covers capacity building, training, technology transfer and financing assistance to communities
Kilimanjaro Cooperative Bank CRDB Banks Postal Bank	\$1.5 million	Nationwide coffee areas: Kagera, Kilimanjaro, Arusha, Mbeya, Ruvuma, Kigoma, Lushoto	Capacity building, training, technology transfer and financing assistance to coffee farmers through the three bank' network of branches and offices
District Cooperative Office	Not indicated	Masasi, Nachingwe, Ruangwa	Support to SACCOs in training cashiers & other management staff at the district level
District Agriculture & Livestock Extension Staff	\$ 75,000 million	Lindi and Mtwara	Goat-raising Loan Credit Scheme for low-income women

Local Counterpart	Program Amount	Region	Program Description
Small Industrial Development Organization	\$6.8 million	All districts national wide	Improve capacity of SIDO to effectively deliver, on a sustainable basis, business development services to micro and small enterprises in the informal economy
Government of Tanzania	\$15.82 million, of which \$5.94 million is credit	Iringa, Mbeya, Rukwa and Ruvuma	southern Highlands Extension and Rural Services Project: Micro credit services to marginal endless farmers, and capacity building for SACCOs
Government of Tanzania Belgium Survival Fund	\$14.37 million	Serengeti, Tarime, Musoma Rural and Bunda, all in Mara Region	Farmers initiative Project: Credit and marketing services to the poorest farmers (Southern Highlands), food security (Mara Region)
Government of Tanzania, Belgium Survival Fund, and OPEC	\$14.8 million	Biharamulo, Bukoba, Karagwe, Muleba, Ngara (Kagera Region)	Agricultural and Environmental Management Project: Credit and marketing services to improve household food production and income of poorest farmers in Kagera Region
Government of Tanzania, World Food Programme and Irish Aid	\$17.05 million	(A)Mwanza, Shinyanga, Arusha, (B) Tabora Singida, Dodoma	Participatory Irrigation development Project: improve capacity of smallholder farmers to develop irrigation in the marginal areas of wealthier regions (A) and the poorer regions (B)
Government of Tanzania	\$25 million	Southern Highlands, pockets of the marginal areas, Northern Regions	Rural Financial Services Programme (Project in preparation, co-financiers being explored)
Akiba Commercial Bank	\$0.425 million	Dar Es Salaam, Lake Zone, Arusha, Mbeya, Kilimanjaro	Akiba Commercial Bank (I and II) Expansion Project: capacity building and technology transfer program to improve outreach to micro, small and medium entrepreneurs.

Local Counterpart	Program Amount	Region	Program Description
Netherlands Development Cooperation (SNV), CRDB	\$895 million0.895	Arusha	Finance & Advice Development Assistance - Small Enterprise Promotion (FAIDA.SEP), to provide credit guarantee scheme for small and micro entrepreneurs
Pride Tanzania	\$6.3 million	Arusha, Tanga, DSM, Morogoro, Dodoma, Iringa, Mwanza, Shinyanga, Mbeya, Songea, Musoma, Singida, Tabora, Kigoma, Zanzibar	Pride Tanzania: microfinance capacity building, training and credit funds to micro entrepreneurs who can be assisted to develop their enterprises into financial viability and sustainability
Pride Tanzania and Pride Africa	\$0.490 million	Arusha	REDI Arusha: microfinance capacity building and training for NGOs, specially pride Tanzania and Pride Africa
Government of Tanzania			GOT/Multi-Donor Mission: Review of Rural and Micro Finance in Tanzania
Pride Africa	\$0.53 million	Tanzania and Uganda	Research and development to improve the Pride microfinance model in 2 countries
Bank of Tanzania	\$120,000 million		Supervision and regulation of microfinance, Financial Sector Assessment- in World Bank's comprehensive Rural and Micro Financial Services Project
Presidential trust Fund	SEK 11 million		TA for capacity building and institutional support to develop self reliance for PTF
Tanzania Association of Microfinance Institutions	SEK 4 million		TA for capacity building and institutional support to develop self reliance for TAMFI
SACCOs	\$1.0 million	Lake Victoria Region	TA for capacity building and institutional support to SACCOs through Swedish Cooperative Center

Local Counterpart	Program Amount	Region	Program Description
			with FISEDA and HUMACO
Government of Tanzania	Not indicated	Coast Region, Dodoma, Kigoma, Lindi	Community-Based initiatives (CBI) for Poverty Eradication: funds for on lending
Government of Tanzania	Not indicated	Dar es Salaam, Arusha, Mwanza, Zanzibar	National Program of Action for Sustainable income Generation: support for income generation projects in agriculture, micro-enterprise, infrastructure sectors
Confederation of Tanzania Industrial lists (CTI), Tanzanian Chambers of Commerce Industries and Agriculture (TCCIA), Small Industrial development Organization (SIDO), the Planning Commission	Not indicated		Non-financial business support services to microfinance administrators for informal sectors development, in computers, information and communications technology, opportunity studies, marketing
Various Local and Regional entities and institutions		Mwanza (FINCA), Dares-Salaam (AMINA), The Business Centre, Tanzania Venture Capital Fund, Regional Chamber of Commerce, Bank of Tanzania	USAID support is directed towards private sector development through business promotion intermediaries such as FINCA (MWANZA), AMINA, the Business Centre 9Dar es Salaam), Tanzania Venture Capital Fund (TVCP), Training. Assistance to Bank of Tanzania
Youth Employment Foundation (YOSEFO)	\$143,153	Tem eke (DSM)	Revolving loan fund for micro credit
Tanzania Micro entrepreneur Association	\$148,328	Mwanza (urban)	Revolving loan fund for micro credit; micro-entrepreneur training/capacity building
Credit Activities for Women (CREW)	\$50,000	Zanzibar	Grant for capacity building, training, micro credit loan fund
Presidential Trust Fund	\$233,539	Dares-Salaam, Kibaha and Mlandizi (Coast)	Dar Women and Youth Credit project - Grant for capacity building, micro credit loan fund

Local Counterpart	Program Amount	Region	Program Description
Arusha Credit Shop	\$161,500	Arusha - Urban and Rural	Grant for capacity building, training, micro credit loan fund
Tanga Credit Shop	\$194,346	Tanga - Urban and Rural	Grant for capacity building, training, micro credit loan fund
Dar Credit Shop	\$168,142	Dar es- Salaam	Grant for capacity building, training, micro credit loan fund
Moshi Informal Sector Credit Shop	\$201,557	Kilimanjaro Moshi)	Grant for capacity building, training, micro credit loan fund
Kondoa Self-employment Credit Project	\$175,165	Dodoma (Kondoa)	Grant for capacity building, training, micro credit loan fund

Source: Microfinance Donor Survey Update, for the Bank of Tanzania with Technical Support of Canadian International Development Agency, Final Report, April 2000.

1.1.15: HOW FOREIGN BANKS MAY ASSIST THE DEVELOPMENT OF SACCOs IN TANZANIA.

- **RESEARCH and Consultancy:** Foreign banks can play role of conducting research in the SACCOs units and producing/publishing several reports and publications on the issues relating to the SACCOs development and enable researchers to exchange information and approaches.
- **TRAINING and DEVELOPMENT.** The foreign banks may provide Training in terms of capacity building by facilitation and support services for the SACCOs movement e.g. The Desjardins International Development (DID) of Canada boosts expert trainers and consultants on SACCO's operations.
- **BUSINESS SUPPORT AND INFORMATION.** Foreign banks may develop a business support network, making resources available in the form of a CD-ROM, Internet and web pages on SACCO's movement.

- **PROMOTION AND ROLE MODELS.** Help in promoting implementation and review the existing Tanzanian labor laws which need to be reformed to meet for personnel development programs and practices of the SACCOs as a new venture in the economic development.
- **HIV/AIDS.** Foreign banks may also provide HIV awareness education and campaigns to the members and non-members of the SACCOs movement both in rural and urban areas about the risks associated with Aids.
- **TECHNOLOGIES.** Foreign banks may facilitate the introduction of new technologies to assist SACCOs in offering high quality products and services with high efficiency and effectiveness of the outputs.
- **CONDUCT WORKSHOPS:** Several workshops can be conducted to assist the members of SACCOs to identify their potential stakeholders and their potential roles in supporting the development of SACCOs and identifying the key challenges that are facing SACCOs in trying to go one step beyond the traditional micro finances.
- Provide a political, social and economic enabling environment that will ensure and protect the autonomy and democratic principles of cooperatives while at the same time ensuring a level playing field for cooperatives as competitive suppliers of goods and services to government and the private sector. Such a supportive environment can be promoted, inter-aria, by effective partnership and dialogue between Governments and cooperatives through joint consultative councils and/or advisory bodies.
- Introduce and support programmes to improve the access of cooperative to technology and enhance capacity building by strengthening and organizational, management and financial skills of members of cooperatives, and in this regard, to assist cooperatives in obtaining necessary technical assistance from donors.

- Review, amend or enact registrations, including administrative procedures and requirements in order to enhance the growth and sustainability of cooperatives and the apex cooperative organizations in a rapidly changing socio-economic environment; broaden and deepen the outreach of cooperatives among the poor, particularly those in the rural or agricultural sector; and promote the participation of women and vulnerable groups in cooperatives across all sectors.
- Promote the greater participation of cooperatives and cooperative organizations in poverty reduction, in particular the design, implementation and monitoring of poverty reduction strategy programme where they exist. In this regard, it will be important to also take steps to improve the collection and dissemination of information and data on the role of cooperatives in poverty reduction and their contribution to social and economic development.

SUSTAINABLE DEVELOPMENT AND DONOR ASSISTANCE

During consultations, stakeholders appeared rather disturbed by the whole issue of donor support. They pointed out that most rural people are small-holder farmers and livestock keepers who are very poor. It was estimated that in Chimala and Madibira villages in Mbeya Region approximately 60% of the villagers are absolute poor. So when a discussion was held as to “whether aid has brought any significant improvement to their living standards”, most of them thought the gains received from aid is very small. This was said in comparison to “what they hear”, that is Tanzania has a huge debt to pay and that it receives enormous donor support. When further asked “why they thought aid has not brought any relief/benefit to them”, the answer was “look at the people; their economic and living conditions tell for themselves, they are very poor”.

Some reasons were given as to why aid has not had any impact in eradicating poverty. The reasons given were divided into two groups:-

- (a) Problems which are caused by Tanzanians themselves. These include the following:-
 - (i) Not putting into considerations the issue of “sustainability of projects”
 - (ii) The target group not owning and not having the decision for their “project finances”

(iii) The target group being foreigners during project preparation and sometimes even during implementation of their own projects.

(iv) Aid not reaching the target group; in other words the “target group” is not targeted.

(b) Problems which are caused by donors themselves. They include:

(i) Not putting into consideration the issue of “sustainability of projects”.

(ii) To consider ‘aid’ as a project or activity “ which must be “sustainable”. If that is the case, logic would tell that aid should always lead into “sustainability poverty”.

(iii) The recruitment of expatriates for the donor projects does not take into account of the availability of local expertise e.g. recruiting a water technician when local technicians are available within the country.

In general, most stakeholders were of opinion that “aid” is full of problems. It was remarked that ‘aid’ which is brought in the country is one of the major causes of poverty and inability for Tanzania to pursue sustainable development. The country has continuously received considerable aid money for the past 40 years of independence, nevertheless poverty has worsened over the years and donor projects have failed to benefit the target group. At best, aid has managed successfully to cause “ *sustainable poverty*” in the country.

Related to the above issues is the concept of “a project”. The concept is associated with lots of money, huge salary, big cars, super spending, super life, non-accountability etc.

To many project managers ‘a project’ is considered a short-term rare opportunity or “*golden opportunity*”, which ends with the winding up of the project. It also means that the post of manager “ceases” when the project “ceases”. This perception has led many leaders and managers of the projects to misuse project’s resources by accumulating wealth before the end of the project’s period. This has contributed to the failure of many projects, and thus making aid not beneficial to the target population.

Another issue relates to the management of the projects. Most projects when brought in the country, donors prefer managing them themselves without involving Tanzanians right from the beginning. Consequent to this, projects collapse when local managers take over, for the simple reason that they are not properly prepared to manage them.

As a contribution to the initiatives of reducing poverty and dependence on aid, stakeholders made the following proposals:-

(i) Put more emphasis on education and industrialization

These two factors, namely education and industrialization must always go together because they operate in synergy/tandem i.e. when you produce expertise/skilled labor, you must have industries to employ them. And as the industrial sector grows, diversifies and uses more new technologies more demands are made for more labor of different skills and capabilities which must be produced by the education sector.

(ii) **Exhibit self-confidence.**

This situation reported to exist within the community if the following conditions are in place:-

(a) a large proportion of the population is educated (not only reading and writing). However, confidence building has to start right from primary schools where pupils are given challenges and are conditioned to think on how to solve those challenges.

(b) The availability of employment. The stakeholders argued that the degree of confidence increases with employment status. It is higher in those people who are employed than the unemployed.

(ii) **Create attractive environment for Private Sector Investment.**

Tanzania must create enabling environment which has a big attraction for investors from both within and outside the country. It was remarked that currently the transaction costs are still too high to attract serious investors.

(iii) **Assure commodity markets**

It is important that producers of all types of commodities are assured of internal as well as export market.

(iv) Existence of pressure of the Market (Competition)

There is “pressure of the market (competition)” in the entire chain of activities which includes production, marketing and services. Lack of pressure of the market, causes business transactions and services be expensive to, and people are neither afraid nor do they condemn negligence, wastefulness, laziness etc.

In taking into account of the above facts, stakeholders were of the opinion that the major purpose of aid should be to act as a catalyst where it is necessary. Also important in this regard is the involvement of stakeholders’ right from the early stages of project/programme preparation which will enhance sustainability of the projects.

Based on the above discussion on the relationship between donor support and sustainable development, proposals were presented in the following sections on what Tanzania and donors need to do in order to enhance the process of planning for sustainable development.

What Donors need to do?

(i) *Project identification and formulation*

(a) When donors /investors want to invest or start a project, they should first get in contact with the leaders of the respective area so that they are briefed the needs of the target population.

(b) Projects should be started taking into account the wishes of stakeholders and not based on friendship.

(ii) Donor support

(a) In providing support, national priority areas should be observed.

(b) Support should be extended in accordance with the actual needs of the people.

(c) The implementation time table of development plans should be observed when extending aid.

(iii) Project’s Implementation and Management

(a) Avoid putting stringent conditions to target groups when taking projects to districts or regions.

(b) The conditions laid down in the agreement should be strictly followed until the project is completed. This refers to delay in release funds or stopping release of funds.

The use of project funds should be affected after reaching an agreement with the target group for which the project is designed.

(iv) Building Local Capacity

(a) Training should be provided to Tanzanians on how to manage projects.

This will ensure sustainability at the time of departure of the expatriate staff.

(b) Projects which are supported by donors should not include the cost of expatriate staff.

(c) Donor supported projects should employ Tanzanians and be given priority in the implementation of projects instead of recruiting expatriates. Further, local experts should receive equal pay to the expatriate staff.

What Tanzania needs to do?

(i) Empowering women and youth

(a) In communities where traditions and customs marginalize women, advocacy programmes which show the importance of involving women in planning for sustainable development should be conducted.

(ii) Government obligations and initiatives

(a) Government should fulfill timely its promises made in respect of contributing towards development projects.

(b) Government should make efforts of assisting local authorities and regional secretariats by strengthening their infrastructure for the purpose of providing enabling environment of preparing plans for sustainable development.

(c) Government should honor stakeholders' priorities when submitted to the respective ministries or Task Forces.

(d) The government should have a system of registering all donor supported projects. This exercise could be done possibly by the planning Commission.

(e) Government should accept projects whose sustainability at the departure of donor is guaranteed.

(f) Government should prepare strategies of how to make the few experts available in government reach villages.

(g) When the government sets policy guidelines on how to prepare development projects it should take into account the needs/demands of the target groups/stakeholders.

(h) Government should prepare specific on how to involve stakeholders in preparing plans for sustainable development from the sub-village level.

(iv) Project's Development and Management

(a) The implementation of projects should be supervised by respective sector Ministries.

(b) There should be a system of maintenance of projects or other activities/facilities, which have been started at the sub-village level.

(c) There should be communication/proper coordination between stakeholders who are involved in the process for planning for sustainable development intended to minimize overlaps and costs.

(d) Local expertise should be valued and recognized just like their counterpart expatriates.

(e) Project experts should be advisors to politicians on issues related to planning for sustainable development and not otherwise.

(V) Preparing Strategies

There should be clear instructions on how to prepare strategies for sustainable development. This means having all the types to be followed in preparing policies, strategies and implementation plans.

(vi) Commodity markets

Efforts are made to find markets for different products as well as opportunities for agro-processing.

1.1.15: HOW ARE FOREIGN BANKS ATTRACTED TO COME TO TANZANIA?

The following are various strategies, which may be used to attract foreign banks to come and invest in Tanzania.

- Good governance as a focal point to coordinate development of the policy framework and coordinate Government activities in monitoring and evaluating the ongoing microfinance programs.
- A proper set of operational guidelines or standards, operationalising principle, laying out practices for government and donors seeking to facilitate the development of microfinance institutions in Tanzania.
- Improved infrastructure in the rural areas where such services are more likely to be organized.
- A modified regulatory and supervisory organ which is more appropriate for distinguishing features of rural and microfinance institutions.

1.1.16: INCOME DISTRIBUTION

Policies that reduce income inequality through substantial increase at the bottom Group of households are very important in the raising the living standard of average households in the country. Raising the living standard of average households in the economy requires achieving a substantial increase in the per capita output of poor peasants and workers; accompanied by measures to raise investment, producer prices and minimum wages; and reforming of fiscal measures to raise real disposable income received by the poor. Attraction of foreign investment is also of important in order to supplement local investment in the increasing the employment of the population.

(i) 1967-1990 Period

Between 1967 and 1987, redistribution policies were in the following forms:-

- (a) Primary Policies: This concentrated on increasing the power to produce, and raising income and wages to lowest class of producers.
- (b) Secondary Policies: This provided increase access to basic public and Communal services to the poor segment of the population.

Specific redistributive measures of (a) and (b) above adopted for raising the household living standard during the 1967-1987 period were expansion of infrastructural investments in both rural and urban areas, raise of minimum wages which took into account the cost of living, increasing the share of monetary agriculture, setting up of producer prices improvement of opportunities to produce and sell, expansion basic social services and increase in proportion of labor force employed in formal sector.

The rural investment programmes during 1967-1986 periods were on balance secured towards redistribution in rural areas. Other instrument for poverty reduction in rural areas were producer prices, improvement of opportunities to produce, sales and expansion of basic health, education and water services. Primary education was expanded under Universal

Primary Education (UPE) in 1977. Universal health was adopted and resulted into the expansion of rural health centers all over the country. More population became covered by improved water sources. Aggregate cash crop growers' income increased substantially partly due to improvement of rural/urban terms of trade over 1967-1970 and in 1974-1984.

On the basis of wage distribution in formal sector during the 1967/1970-1994/1995 period, Government and parastatal wages and salaries (by that time the Government and parastatals were main employers) were relatively evenly distributed, with reduction of inequality coming through substantial increase at the bottom; and application of modest progressive tax of wages that take into account the cost of living (Bank of Tanzania, 1981). The ratio of average salaries between top 10 percent employees to bottom 60 percent employees fell from 10.9 in 1965 to 8.6 in 1969, 4.7 in 1976, 3.5 in 1981 and 3.1 in 1985. Likewise, in parastatal sector, the ratio of top 10 percent to bottom 60 percent employees fell from 6.8 in 1974 to 6.0 in 1981, 5.7 in 1985 and 4.8 in 1990.

These redistributive measures (in both rural and urban areas) in the 1967-1989 period enabled to increase substantially the share of private income and consumption expenditure received by the lowest 20 percent households, in line with GDP growth. While real GDP grew to an average of TZS 5,335.0 millions in 1968-71, TZS 6,488.3 millions in 1972-75, TZS 7,866.0 millions in 1976-79, TZS 8,369.0 millions in 1980-83; and TZS 10,541.0 Millions in 1984-87; the share of private income received by the lowest 20 percent.

Households were recorded at an average of 2.09 percent in 1965-68, 2.68 percent in 1969-72, 4.25 percent in 1973-76, 5.50 percent in 1977-80, 6.50 percent in 1981-84 and 5.31 percent in 1985-88. The share of private consumption expenditure received by the lowest 20 percent households increased from an average of 3.70 percent in 1965-68, to an average of 5.72 percent in 1969-72, 7.45 percent in 1973-76, 9.12 percent in 1977-80, 9.20 percent in 1981-84 and 9.70 percent in 1985-88.

TABLE 8: Formal Sector Distribution of Wages and Salaries in Tanzania: 1965-1990

Percent of Employees	Shares of Wages and Salaries						
	1965	1969	1974	1974	1981	1985	1990
Government							
Top 5	41.5	33.0	18.9	20.0	15.6	13.7	22.6
Top 10	50.0	42.0	29.0	31.0	24.5	19.0	21.0
Top 20	61.5	55.5	42.0	43.0	38.0	32.7	33.3
Middle 20	11.9	15.5	19.0	18.5	20.0	22.8	28.4
Lowest 60	27.6	29.0	39.0	38.5	42.5	46.9	48.7
Lowest 20	4.6	12.5	17.8	20.1	24.4	26.0	28.3
Gin Coefficient	0.49	0.44	0.30	0.31	0.26	0.22	0.38
Ratio Top 10Bottom 60%	10.9	8.6	4.5	4.7	3.5	3.1	3.9
Ratio Top 10Bottom 20%	31.5	29.4	18.0	15.9	14.8	14.8	19.7
Equality Rating	7	6	4	5	2	1	3
ParastatalTop 5	NA	25.0	22.0	22.0	20.0	17.5	15.4
Top 10	NA	33.5	37.0	37.5	35.0	33.2	30.1
Top 20	NA	50.0	48.5	50.0	47.0	45.2	40.1
Middle 20	NA	20.0	17.5	17.0	18.0	15.4	11.1
Lowest 60	NA	30.0	34.0	33.0	35.9	39.7	4.5
Lowest 20	NA	9.6	10.7	12.3	13.8	15.2	16.9
Gin Coefficient	NA	0.39	0.39	0.39	0.35	0.33	0.41
Ratio Top 10 to Bottom 60%	NA	6.5	6.8	6.0	5.7	5.2	6.9
Ratio Top 10% to Bottom 20%	NA	23.9	15.4	13.2	10.7	10.2	19.8
Equality Rating	NA	5	4	3	2	1	6

NA= Not Applicable.

For Equality ranking, low level of inequality. 6 high level of inequality.

Source: Bank of Tanzania (1981): Tanzania, Twenty Years After Independence: 1961- 1981. Page 245, National Accounts of Tanzania and Ramadhani (2004) PhD Thesis.

TABLE 9: Percentage of Income and Consumption Received by Lowest 20 percent Households in Tanzania: 1961-1988.

%	1961-64	1965-68	1969-72	1973-76	1977-80	1981-84	1985-88
Percentage of Consumption Expenditure Received by Lowest 20 Percent Households	1.30	3.70	5.72	7.45	9.12	9.20	9.70
Percentage of Private Income Received by 20 Percent Households	2.15	2.09	2.68	4.25	6.50	6.02	5.31

Source: Bank of Tanzania (1981): Tanzania, Twenty Years after Independence: 1961-1981., World Bank (Various Issues): World Development Indicators; and estimates from National Household Budget Surveys (1957/58, 1968/69, 1976/77), Ramadhani, S (2004); Growth, Income Distribution and the Living Standard of Average Households in Tanzania, PhD Thesis Washington International University-USA.

(ii)Post 1989 Period

From the economy is characterized by high level of unemployment and poor redistributive policies. Wage increase has been in favor of the top class rather than increasing the share of wages and salaries accrued to lowest class of workers. Monetary agriculture in the post 1990 has also been declining due lack of micro-credits to small scale farmers, poor infrastructure, lower producer prices and high cost of inputs. Though there has been fast growth of informal sector, it has failed to increase substantially the share of income received by the lowest class of households in the post 1995 period. Further, the poor redistributive policies in the post 1990 period have contributed to reduce the share of private income and consumption received by the lowest 20 percent households.

While real GDP increased from an average of TZS 945,128.0 millions in 1986-89, to an average of TZS 1,239,166.0 MILLIONS IN 1990-93, TZS 1,425,249.2 millions in 1994-97; and TZS 1,621,306.2 millions in 1998-2001; the share of private income received by the lowest 20

percent households decreased from an average of 5.37 percent in 1989-92 to an average of 4.90 percent in 1993-96, 4.38 percent in 1997-2000 and 3.84 percent in 2001-2002. Likewise, the share of consumption expenditure received by the lowest 20 percent households decreased from an average of 8.9 percent in 1989-1992 to an average of 7.30 percent in 1993-96, 5.91 percent in 1997-2000 and 5.42 percent in 2001-2002.

1.1.18: Hypothesis Statement

Being mindful of the errors associated with probability sampling techniques, efforts were made to validate the hypothesis is to give direction to the study and eliminate trial and error research.

Furthermore, it will help to rule out intervening and confounding variables and allows for quantification.

The following hypotheses were formulated for statistical testing

1. Diversified portfolio investments of savings and credit cooperatives societies (SACCOs) have a positive impact on savings mobilization and poverty reduction among low-income households.

Hypothesis is a formal question that tends to be resolved for the assumption proved or disproved used to suggest new experiments and observations.

The hypothesis as per research questions number 6 in section 1.5 above may be tested at 0.05 level of significance, Peil, M(1995) 142 Points out that the level of significance is often accepted as the boundary between “statistically significant and insignificant...”

Two Basic concepts in the context of testing of hypothesis are null hypothesis and alternative hypothesis.

The null hypothesis is the one which wishes to reject and is denoted as H_0 and must be specified.

The alternative hypothesis is the one which wishes to accept something and is denoted as H_1 and represents all the possibilities.

The following hypothesis were tested for the adequacy of SACCOs in effective communication between cooperative organizations and their members, competitors, customers, facilitators, suppliers.

Stating the hypothesis.

H_0 : There is no significant difference between those people enjoying SACCO's benefits and those do not have a chance of reducing poverty.

H_1 : Those people enjoying the benefits of SACCOs have the greater chance of reducing poverty.

1.1.19: Rationale:

Significance and contribution of the study

The rationale of undertaking the study is based on the fact that no such study has been conducted/ undertaken and documented for practical use in Tanzania for contributing towards the fulfillment of the PhD degree in SACCO's management requirements by the St. Clements University. Successful completion of this study will give additional knowledge and skills in the formulation of methods to be used in making the SACCOs performance more attributable in disadvantaged areas not only in Tanzania but also in other third world countries especially those of sub-Saharan Africa.

Also the significance of this study lies in its revelation that while the liberation of the financial sector has increased the number of banks in the country, most of these are concentrated in urban areas, and geared to serve mainly corporate/big borrowers; leaving the rural population out of reach of financial services.

SACCOs have been significantly contributing to employment, to the national economy, poverty eradication among SACCO's members, creation of wealth and new financial services to the customers. For a number of years, savings and credit cooperatives societies have been at the heart of the development of communities by striving to make available, financial resources based on the community's own resources (i.e. Member savings) and the safe recycling of this money (member loans) into the community's activities thereby make a significant contribution to the development of the environment and the well-being of the population in general.

An impact study conducted by DID (Development International Desjardins – Canada) in Burkina Faso has further more shown that most of the respondents, Prior to the arrival of the SACCOs in the community, had no access to a formal savings and credit system. The establishment of the SACCOs is therefore not only an alternative, but also a new possibility to have access to quality and control of financial services.

Since they operate under a mutuality form, financial cooperatives are strongly rooted in the community and are a significant level for the development of collective assets and local powers.

SACCOs have an important role to play as small economic agents by financing micro enterprises and small businesses at the heart of economic and commercial activities of their community.

In order to protect the assets represented by financial cooperatives and reach even more persons by adequately meeting their needs, SACCOs must, however be sound, profitable and capable of managing their own development.

In order for the SACCOs to survive, the assistance of funding agencies is required in the long term and has the goal of achieving the institutions financial and operating self-reliance.

A SACCOs regardless of its nature should seek to cover its operations and be less dependent on outside assistance in order to develop.

1.1.20: Expected Beneficiaries

Beneficiaries of the output of this research project will include:

- The SACCO's practitioners and consultants with a blended high-level knowledge and skills on the management of SACCOs. They will to become familiar with distinguishing features of SACCOs as well as the history of their development in the world and in the African continent.
- I will also benefit by fulfillment the academic requirements for the award of a PhD. Degree by the St. Clements University of the British West Indies (Turks and Caicos Island).
- Policy makers in SACCOs operation, researchers, academicians, managers, members and scholars who will add to the stock of reading materials for students at the Moshi university College of Cooperative and Business studies (MUCCOBS) and else-where.
- Bank of Tanzania responsible for supervision and regulation of the financial and non financial institutions.
- I will also benefit by fulfillment the academic requirements for the award of a PhD. Degree by the St. Clements University of the British West Indies (Turks and Caicos Island).

1.1.21: ASSUMPTIONS

It is assumed that through formation of a significant number of SACCOs in different parts of the country, SACCOs will be a useful instrumental in savings mobilization, provisions of micro

loans to their respective members in both rural and urban areas. Also in rural areas, SACCOs will be regarded as important organs in the development of agriculture through provision of credits to farmers for the purchase agriculture inputs, which will supplement the activities of formal farmers' cooperative unions. The challenge that still face these institutions engaging in micro-finance as one means of reducing poverty in both rural and urban areas in Tanzania, stood out from past experience, financial services should be delivery to low income communities on a large scale, by allowing an institution be sustainable by following the rule of the market. This means that fees and interest rates will cover the cost of operations including some loan loss reserves, cost of funds and inflation charges, which will be usually to be above that market rates.

Poor infrastructure that remains among the major problems for a long time that prevents financial NGOs and formal banks to extend their micro-finance services to more rural areas. The current move by the government to improve rural infrastructure as part of its poverty reduction strategy will therefore facilitate better and fast delivery of micro-finance services in rural areas; thereby facilitating poverty reduction in the country.

Other limiting factors to the success of MFIs could be ascertained in terms of NGOs and banks engaging in micro-finance activities. As MFIs adjust to the reality of high cost, low margin business, by applying realistic interest rates to cover their costs, they will also adjust their staff, structure and procedures in order to minimize the risks of default payment and costs. In this respect, commercial banks must design procedures to deal with small and illiterate borrowers if they are to engage in micro-finance activities.

Many people in both urban and rural areas are not aware of what type of project(s) is viable and profitable. This implies that households seeking micro-loans should seek training and other important information to know which project(s) will be profitable and sustainable before considering taking loans. This will reduce the chances of operating at a loss. This implies that business service development will be very important. Hence creditors should help micro-borrowers by training them on how to run business profitability.

1.1.22: LIMITATIONS AND SCOPE OF THE STUDY:

Due to the wide geographical spread of the organizations (SACCOs) studied, the study concentrated only on a few areas of the country. One of the greatest the researcher encountered in this study relates to access to and collection of hard data due to extreme data gaps and paucity.

Obtaining relevant and accurate data in some cases was not possible as there was no system in place to make sure that data is consistently recorded and kept for further/future reference. It came into reality that the researcher easy to access data relating to the performer of microfinance in other parts of the world especially the Asian and European countries where documentation system is more advanced than those pertaining to microfinance in Tanzania.

Materials:

Mass literature on Micro finance institutions is scattered and leads difficult in obtaining relevant materials to support growth and development of micro finance. As a result limited to investment patterns of savings and credit cooperatives societies (SACCOs) movement in Tanzania.

Resistance of Respondents:

The Researcher also limited by the reluctance of some respondents to complete the questionnaires promptly and those who even failed to complete them at all.

The following are the procedures to be used to overcome the data collection problems:

- Too narrow or too vague problems to be avoided.
- Surveying the available literature which will help the researcher is well conversant with the relevant theories in the field, reports and records.
- Scientific training in the methodology of research with competent researchers in our home country.

- Having adequate and timely secretarial assistance including computer facilities which will minimize unnecessary delays in the completion of data collection.

1.1.23: Definitions of key concepts;

Microfinance: - Is the provision of a broad range of financial services such as deposits, loans, and payment services, Money transfer and insurance to poor and low-income households and, their micro enterprises.

Semiformal sector: - are those sectors which are registered, but are not subjected to specific banking regulations and central banking supervision.

Decentralized financial system: - This is a system of institutions and network that were developed as an alternative to commercial banks and the informal structure for offering financial services close to the people.

Financial institution: - a business entity formed to maintain checking and Saving accounts, issue loans, and provide credit business.

Formal banks: - are those banking institutions offering financial services that fall under the supervisory and regulatory jurisdiction of the bank of Tanzania.

An Entrepreneur: - Is someone who undertakes the risk of new enterprise and a person who seeks the best opportunities for using resources for their highest commercial yields (provide added value to the society.)

Micro enterprises: - These are small enterprises that provide financial services in rural and urban areas enabling those people having low income to participate in the development process and enhance their quality of life through promoting employment and income generating opportunities.

NGOs: - These are the non-governmental organizations, which act as microfinance institutions and provide financial services to the poor and low-income households in Tanzania. They are registered legal entities, as companies, limited by guarantee (i.e. non-stock companies) under the provisions of the companies act.

Tangible assets: - Are these assets used in business operations having physical substance and are non-current such as; buildings, plant furniture's etc.

Intangible assets: - Are those assets used in the business operations having no physical substance and are non-current such as; trademarks, patents, Goodwill, franchise.

Third world countries: - Are those countries characterized by low level of income, high level of unemployment and under employment, dependence on agricultural production and primary product exports, high rates of population growth and dependency on subsistence economy and vulnerability in international relations.

MFIs: - Micro finance institutions

CHAPTER TWO

LITERATURE REVIEW

2.1.0: INTRODUCTION

The approach consists of a review of previous analyses of opportunities, potentials, barriers and good practice for pro-poor micro finance development. The recommendations are also informed by what other countries have been doing to support micro finance. The literature was collected from libraries, government ministries and departments, enterprise development programmes and projects, business associations, development partners, international and multilateral development agencies, the internet, etc.

Literature reviews consist details of published and unpublished documents such as journals, papers, books and other accredited researchers on the same topic under considerations. This chapter reviews some of theoretical and empirical literature. On income Literature reviews consists documents of Poverty, Savings and credit cooperatives societies (SACCOs) from Tanzania Mainland and other parts of the world where SACCOs movement are highly recognized.

SACCOs highlights if the stockholders are serious and good committed to the development of the economy, provides the effective transmission and prosperity utilization of the resources available within the disadvantages areas hence eliminating the rural to urban migration.

A vibrant, efficient and effective SACCOs generates many resultant benefits for stakeholders, employees. Customers, employers as well the entire economy's benefits. Members and employees require new skills and knowledge to improve their performance on the job and to compete with their counterparts.

Customers on their part tend to enjoy personalized services and attention because of the keen competition, focus and innovation which characterize the operation of SACCOs. Employers or members on the other hand are either motivated or compelled by competition to learn and broaden their knowledge and skills in order to meet up with the challenges of maintaining

good relationship with their financial (banks and other financial institutions) regulators and even their competitors.

In order to highlight the significance of SACCOs in relation to the growth and development of a given economy, SACCOs have been referred to as the “engine of growth” this is due to the fact that almost all countries that have focused on the SACCOs, have ended up succeeding in the significant reduction and its attendant enhancement in the quality and standard of living, reduction in crime rate, increase in per capital income as well as rapid growth in Gross domestic product (GDP).

SACCOs have no doubt been indeed recognized as the main engine of economic growth and development, a major variable for promoting private sector, development and partnership. Many governments’ developments agencies such as Canadian International development Agency of Canada and Experts (CIDA) do appreciate this fact. The SACCOs do not only contribute significantly to improved standard of living but they also bring about substantial local capital formation and achieve high levels of productivity and capability.

However, a critical gap found in most literature has been noted that most literature explanations on the roles of SACCOs on poverty reduction and income inequality reduction in the society do not critically examine how other factors are directly and indirectly assist SACCOs mission of reducing poverty and income inequality. These are like general infrastructure conditions countrywide, the level of consuming locally manufactured goods domestically, taxation policy in the country and the role of other specialized experts such as financial analyst, micro enterprises specialists, economists, marketing analysts etc to offer specialized consultancy services to SACCOs members in order to make their micro investment more successful.

2.1.1 Theoretical literature

Development International Desjardins (2005) asserts that the fundamentals objectives of cooperative is to maximize “user” benefits to all members of the certain cooperatives according to their laid down principles and not to maximize profits as the case for profit making organizations.

It further defines savings and credit cooperation societies (SACCOs) in the following manner:-

- A financial enterprise Controlled by an association of persons.
- An association composed of savings and borrowing co-owners.
- A financial enterprise with objectives different from those of a bank that seeks to maximize the cooperative advantages of its members through saving/ borrowing schemes.
- An enterprise operated through special laid down rules.

Development International Desjardins (2005) further distinguish two types of SACCOs according to their membership status. These are SACCOs with a homogeneous membership i.e. Members belonged to the same social category and SACCOs with a heterogeneous membership i.e. members not belonged to the same social category.

2.1.2 The concept of portfolio investment.

Investors, whether firms or individual invest their funds/money or resources on the expectation that in future, they are going to receive back their money (on the selling the investment) plus additional amount known as a return at a certain time or intervals of time and less risk. A return is income and a change in market price of the investment that an investor receives from investing his funds into different types of investment. A return may be dividends, interest or profit, or else depending on the nature of the project where the fund is invested. Other factors affecting decisions of investors in relations as to where to invest his funds are: - liquidity, marketability, time value of money, profitability and risk of the respective projects where the fund will be invested.

A return may be measured either as under a condition of certainty or under a condition of uncertainty. When the condition is deemed as uncertainty, a return is measured as the average return obtained by summing the outcomes of returns which are then multiplied by their respective probability of occurrence. On the other hand, the rate of return refers to the return

which is expressed as a percentage of the starting of market value of an investment, while return on a portfolio (whereas a portfolio is defined as a combination of two or more assets) is a weighted average of return on the particular assets making up the portfolio.

Where there is diversification of investment, it is called portfolio investment. Levy and Sarnat (1994) argue that when there is diversified investment, the investor reduces the risk while increasing the return on his investment. This makes the objective of diversified investment to maximize returns at a given level of risk.

Risk (standard deviation) of the assets involves events which may or may not occur, and is defined as the variation of returns from those expected, and its probability of occurrence can be calculated. When there is a spread of outcome, the stock is deemed as risky. The standard deviation is used to measure the risk of the invested assets. When there is high standard deviation, the stock will be deemed as more risky, than the one with lower standard deviation. Investor considers both risk and returns when making investment decisions, preferring higher returns and lower risk from his/her investment. This implies that if the investment has a higher rate of risk, it will be chosen by the rational investor if its return is higher to offset the risk should it occur.

Brealey and Myers (2000) argue that investors may reduce the standard deviation of portfolio return if they choose stocks, which do not move together. This is from the idea that if assets are moving together, when they are combined together, they will increase the risk instead of reducing it. A common measure used to measure as whether the assets are moving together is correlation coefficient. A positive correlation coefficient (usually taken as +1) shows that the combined assets will not reduce the level of risk, while a negative correlation coefficient (usually taken as -1) shows that the combined assets will reduce the level of risk of portfolio. On the other hand, when correlation coefficient is zero, the risk of portfolio will equal the sum of variance of assets, while its return equals the individual assets returns.

There is also a view that investing in a portfolio regardless their individual behavior will not reduce all risk when put together in a portfolio selection. There are two types of risks associated with the stocks. These are market risk and individual stock risk. A well diversified stock reduces stock risk, while not a market risk. This is because market (systematic) risk, apart

from being influenced by individual stock risk, it is also influenced by other internal and external factors affecting the general economy of the country (Nyamsogoro, 2001). Further argument is proposed by Palmer (1999) that an investor should identify specific risk to each asset and then propose suitable measure to manage it. Accordingly, although the increasing number of assets reduces risk, there is a limit. Increasing number of assets will reduce the risk up to a certain point when the risk will be reduced further.

Rollin (1999) points the following to be advantages of utilizing the concept of efficient portfolio. The incorporation of interrelationship among different business entities in various economic conditions, the facilitation of optimization of earning-risk trade off; and specific capital allocation profiles.

Portfolio will be optimal when there is no other combination of assets which give higher return volatility ratio. The large number of financial assets increases the change of having a wider combination of assets. In general, investors can invest his funds in financial assets registered in the stock exchange forming portfolio, or in other economic sectors such as agriculture, mining or general business sector.

2.1.3: PORTFOLIO INVESTMENT IN THE CONTEXT OF TANZANIA

The portfolio is said to be optimal if there is no other portfolio (combination of assets) giving the higher return-to-volatility ratio. The large the number of assets one has the wider the alternative combination will be. Having interested in constructing a portfolio of a registered stock for example, using the Nairobi stock exchange (over fifty registered companies representing various economic sectors) are will be having wider combination alternatives than when one uses only four registered companies in Dares Salaam stock exchange (DSE). Even so, having fewer registered companies or a less developed capital market does not necessarily mean it is not possible to form an investment portfolio. If for example, the findings (of 20 stocks minimum) of Newbould (1993) hold then it would mean that investors investing only in Dares Salaam would never benefit from diversification unless the number of registered stock in DSE is equal or more than 20. According to Tanzania Investment Center, Tanzania has an important investment opportunity in Mining sector, tourism, fisheries, manufacturing, petroleum and gas, financial services, infrastructure development, and in agricultural sector.

An investor may decide to explore these opportunities and those found in the capital market in forming a portfolio. One thing should keep in mind- for better diversification results; each asset added in a portfolio should increase the return-to volatility ratio of a portfolio than before.

2.1.4: GOOD REASONS FOR INVESTING IN TANZANIA

Tanzania has a stable and peaceful socio-economy environment, free of ideological confrontation, ethnic strife and labor disputes.

1. Tanzania adheres to a free market economy and private-sector activity.
Government-owned companies are under privatization and reorganization.
2. Tanzania has a vast, under-explored and still largely untapped wealth of natural resources, as well as tremendous agricultural, mineral and energy opportunities.
3. In terms of human resources, Tanzania has a large, trained, friendly, economical and hard working labor force.
4. Tanzania has attracted a growing number of investors and entrepreneurs who are looking at the country with a light of its economic rebirth since the mid-1980, embodied in its far-reaching macro-economic reforms programs.
5. Tanzania has a good communications with all parts of the world and enjoys a strategic location in terms of regional and international commerce. It is situated at the cross-roads of maritime trade traffic.
6. Tanzania is accelerating its progress in the field of infrastructure, especially in transport, communication and energy.
7. Tanzania is a recipient of massive support and investment from major international financing institutions, such as the World Bank, International Monetary Fund and other donor agencies.
8. Tanzania is a member of the Southern African Development Community (SADC), Preference Trade Area (PTA), and the recently revived East African Cooperation (EAC), signatory of the EEC/African Lome Convention as well as Multilateral

Investment Guarantee Agency (MIGA) and International Center for Settlement of Investment Disputes (ICSID).

Tanzania has introduced favorable tax and regulatory treatment for all investors and has accelerated and streamlined the handling of investment proposals. Access to foreign exchange for repatriation of profits is guaranteed.

2.1.5: AREAS TO INVEST IN TANZANIA.

1. Manufacturing industries: animal- feed processing, agro-based industries, beverages, textiles and leather goods, steel and metal engineering, cement and ceramics, electrical engineering, electronic engineering, printing and publishing, pharmaceuticals, fish processing and canning, fishnets, packaging, general processing and canning, bottles and glassware, paints and automotive engineering.
2. Petroleum and mining: exploration and production of oils and gas, gold, diamonds, gemstones, and all other minerals, metallic and non-metallic.
3. Construction: hotels and other tourist accommodation, residential houses, commercial buildings, warehouses and industrial sheds, estates and factory buildings.
4. Transport: road and haulage, coastal shipping, air charters and airlines.
5. Transit trade: all activities relating to transit of goods to neighboring countries, and to the re-export of goods that have value added in Tanzania.
6. Computers and high-tech industries: activities relating to the manufacture, assembly, marketing, servicing, utilization, and human resources development on computers and related fields.
7. Agriculture: tea, sisal and products, coconuts, wheat, cashew nuts, palm oil, sugar, castor oil, parley, fruit, vegetables and flowers for export.

8. Livestock development: heifer breeding, dairy farming, sheep and goat keeping, beef ranching and poultry.
9. Natural resources: forestry, fishing and fish farming, game cropping for commercial purposes, wildlife ranches.
10. Tourism: operation of tourist hotels and accommodation, tourist transportation (road, air, ocean and inland water ways), provision of services relating to tourism such as tourist safaris (including licensed hunting, restaurants and photographic services).

2.1.6: INVESTMENT INCENTIVES

The government recognizes the importance of effective incentives for mobilizing appropriate local and foreign investments. Accordingly, special incentives are provided to investors whose projects are awarded a certificate of approval by the Tanzania Investment Centre (TIC), in line with the provisions of the National Investment Promotion and Protection) Act, 1990 and operations guidelines issued by the TIC from time to time. Incentives by companies in new enterprises (or in approved rehabilitation and expansion of the existing enterprises) are as follows:

1. Remission of income tax for a period of five years, followed by a reduction in the tax rate by 5% points below the standard rate.
2. A similar remission for five years of withholding tax on Dividends, Royalties, interest payments, followed by the similar reduced rates.
3. Exemption from import duties on all capital equipment, materials, etc. ‘necessary required for an approved enterprise and imported for use solely and exclusively in such approved enterprise’.
4. A similar exemption from sales tax on imports of capital equipment, materials, etc.
5. One stop office, i.e. the TIC for obtaining all the necessary permits and licenses.
6. Simplified processes for registration of companies and other business operations.

2.1.7: THE ROLE OF STOCK MARKET IN PROMOTING INVESTMENT IN TANZANIA.

The stock market is part of financial markets, which comprises the totality of systems through which financial resources are attracted and guided to investments. A sound stock market is a dominant condition for economic development. This paper explores the philosophy of establishing stock markets and their roles in raising investments funds.

Any doubts about the importance of domestic markets in ensuring a balanced economic growth should have been dispelled following the experience of most countries since the 1980s. For African Countries in particular the chronic problems of national and corporate indebtedness have driven home and the futility of combining too much short-term debt with too little long-term equity. The roots of this problem especially for some countries in the sub-region like Tanzania are partly to be found in the activities of multilateral and regional agencies which in the past tended to place great emphasis on development finance institutions and the banking system, by focusing on intermediation, to the near total exclusion of financial markets, on-banking financial institutions and risk capital.

Stock markets are now emerging in many African Countries including Tanzania.

2.1.8: The Need for Stock Markets

Stock markets are essential because they allow competition between various instruments of a bank-based financial system and non-bank financial intermediaries. In addition they allow risk sharing on an individual basis, without the need for a government guarantee; offer instruments which do not suffer from a cash-flow mismatch; and facilitate the development of other financial markets such as derivative markets.

By allowing competition, stock markets are better able to satisfy each investor's risk, return and horizon preferences. In most of Africa's bank-based financial system, the choices for lenders and borrowers are very restricted to safe but low and often negative real rates of

return in tightly regulated financial markets or to the higher, riskier rates of return in the unregulated markets. On the other hand borrowers are restricted to the high rates of interest charges by banks or are constrained by the amount of credit available on the high-risk unregulated markets.

In stock markets there are no stipulated ceilings on returns. As a consequence they offer an alternative to safe but low, sometimes negative real rates of return. They provide investors with a greater range of risk and return opportunities than a bank-based financial market.

They also allow for a better matching of the risk and return characteristics of lenders and borrowers. In addition, investors have the choice of switching to less risky assets with stable returns or to relatively safe bank instruments where stock returns fail to compensate for risk.

Stock markets allow risk sharing, without the need for government guarantees. Expected returns are driven by the performance and prospects of the company itself, and not by government guarantees.

From both a practical and theoretical perspectives an issue of importance for stock markets is the demand for domestic securities. The demand for securities of emerging markets in a globalized world market is partly due to the potential reduction in risk and increase in return as a result of international diversification. According to the modern portfolio theory analysis of a portfolio should be based on the expected returns from each asset, the variance of returns and the covariance between securities. The variance is important in any given market, because by increasing the number of assets in a portfolio, the unsystematic (diversifiable) risk can be diversified, but the contribution of each asset to the total risk caused by the covariance terms are systematic (non-diversifiable) risk.

International diversification depends crucially on the correlation of securities between countries which is often less than the correlations between securities of a single country. The correlation is computed as the covariance of securities within one country with securities of another divided by the product of the standard deviation between each country's securities. Thus including foreign securities may also have the effect of reducing the covariance terms, thereby reducing the covariance terms, thereby reducing the level of non-diversifiable

risk{Solnik 1974}. As a consequence of the differences in covariance among countries, there should be a demand for securities of emerging markets by foreign investors, providing that emerging market securities meet other requirements such as liquidity, safety and yield.

2.1.9: BENEFITS AND COSTS OF STOCK MARKETS IN AFRICA

The development of a stock market in Tanzania and other countries in Africa must be perceived in the context of the objectives and goals of the entire financial system and not in isolation.

Despite increased awareness of both the macro and micro benefits accorded to capital markets, many African countries (including those that have embarked on full programmes of economic liberalization and privatization such as Tanzania) are only now proceeding with developing a stock market largely because of the perceived costs regarding the regulatory, institutional and cultural environments.

The following are the benefits of stock markets in Tanzania and Africa in general:

(i) **Macro Benefits:**

There is a wide misconception that the whole of stock markets in economic development is merely to facilitate raising capital-the primary market function. Subrahmanyam (1975) in exploring the optimality of international market integration shows that capital markets are pareto-optimal in the macro sense other benefits include:

- Improved efficiency of the financial system- A well-functioning stock market can lead to improvement in the efficiency of the financial system from competition between financial instruments, increase the nominal rates of savings and lower borrowings rates. Stock markets also contribute to the solvency of a financial system.
- Fund Matching- The presence of stock markets enables investors to match funds to their horizon preferences through the secondary markets. It ensures liquidity for investors while securing long-term funds for firms and governments, thereby creating a more sound financial system.

- Revenue Mobilization- Mobilization of savings is aided by stock markets. The absence of interest rate ceilings in capital markets enables investors to respond rapidly to changes in real interest rates.
- Efficient Allocation of Investment- In a well functioning stock market governments and firms are compelled to compete for funds on a level playing field, thereby ensuring a more effective allocation of investment.
- In Africa as in most developing countries there is grave concern about the risk of the business sector falling into foreign control. The ability of domestic investors to acquire shares of foreign firms, profit retention requirements and some degree of domestic investor control can all ensure indigenization.
- Privatization and commercialization of productive activities- The existence of stock markets facilitates the ability of governments to transfer from the public sector activities better performed by the private sector and the process increase government revenues.
 - Debt to Equity Swap- The development of a stock market offers avenue for eliminating parts of national debt through such arrangements to exchange existing bank loans for equity in public or private firms {debt equity swaps} as a consequence reduce debt service costs, and enlarge investor base and domestic instruments.

(ii) **Micro Benefits**

The following are some of the micro benefits of stock markets:

- Wider Ownership Base- In the absence of stock markets, firms rely almost entirely on the banking sector for their funding requirements. Through privatization for instance, equity markets broaden the share ownership base.
- Private Sector Solvency- Equity markets enable firms to better match the maturities between their assets and liabilities.

- **Access for New Firms-** The prestige of a market listing offers access to potentially larger pool of funds for new firms from risk-seeking venture capitalist.
- **Stricter Reporting Requirements-** The usually stricter reporting requirements of stock exchanges coupled with market requirements for better information for evaluating firm prospectus serves as an incentive for better reporting. Thus the discipline in financial reporting demanded by well functioning stock market can act as a stimulus for better reporting (Okeahialam 1993).

(iii) Costs of stock markets

Stock markets carry inherent and sometimes unavoidable costs apart from uncertainties relating to the political, economical, financial, and legal and tax environments.

These problems include:

- **Market cycles-** Market cycles significantly impact the generation of funds as markets react quickly to domestic and international events often with unclear causal relationships.
- **Investor Confidence-** African capital markets are faced with low investor confidence often because of the newness of the system and lack of public awareness of the benefits of stock markets. Market size often leads to fears of monopolistic controls and the instability of prices and rates.
- **Volatility of Interest/Exchange Rates-** The setting of interest rates by governments affects not only security prices in equity markets but also affect capital flows in the domestic economy.
- **Costs of Intermediation-** In most African countries where there is little in the way of an appropriate institutional framework, regulatory agencies, underwriting, brokerage,

investment analysis and investment activities, setting-up the structure necessary to support a market would involve substantial costs and time. Nevertheless, in the long run stock markets should be self-financing from the exchange listing fees, financial information service costs, underwriting commissions, brokerage fees etc.

- **Diminishing Control of Financial System-** In many African countries the financial system consists largely of banks and similar institutions. Governments can enforce their policies through direct credit controls but with stock markets, such controls are diminished as governments now use open market methods to accomplish their monetary objectives.
- **Speculation and Insider Activities-** The existence of markets may fuel speculation by wealthy individuals and institutions which can lead to instability and collapse of the financial system.
- **Inefficient Allocation of Investment from the National perspective-** Given the sometimes-distorted nature of financial markets in Africa, the allocation of resources may not be optimal from a national perspective as market mechanisms pay little attention to desirable social benefits. Hence, there may be need for government regulation of market activities to achieve desired social objectives.
- **Loss of Domestic Ownership-** African countries have tended to restrict access to markets by foreign investors although this runs counter to achieving optimal investment flows into the economy for fear of loss of domestic control. This fear is heightened by concerns about the possibility of foreign activities in capital markets destabilizing the flow of money in and out of the country. Nevertheless, Botswana, Ghana, and South Africa offer free entry to foreign investors while Nigeria for instance is relatively closed.

2.1.10: CONCLUSION ON STOCK MARKET

The current wave of liberalization in Africa, Eastern Europe and elsewhere, is largely a response to financial crisis, changes in financial systems and problems related to the functioning

of financial systems. The success of any financial restructuring is enhanced when due political recognition is given to ensuring that the financial institutions and markets being restructured will remain competitive. Hence, political leadership must be shown in generating a concrete regulatory framework that facilitates greater efficiency, confidence, and stability of the financial system thereby limiting the need for future interventions and the related costs.

The challenge for Tanzania's policy makers in developing an efficient stock market include *interalia* setting up the infrastructure and building the human capacity required to support stock market as well as the institutional framework. With regard to the legal framework a significant stride has been made following the establishment of the Capital Market and Security Authority Stock thrive in conducive environments which include suitable interest rate and exchange rate policies, prudence in the management of the economy, politically and economically stable environment and fiscal discipline. The quest for establishing a viable stock market is inhabited in an environment which major obstacles to the evaluation of stock markets such as high rates of inflation, fiscal deficits and excessive monetary expansion in much the same way as financial repression. Despite the support of the World Bank and other donor agencies for the liberalization and restructuring of financial sector in African countries, the evidence points to markedly less success in many countries.

Consequently, useful reasons are to be learnt by Tanzania's policy makers from the experience in successful development and promotion of stock markets in some African countries like Botswana, and Ghana as well as Asian and Latin American countries.

Tanzania and other African countries need to demonstrate confidence in their economy by investing in Africa's stock markets in order to instill confidence in foreign investors, for here lays the key to the success of African stock markets in mobilizing resources for economic development and promoting investments thus making Tanzania competitive in the global market.

2.2.0: EMPIRICAL LITERATURE

2.2.1: Empirical literature from Tanzania

Development International Desjardins (2005) finds that Tanzania was the first country in Africa to have a National Associations of credit Union. This is the savings and credit union league of Tanganyika (SCULT) Ltd registered in 1964.

Tito (2005) finds that savings and credit cooperatives societies (SACCOs) sectors in Tanzania is still low and their formation being strong in Urban areas and cash crops growing areas. Areas producing food crops still experiencing low formation of savings and credit cooperatives societies (SACCOs)

Chao-Beroff et al (2000), noted that loans granted by savings and credit cooperatives societies (SACCOs) in Tanzania were very few with further characterized by low level of diversified investments.

The study carried out by Agrisystems (2003) finds that the rural financial services program (RFSP) established in 1999 in Tanzania, has targeted rural poor house holders in Tanzania which are farm house holders non-farm house holds, community based organizations (CBO), Rotating Savings and Credit Associations (ROSCAs) and Solidarity groups.

Regarding the impact of gender on enterprise development and capital availability, several thread emerge such as; Kasuga (1998) found that although women own a large proportion of businesses, these were the least.

Kashuliza and Kydd (1996) suggest that economically viable. The cultural climate in rural Tanzania placed women at a disadvantage in the provision of financial services, one regarding credit-accessibility. Can see an alternating asymmetry of dependence versus independence emerging. Thus, access to a commercial development might give one access ton certain financial services, which in turn may provide for the increased development of the enterprise etc,

Mkwizu (1992) points out that Tanzanian women have a trait of saving more than men. She suggests that as this is the case, greater levels of savings could accrue if more income were available to women.

Other important source of financing for crisis risks in some areas is commercial money lenders. They normally extend short-term loans ranging between 5% to 30% a month. The loans are usually used for paying school fees, medical expenses and hiring labor for harvesting. Most reports (Rutherford, 1999, Lwoga, 1999, Mugwanga 1999 and Mutesasira, 1999a) suggest that there are very few moneylenders in Tanzania. However, Bagachwa (1995) suggests otherwise noting that, 'The relatively low profile allegedly assumed by moneylenders in channeling credit could be a camouflage, reflecting in part the traditional view that commercial lending is exploitative... Given the rather hostile environment... most moneylenders do not admit to engaging in this practice. Therefore, their number and their roles tend to be underestimated'.

In spite of its limitations and sometimes significant disadvantages, the informal sector plays a significant role in financing crisis risk situations. The vibrancy of the informal sector reflects its responsiveness to client's management requirements. These include easily understood procedures, flexible lending arrangements, the absence of restrictions on how loans are used, credit at short notice, limited or no paper work, proximity to borrower and local adaptability. Finally, informal financial institutions face relatively low transactions costs. Due to strong local knowledge and social pressure, there are extremely low costs for assessing the borrower's creditworthiness and collecting loans, (Bagachwa 1996, Rutherford 1999, Mutesasira 1999a).

East African banks and MFIs need go beyond the limited group-based micro-enterprise credit. They need to develop and pilot test new products and strengthen their product development capacity to produce micro financial services that meet clients needs and from which the MFIs can levy charges that permit sustainability and profitability. In addition this will enable MFIs to increase the breadth and of their outreach. Those that do will be taking a risk: those that do not will be history (Hulme.D, 1999; Maximbali. F, 1999; Kagashaki.J, 1999; Mugwanga, A.H.A, 1999).

2.2.2: Empirical studies from outside Tanzania

In its study, Development International Desjardins (2005) finds that the motives behind the formation of savings and credit Cooperatives societies (SACCOs) depended on the premises and an approach to cooperatives challenges. These involved the involvement of the respective Africa countries to spear head the formation of savings and credit cooperatives societies (SACCOs) and the involvement of non-Africa promoters who provided either financial or consultative services to the formation of savings and credit cooperatives societies (SACCOs) in various Africa.

The study further finds that the autonomous SACCOs based on savings mobilization prior to granting loans are of recently, being established in Burkina Faso, Cameroon, Zaire (Democratic Republic of Congo), Rwanda, Benin and Ivory Coast in 1970, in Tanzania in 1938(in Moshi Town).

The major comparative advantages of credit unions lie in their ability to service large number of depositors, and use these savings to provide a diversified range of loans to individual members. Other key strengths are their ability to sustainably achieve a large breadth of outreach, and also considerable depth as suggested by median savings deposit and loan size and its distribution in several countries such as Bolivia, Ecuador, Philippines, and Sri Lanka (Branch and Evans), 1999; Evans, 2001).

Government institutions have often misused the cooperative movement for political purposes. In fact, government interference is a major cause of cooperative failure- especially in developing countries. Cooperative performance in rural areas is mixed (Braver man and Guasch, 1989; Huppi and Feder, 1990), and a change in the regulatory and supervisory framework as well as technical assistance is often called for to improve performance.

Krahn and Schmidt (1994) assert that the ownership and governance structure of credit unions tends to favor depositors over the interests of owners and borrowers, leading to a safety-oriented policy that sacrifices profitability and efficiency. However, under the risky conditions of rural areas in developing countries, this conservative policy can indeed be risk-efficient in the eyes of risk-averse depositors and low-income owners. Krahn and Schmidt

(1994) conclude that this conservatism is one of the reasons why credit unions are so widespread and have persisted for so long. After all, it is the majority of savers that are the backbone of a credit union.

From a financial systems perspective, the long-term sustainability and outreach of village banks hinges upon their ability to integrate into the formal financial system. They need to establish linkages with banks or credit unions for refinancing and for earning return on otherwise seasonally idle funds as this seems to be their long-run competitive advantage compared to informal institutions. Federations of village banks may also serve these intermediation functions across villages and rural areas. If they choose this way to achieve market integration, they will come close to cooperative models. Chao-Beroff (1999) describes the successful example of the formation of self-reliant village banks that established a refinancing linkage with the National Agricultural Bank in Mali.

The MFIs are widely considered as successful in reaching poor women so that the amount of subsidy that they have required or currently require appears well spent from a social investor's point of view (Murdoch, 1999; Zeller et al, 2001). As they charge interest rates above the "market" rates of banks, and as they reach highly unattractive segments in the eyes of for-profit financial providers, the potential detrimental effects on competition in the financial system may have been low in the past.

Linkage type is an alternative retail group-based model builds on pre-existing informal self-help groups, such as ROSCAs. Its major advantage is that group formation costs were already born by the members. Like other member-based institutions, the "linkage model" (Kropp et al, 1989; Seibel, 1985; Seibel et al, 1994) seeks to combine the strengths of existing informal systems (client proximity, flexibility, social capital, reaching poorer clients) with the strengths of the formal system (e.g. risk pooling, term transformation, provision of long-term investment loans, financial intermediation across regions and sectors).

Linkage banking has been promoted by GTZ in Indonesia and other Asian and African Countries, and by NABARD in India (Meyer and Nagarajan, 2000). Although "linkage banking" certainly has some comparative advantages for rural intermediation, especially for poorer clientele, little empirical evidence exists so far on its performance.

Micro banks differ from commercial banks in two aspects. First, they acknowledge and wish to serve the demand for financial services for micro and small-scale entrepreneurs, but often avoid mentioning the word poor or poverty in their mission statement, Second; they use collateral substitutes and other innovations, just like other MFIs. Micro banks include the state-owned community-level banks of BRI in Indonesia, Bancosol in Bolivia (transformed from an NGO), Calpia' in El Salvador, the present-day *Sparkassen* in Germany, or micro-banks “built from the scratch” with technical assistance from consulting companies.

Micro-banks depend on the social commitment of its owners to make compromises between making more profit and staying at the lower end of the market. Profits can be increased by moving up market, but this does not necessarily require a reduction in services to poorer clientele as serving a range of clients is often a safer and better long-term strategy.

Due to their heterogeneous origins, the ownership structure differs widely in practice. Calpia' for example grew out of a credit program with a strong sustainability focus (Navajas and Gonzalez-Vega, 1999), and is owned by non-profit NGOs.

Development banks focus on medium- and long term financing of larger rural and agricultural projects (with a high content of public goods, or high impact on economic growth that the private sector for one or the other reason fails to finance). Some of them focus on particular economic sectors. Due to their development objectives, they can and do support microfinance networks and apex institutions, and provide refinancing to member-based financial institutions, such as rural village banks (case of BNDA in Mali described in Fruman, 1998 and Chao-Beroff).

A study of rural state-owned banks in Nepal, Sri Lanka and India analyzes recent reform efforts that seek to apply and adapt some of the lessons learnt in Thailand and Indonesia (Stein wand, 2003). Profit and success in business is not necessarily incompatible with public ownership if management is given the right incentives.

A recent study (Klein et al., 1999) reviews best practices as far as agricultural lending is concerned. Most current best practices in microfinance are relevant and applicable in rural

areas. However, repayment schedules, timing of loans and other credit contract features need to be adapted to rural and farm households. *But this is nothing new: Current microfinance works to design specific products for certain target clientele groups.*

The old and exclusive emphasis on farm budgets as a way of assessing creditworthiness is completely outdated, and needs to be replaced by cash-flow analysis of the farm household, considering all sources of income as is practiced in microfinance. However, farm budgets and investment analysis (Gittinger, 1982) are still relevant and need to be applied in larger investment projects that demand term finance as is the case for larger, lump-sum investments in farm buildings, machinery, animals, and tree crops. Here, the assessment for farmers must again include their other income sources.

With respect to savings, recent books such as Branch and Klaehn (2002) and working groups by GTZ and CGAP on savings mobilization (Wisniwski and Hanning, 1998) sum up our best knowledge in provision of savings services. This knowledge is also relevant for servicing in provision of savings services. As in the case of the lending business, savings need to be diversified so as to better respond to seasonality and covariance risks when expanding rural finance.

Micro-insurance is the most difficult of three financial services; so far, the industry's experience is mainly with services covering idiosyncratic risks such as accident, certain illnesses, and death. Again, pioneers in micro-insurance consist mainly of non-government organizations BRAC, and they continue to broaden our knowledge. Dror and Preker (2002) and Churchill et al. (2003) have recently compiled the lessons learned from and the best practices for micro-insurance in rural areas.

Informal, but socially and/ or spatially distant lenders frequently tie their loans to complementary transactions in land, labor or commodities as they lack adequate information about the creditworthiness of the borrower or suitable physical or social collateral. The importance feature of these types of transactions is that the lender also deals with the borrower in a non-lending capacity and is able to use this position to screen applicants and enforce contracts at relatively low transactions costs compared to a pure money-lending contract.

Lending among family members and friends as well as ROSCAs may bear a high risk for poor people for example with respect to default or social exclusion. Informal tends to be segmented and to circulate within specific groups or networks excluding others (Robinson 2001).

Directly, by increasing the access of poor people to financial services within this direct pathway, Zeller et al (1997) distinguishes three sub- pathways of how access to financial services can influence the poor income generation and consumption stabilization.

There may also be trade-offs between impact and depth of outreach. The impact assessment study reviewed by Sharma and Buchenrieder (2002) suggests that the very poor can benefit from microfinance largely by smoothing their consumption through improved management of their savings and through borrowing. It has been argued that commercializing microfinance is likely to result into a mission drift; Christen (2001) found that it was not the case and that sustainability does not necessarily compromise outreach. Latin America MFIs led the globe commercialization, one of the very few serious innovations in microfinance outside Bangladesh.

Duursma (2004) estimates that poverty affects eighty to ninety percent of the rural poor in East Africa: this assertion translates that more than sixty percent of the East African population lives in poverty prior to adding the proportion of the urban poor.

The financial sector development in East Africa is still at an early stage, with many banks operating in the urban areas (Duursma 2004; Hussein and Makame, 2007a): the regional financial sector policies should be looked into so as to develop as its development will contribute to poverty reduction as suggested by Green and et al (2006); it is with that motivation that governments and other stakeholders deliberate initiatives attain financial development.

Microfinance has been used to target poor women so as to enable them improve their livelihoods; it has also been used as a policy for creating enabling environment for the financially excluded populations to engage in self employment. Initially known as micro credit as it was advancing credit to its clients, it grew to microfinance, where it offers credit

plus services (Aghion and Murdoch 2005). Despite the fact that literature suggests that microfinance contributes towards alleviating poverty, there is a wide literature in the area which argues that microfinance does not reach the poorest of the poor (See Woller, 2002; Montgomery and Weiss, 2005 and Weiss, 2005; Hashemi and Rosenberg, 2006; Fraser and Kazi, 2004).

The study will be different from the surveyed literature since it will examine the structure of investments of mobilized savings in financial and non-financial form of informal financial institutions with references to savings and credit cooperatives societies (SACCOs) in Tanzania since 1961s.

2.2.3: The role of SACCOs in the economy:

- Identifying gaps in the poverty reduction strategic programmes where SACCOs plays as a major meaningful and beneficial to the stakeholders.
- SACCOs help in the capacity building among them in advocacy participation, improving literacy, information sharing etc.
- SACCOs help learning from best practices and up-scaling.
- For the members/society involve in SACCOs are responsible in making investments attracted.
- Making or help in critical analysis of problems and identify the stockholders to involve and helps in strengthening policy advocacy role.

2.2.4: Significance of the SACCOs in Tanzania's Economy

The SACCOs operating in Tanzania are shielded or immune from the typical problems and constraints of SACCOs in other developed countries. Some countries and other International financial agencies assist SACCOs because of the crucial inheriting role they play in the economic growth and development. The assistance is usually in the form of facilities and supportive services commercial finance venture capital, information training and retraining

Research and Development (R&D) support infrastructure etc and not in the form of protection and subsidies.

In recognition of the crucial roles played by SACCOs with respect to economic growth and development, the country of Tanzania formulated various initiatives aimed at promoting the SACCOs, the President of the United Republic of Tanzania Honorable Jakaya Mrisho Kikwete offered 21 billion Tshs for each Region since January 2007.

Also the Government forecasted on enhancing the financial opportunities for the SACCOs by giving support to some of commercial banks such as National Microfinance Banks and cooperative and Rural Development Bank and other community Banks such as Mwanga Community Bank and Mafinga Community Bank which have been directed to provide loans to SACCOs by being given the credit guarantee scheme of 12.1 billion Tshs.

It is expected that the credit Guarantee scheme would enhance and facilitate easy access to credits by the SACCOs.

2.2.5: Problems of SACCOs in Tanzania

The fact that SACCOs have not made enough the desired impact on the Tanzanian economy in spite of all the efforts and support of succeeding administrations and government's gives a cause for concern; the following are some pointed out problems.

- Lack of suitable training and leadership development in spite of the fact that training institutions abound in Tanzania, they rarely address the relevant needs of the SACCOs especially in the areas of accounting, Marketing, Administration, Human Resources. Essentially SACCOs are left most often on their own SACCOs except for the Moshi University College of Cooperatives and Business studies (MUCCOBS) which is the only University started to educate SACCOs subject from the previous year (2006)

- Lack of appropriate and adequate Managerial skills/knowledge with the attendant lack of strategic plan, business plan, succession plan, adequate organizational set up, transparent operational system etc. On the part of many founders and managers of SACCOs in Tanzania use the obsolete and inefficient equipment as a result of lower level productivity delivery and substandard product quality.
- Lack of initiative and administrative framework or linkage to support and sustain SACCO's development which to a large extent is also a reflection of poor technological capacity or intellectual resource.
- Wide spread corruption, nepotism and harassment of SACCOs by some officers.
- Lack of scientific and technological knowledge and know how i.e. the prevalence of poor intellectual capital resources which manifest as lack of technical skills in the form of technological and strategic capability.
- Lack of easy access to funding/credits, which can be traceable to the reluctance of banks to extend credit to them owing among others to poor and inadequate documentation of business proposals.
- Lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates.
- Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the Government.
- Discrimination from banks which are averse to the risk of lending to SACCOs especially startups
- Lack of access to appropriate technology as well as near absence of research and Development.
- Inadequate, inefficient and at times non-functional infrastructural facilities, which tend to escalate costs of operation as SACCOs are forced to resort to private

provisioning of utilities such as road, water, telephone, electricity, communication and transport.

- Weakness in organization, marketing, information usage, processing and retrieval the information, personnel management accounting records etc. arising from the dearth of such skills in most SACCOs due to inadequate educational and technical background on the part of SACCOs promoters and their staff.
- Absence of long-term finance to fund capital assets and equipment under project finance for SACCOs.
- The inability to penetrate and compete favorably in markets either because of poor quality of products, ignorance of markets strategies and networks or lack of appropriate mechanism and technology.
- Weak cooperatives which cannot meet the cost of hiring high caliber staff and also of training the members, elected leaders and employees.
- Government department responsible for promoting SACCOs is weak and does not have the capacity to cope with the demand for support and supervisory services.
- SACCOs have been misused by politicians who are decision makers while most of them are not conversant with SACCO's motives.

Lessons to be drawn from the experience of SACCOs to date.

- Poor infrastructure poses a challenge to the spread of rural financial services by NGOs in the country.
- The financial institutions that have utilized the knowledge and proximity of established institutions in the rural areas such as SACCOs have managed to enhance reach and loan recovery.
- Unlike banks that experience low loan repayment rates from peasant borrowers, Sacco's loans have lower default rates. Borrowers know that the loans come from

savings of the community. Community pressure, access to information and close follow up all have been combined to enhance access to credit even without having to use conventional forms of collateral.

- Building competence in SACCOs through capacity building initiatives deserves priority to enable these institutions operate more efficiently and competitively. SACCOs and community banks will need assistance in acquiring technical and managerial competence and institutional capacity building. However, the main challenge that these institutions will face is that of managing the transition from that kind of dependence towards sustainability.

2.2.6: DISCUSSION OF THE FACTORS AFFECTING MICROFINANCE INSTITUTIONS COMPETITIVENESS IN TANZANIA.

There are many constraints to Micro finance institutions development in Tanzania. Among the major constrictions impacting their competitiveness, that which are also accentuated in different ways in the literature is:

- (i) Limited access to financial services:** It is observed that most of micro finance institutions can't borrow from commercial banks mainly due to high credit risks associated with lack of collateral and high operating credit administrative costs. Moreover, there is no enough variety of reliable and competitive financial services providers in the country and this hamper business competitiveness as cost of funds (interest) become unbearable.

A few guarantee schemes have been introduced, but these have limited outreach and address only one constraint which is collateral. One of the major reasons for the limited access to finance for micro and small enterprises is a very low level of trust in the society. People will only extend credit (in cash or goods) to even received cheques only from people they know very closely.

- (ii) **Limited production capacity:** Literature overall cite a problem of poor technological progress for most of micro finance institutions. This is mainly due to low education and inadequate technical and management skills, knowledge and capability of managers and entrepreneurs are important factors for firms' competitiveness. Low productivity coupled with lowering production costs arising from high expenditures on raw materials and tariff expenses render Tanzania among the poor performers with regards to small micro finance institutions development. As a response to solving these troubles, Tanzania is the second highest number of micro finance institutions capacity-building institutions compared to other East African countries, followed by Uganda while Kenya is the first.

- (iii) **Inadequate infrastructures:** Physical infrastructures in Tanzania are poorly developed, notably roads, electricity, water supply, and telecommunications networks, especially for the fixed lines. Because of infrastructures state, shipping cost of a container from Dares Salaam to Arusha is almost equal to shipping cost of the same from Europe to Dares Salaam. It signals relative high prices of goods produced in the country, which means small and medium producers are unable to compete internationally, even where there are open market access like AGOA arrangements (Table2).

- (iv) **Awareness and capacity:** one of the most debilitating constraints is limited awareness and capacity of existing and potential business operations, in terms of exposure, values, attitudes, knowledge and skills. The result is that most simply duplicate what their neighbors are doing and do not appreciate the importance of innovation, quality, credibility and customer- care. One of the main reasons for this state of affairs is that our education and training system does not consciously develop values, attitudes and skills that enable people to see and realize the potentials in the country. This problem can be addressed by private extension services and business development services (BDS) through training, advice and other support.

- (v) **Homelessness of micro finance:** It is ironic that while actors sector express in promoting micro finance institutions, these mostly informal businesses and the

ingenious entrepreneurs behind them are “homeless” operating from temporary, illegal sites or premises.

- (vi) **Disenabling regulatory environment:** A number of measures have been taken in the past 10 years to improve the investment climate for micro finance institutions. For example, licensing and taxation has been simpler and less costly, especially to small firms. However, problems still remain, especially at the local government level, where petty corruption and bureaucratic processes still persist.
- (vii) **Institutions as barriers to business development:** Ideally, local government and other institutions should be supporting development of small business in different ways. In Tanzania, the municipal and districts councils operate government-micro-finance funds for youth and women. The community development officers at this level also provide training to producer and marketing groups, some of which are pre-cooperatives. The cooperative development department is supposed to provide training and advice for co-operative societies. However, the capacity of the local authorities to effectively do this is limited to the extent that the support often does not go beyond enabling businesses to survive in the informal sector. The focus is still to help micro enterprise survive in the informal sector, rather than to enable formalization and growth.
- (viii) **Systemic political issues.** For example, members of parliament and councilors play a key role in deciding who gets what kind of support and this is usually for political patronage. As a result, support is often not directed where it will be most effective, and when it is in the form of credit, it is rarely repaid. For example, repayment rates for local government operated micro-funds are mostly below 50%.
- (ix) National laws, policies and regulators are not adequately translated at the local government level. There are not even mechanism for keeping records and monitoring the health of the private sector, or co-coordinating various central government or donor supported initiatives.

STRATEGIES FOR PRO-POOR BUSINESS DEVELOPMENT

Improving the business environment is absolutely not essential. However, alone, this measure will not quickly propel a critical mass of Tanzanians micro and small businesses into successful businesses that create significant incomes, quality jobs and contributes meaningfully to government revenue. This is because the constraints to reaching this level are far greater and far most complex than it is often imagined.

Regulatory reforms required to make formalization affordable and attractive.

The ongoing reforms in the business environment need to be expedited. However, by and large, these reforms are being spearheaded by people whose understanding of formality is based on western experiences and knowledge base. Thus, land must be surveyed using very expensive instruments and processes. Given that some areas of the country are not productive enough to meet the cost of, say, surveying land, there should be alternative means of formalizing and managing land.

Meso-level institutional building

There is need to build strong institutions which are able to strategically and pro-actively address the needs of small and micro enterprises. Currently, support provided is very basic (not strategic) and of low quality. The following could be done to strengthen this capacity.

(a) **Local government:** The business development role of the local governments should be defined more concretely in the mandate of the authorities and in the terms of reference and performance indicators of their leaders and managers. Each local government should be required to have a rolling private sector development programme, which includes strategies and actions to effectively address the key barriers to business start up, formalization and growth in the particular district as well as creatively stimulate and support formalization and growth.

Reforming the national small business development agency

Although small industries development organization (SIDO) has been supporting small businesses for a long time, its impact is not very evident. One reason for the limited performance of SIDO is that despite its presence in all regions, its capacity to reach out to many businesses is very limited. As a result what SIDO is doing is a trickle, compared to the needs of millions of micro enterprises. There is need to review the role and mandate of SIDO-preferably to make it a very strong agency for strategically building capacity of entrepreneurs and grassroots Business Development Services (BDS) providers, and withdrawing from direct support to entrepreneurs whenever possible, so that it concentrates its efforts on building capacity of others institutions. These other institutions can be vocational training centers, including Fork Development Colleges, many of which are in rural areas.

Curriculum reforms in schools and colleges

Schools and colleges are key socialization agents in a modern society. With this in mind, vision 2025, the 1995 Education and Training Policy and the 2003 SME Development policy commits the government and other stakeholders to integrate entrepreneurship in all school and college curriculum. Implementation of these policy statements has however been slow, for a number of reasons. Tanzania Institute of Education (TIE), Vocational Education and Training Authority and some other tertiary training institutions has taken measures to integrate entrepreneurship in the content. However, interpretation of what entrepreneurship is varies from one institution to another, and hence there are vast differences in what is in the curricula. The biggest problem lies in lack of enough instructors with the skills to appropriately deliver an entrepreneurship curriculum.

Enhancing Access to financial services for the poor

Like in other areas, there are number of initiatives to improve access to financial services, especially for micro-finance enterprises. These include the Financial Sector Deepening Programmes (FSDP), Rural Financial Services Programme (RFSP) and Guarantee schemes. It

is recommended that efforts to be made to ensure the following, either in the context of the existing initiatives or new ones:

- Government should encourage financial institutions to downscale to provide services to micro and small businesses. This can be done by, for example meeting the cost of human resource development to prepare competent bank staff who can work with micro-finance institutions.
- Government can work with banks, tertiary training institutions and financial institutions to develop innovative/special financial schemes for innovative ideas with great potential. This can be, for example, through creating an innovation fund for commercializing new ideas with a lot of potential for impact on the poor. The ideas can be developed, refined and selected through business plan competitions.
- Government should liaise with other local and international stakeholders to establish Venture Funds for ideas and persons with big growth potential. These funds can be sector specific.

CREATING MICRO-ENVIRONMENTS THAT CAN FAST TRACK MICRO FINANCE DEVELOPMENT

The limited awareness and capacity, access to external support and a disabling business environment together are real problems which make it hard for potential entrants into the business sector to start and formalize. Previous efforts have mainly tried to address each of these problems separately. Given the low level of development of the small business sector and the large size of the country and population of businesses, it is unlikely that we shall be able to see a critical mass of small businesses overcoming these barriers and becoming role models for others.

It is recommended to take an approach which addresses multiple issues simultaneously. The cluster approach can be used to achieve this. There is no single universal definition of a cluster but generally the concept involves an agglomeration of interconnected firms in a contiguous geographical area. Frequently, the firms are sectorally specialized, for instance in the manufacture of articles of clothing, and establish forward and backward

linkages based on both market and non-market mechanisms of interaction. It is usual to have the presence of a network of public and private institutions that provide support services to the economic agents.

The benefits from organizing such clusters include:

- Need identification and delivery of targeted support (finance), training, technology, advice, etc) is made easier to a group of firms that share similar structure, opportunities and concerns.
- There are economies of scale in the delivery of policy support and business development services to a network of firms.
- Inter-firm learning, innovation and technology transfer processes are facilitated.
- Cluster participants can organize themselves and have their collective voice heard by relevant authority.
- There are economies of scale in the provision of infrastructure (road, water, telephone, power, surveyed land, premises, etc)
- Trust can be built; members can borrow from or guarantee each other and hence reduce the need for collateral.
- Cluster participants can do joint or co-coordinated packaging, marketing, procurement, quality assurance, etc.

These formal microenvironments already exist in some areas, for example the fish market in Dares-Salaam and the handcrafts market in Mwenge. These are however currently under exploiting the potential value of clusters, in terms of processing technologies and facilities, linkages with suppliers and formal buyers, technology transfer and innovation, etc. The idea is to extend and adapt the same concept to other sectors, sub-sectors and areas.

Rural Agricultural clusters

Agriculture is still a backbone of our economy. It contributes more than 50% of the country's GDP and accounts for about 60% of the country's foreign earnings. Despite existence of many opportunities for commercial agriculture in rural areas, the barriers are just too daunting for a significant change in commercialization of agriculture to take place in the foreseeable future. There is need for a radical scheme to make agriculture viable option, even for graduates of colleges. It is recommended to establish agricultural clusters cm incubators to nurture and produce commercial farmers. The proposed scheme could work as follows. Incubator promoters would identify large tracks of accessible land suitable for pre-determined types of crops or livestock for which existence of adequate long-term demand will have to be ascertained in advance.

Young graduates interested in developing a career in commercial agriculture will be invited to apply for the scheme. Their initial capital may be their labor or loans from the government or other institutions. Towards the end of their incubation, they will be allocated developed land where they will build their basic houses. After two or three years, the physical incubator will relocate to another area, leaving hundreds of people, each with a significant, productive piece of farm as a cluster. The incubates could organize themselves into a marketing co-operative and or/SACCOs, even before the incubator relocates. These incubators can be seen as some form of agricultural training colleges, with a bias in starting and operating in agri-business, rather than employment.

There could be many variations of this mode/idea. For example, incubates may pay fees as they pay in colleges, or they could take a loan for incubation and repay after graduation. Graduating incubates may have the option of selling their farms to other people, or some farms so developed could be sold to interested retiring army or other retirees. It could also be for commercial animal husbandry, including ranching. The big advantage of this mode is that many of the constraints are simultaneously addressed. The programme can be funded in different ways and

combinations: private sector, government, development partners, not-for profit organizations, etc.

For this to be effective, the following has to be considered:

- Enough accessible land, which does not rely on rain for agriculture should be available.
- It would be useful to identify a much larger land than the initial incubator, because once the cluster of commercial firms is functional, other people will be attracted to the area. New entrants can start developing farms while staying with friends or associates in the established cluster or even in a campsite within the established cluster. They will need access to good land. Hence the initial incubator and cluster should be seen only as a nucleus to enable a much wider area to be exploited commercially.
- There should be deliberate moves to connect the incubator with the related value chains, including providers of finance, training, equipment and inputs as well as markets.

The following benefits would be derived from this kind of incubation

- Graduates, retirees and other people will be attracted to work in the farm sector in rural areas.
- Farmers can learn from each other
- Farmers can readily organize themselves and have their collective voices held.
- Farmers can aggregate their outputs and do joint marketing for economies of scale and realize better prices in the market.

- There will be more know-who and trust, as well as possibility for farmers to mutually guarantee loans for each other.

Promote Buy Tanzania

Currently, the government, private sector and almost all stakeholders are buying most of their requirements from other countries. This translated into many billions of dollars, which could play a very big role in stimulating small business growth and poverty reduction. There is need for deliberate moves by the government to simultaneously support capacity building to enable local small business to meet quality and other requirements and at the same time institute a policy which gives preference in procurement to local producers.

Transitional programmes for graduates and retirees.

Until now, there is no mechanism to support graduates and retirees to transit from college/employment to business. As a result, most are unable to effectively transit. It is recommended to introduce transitioning programmes for army, graduates and other retirees. This can be designed along with agricultural incubators in mind, such that retirement benefits may be used to buy low risk businesses such as going concerns in animal husbandry and agriculture.

Table 10: Total USA Trade with some selected AGOA Countries (Million US\$)

Country	USA exports 2003	USA Exports 2004	USA Imports 2003	USA Imports 2004	AGOA 2003	AGOA 2004
Angola	482.6	588.6	4176.4	4475.7	N/A	4314.9
Botswana	24.7	51.6	13.6	73.0	6.3	20.1
Ethiopia	407.3	458.2	30.5	41.2	2.9	5.3

Source: AGOA Competitiveness Report (2005)

Tanzania and most of its neighboring countries as well as some few other non- East African region countries are illustrated in the table. In terms of the use of trade opportunities, Tanzania is one of countries remaining relatively non-competitive. While Malawi and Rwanda are smaller than Tanzania in all respects, during 2004 for instance, and with regards to the volume of trade in AGOA, Tanzania ranked lowest with only 0.1 percent of the total volume whereas Malawi and Rwanda each had 1.3 percent and Kenya 5.6 percent of the total volume of the illustrated countries.

(x) Information barriers: Most of the studies point out asymmetric market information as a limiting factor to producers in Tanzania and costs of acquiring information on preferences and quality from overseas for example, are prohibitively high. Participation in trade fairs and sending samples overseas for quality assessment, advertisement and promotion purposes are unaffordable for most of micro finance institutions in Tanzania, thus denying them some business opportunities.

(i) Little economies of scale and scope: In Tanzania micro finance institutions are not operating in consortiums which could give them wider capital base, higher negotiation power, and sharing experience and skills. In this respect, micro finance institutions in the country are small in size and competitively disadvantaged in production, marketing and advertising within the respective sub-sectors.

(ii) Problems associated with supply of factors of production: Micro finance institutions in developing and Tanzania in particular has limited supply of factors of production or the factors are available at high prices, markedly, in the case where they are imported. Some of those factors can not be quickly changed (like supply of skilled labor), or can be changed only in the long-term. Reliability of inputs availability in the production process is crucial. With recurrent electricity voltage fluctuations and frequent blackouts like it happened in Tanzania during 2006 due to drought, Micro finance institutions cannot be competitive in international trade. Because of diseconomies of scale they can hardly facilitate their own power generation as the majority of large firms can do. Similarly, the use of intellectual inputs from tertiary education institutions, in terms of human capital and Research and Development products is not yet effective as it could enhance high productivity of micro finance institutions in the country.

2.2.7 The prospects of SACCOs in Tanzanian economy

The identified problems of SACCOs notwithstanding their enormous depth, breadth and intensity it is only fair and proper to acknowledge the fact that the government did not fold its arms to watch the SACCOs wallow in the gamut of problems. Doubtless, the government fully appreciates the opportunities SACCOs create for employment, their contributions to economic growth and development as well as the constraints and difficulties in their operating environment.

The Government of Tanzania acknowledges SACCOs as major means of ameliorating the poverty status of the majority of the population. In the rural sector SACCOs are seen as important institutions that will play a significant role in providing rural credit carrying out a host of other initiatives to bolster output and raise the quality and quantity of the products of their members.

The following are the future prospects of the SACCOs in Tanzania:-

- The cooperatives will widen their scope of operation by establishing SACCOs in various sectors of the economy for example energy, transport, communication, insurance, water fisheries, housing, trade etc
- Encouraging and supporting through policies and affirmative action the participation of women in cooperatives (as active members' leaders, professional managers and employees.
- Conducting research, gathering and disseminating vital information to cooperatives in particular and to farmers generally, on internal and international markets.
- Establishing of a national cooperative bank that working in unison with the expanding savings and credit cooperatives (SACCOs) which will provide credit to cooperatives at

favorable rates and help keep finance mobilized by cooperators within the cooperative movement.

- Strengthening the capacity of the cooperative member through empowerment, education and training in respect of the member empowerment programme managed by the Moshi University College of Cooperatives and Business studies (MUCCOBs) which will play as a leading role.

Challenges to the poverty reduction strategies include the HIV/AIDS pandemic and its devastating impact on young, able people and globalization and liberalization the advent of which the cooperative movement was ill prepared.

2.2.8: The role played by the government in booting the SACCOs

In several African countries-for example, Ghana, Guinea, Tanzania and Uganda- governments have in the past relied on state –owned banks to extend rural credit and micro finance services. In most cases, these banks have incurred large losses and have had to be restructured, recapitalized, privatized or liquidated. This experience of failed state-owned banks has led African governments to focus on Financial viable approaches to providing microfinance and on developing regulatory and supervision frameworks that are well adapted to supporting such an effort.

The role of the Government should consist of encouraging the emergence of development financial institutions of adequately meeting the needs of their clients or their members in the following particulars:-

- Authorizing the creation of financial institutions and verifying that they adequately meet, with fully safety, the needs of the people with regard to financial products and services.
- By the passage of laws that govern the activities of the financial institutions and recognize particularly the distinguishing features of the SACCOs. The passed laws should

make possible to provide a safe place for members' deposits and encourage savings in the environment and limit fraud, embezzlement or misrepresentations by the adoption of rules of ethics, sanctions against any individual who imperils intentionally or otherwise the equilibrium of the cooperative, as well as by protecting the name, if not the logo, of the cooperatives and their network.

- Set high management, tracking, monitoring and financial health (equity/loan ratios, loans/savings ratios etc.) Standards to provide safety and saving for the members
- Provide supervision that encourages in house control and a greater credibility for the network.
 - Ensure the democratic nature (one member, one vote) and map out relations between elected leaders and the cooperatives.
 - Providing protection for the depositor's savings. Certain African countries have a specific law governing the activities of SACCOs. In Tanzania, the following laws are appropriate in the governance of SACCOs
 - Cooperative societies Act of 2003 and Rules
 - Banking and financial institutions Act of 1991
 - National Microfinance policy of 2000
 - Bank of Tanzania Microfinance Regulations.

Also the government should take a lead in facilitating dialogue with cooperatives. The government to support education training and audit services, to develop infrastructures such as roads to mobilize and encourage population to join cooperatives indifferent activities, to provide the revolving funds where cooperatives are well established, to assist cooperatives to access regional markets for members to increase income and the government to provide tax and other incentives in areas which are not attractive to other private sector players.

The SACCOs, is a complex organization requiring strict management and loan- collection practices and the development of special know-how particularly in the exercise of balancing the interests of savings members with those of borrowing members.

Lack of managerial discipline is fatal to it without fail. Deviant behavior may easily develop as has been shown by the failures of the first generations of mutual credit societies in certain countries, resulting in particular from a failure by members to assume their responsibility in paying back their loans.

If the SACCOs is not governed by adopted registration, it is likely that inadequate or perverse practices will develop that will undermine the ability to survive economically by its own means. It is ability to respect its economic and social mission and offer its full potential as an instrument of collective and progressive accumulation of local capital (hot money) appropriate for investments in the lasting development would be affected by it.

2.2.9: The role played by the Bank of Tanzania in boosting the SACCOs in Tanzania.

- As the government entity vested with oversight of the financial sector, the Bank of Tanzania will have overall responsibility to coordinate the implementation of the microfinance policy.
- The Bank of Tanzania will ensure that a regulatory and supervisory framework that is supportive of microfinance operations and consistent with financial prudence is developed.
- The Bank of Tanzania will collect and disseminate relevant information, monitor the progress of the sector, examine key technical issues relevant to service providers, and advise other government organs on the appropriate structures for their efforts in supporting SACCOs.

- To liaise closely with donors and all relevant stakeholders, specifically the Bank of Tanzania will advise the ministry of finance on the technical aspects of such government programs in Microfinance.
- To keep the public informed of key developments and pertinent issues in the sector and to provide an important link to what is happening elsewhere in the field at regional international levels.
- Coordinate Government intervention and interface with other stakeholders in the field.
- Guide the development of the sector.

2.2.10: The role played by increasing of by women participation in Tanzania.

Participation of by women in SACCOs with regard to their membership, percentage of loans obtained and their participation in decision – making bodies, in not as high as their representation in the general population, although for the past few years there has been a marked increase in their participation in the activities of savings and credit cooperative society. SACCOs, however, have every interest in promoting the access of by women to financial services.

Efforts are currently put in encouraging more women to join SACCOs in Tanzania. As of 30th May 2005, 85,456 women were members of the SACCOs family in the country accounting for 33.3% of the membership out of 254,651 total members.

2.2.10.1: Advantages for the SACCOs by increasing participation of by women increasing participation by women in the SACCOs is very advantageous for the cooperative both socially and economically.

- Because women account for over 50% of the population and a high percentage of the active population.
- Women are good ambassadors for the SACCOs first of all with their children, but also because they are often
- Members of numerous groups that they influence positively.
- Women are generally loyal to their SACCOs, they are harder to attract but rarely leave.
- Women are generally considered to be good members; they are concerned with setting money aside for hard times and normally do well in repaying their loans.
- Because the impact on the family situation and development is generally greater if one does business with women.

Note: In summary, it can be said that increasing participation of by women is a good business strategy for a SACCOs because it enable it to attain profitability more quickly and ensure its growth.

2.2.10.2: Main constraints on women's access to financial services:

However, to increase participation by women in their institutions, SACCOs should put in place a special strategy to attract more women (developing new products, Offer adapted terms, provide specific education etc.), which first of all, requires an understanding of the constraints that currently prevent women from obtaining access to financial services.

The following are some of the constraints encountered by women in accessing financial services:-

(i) FINANCIALLY:

- Low income as a result of lack of an economic base for business operations.
- Insolvency of women and lack of security.

(ii) ENVIRONMENTAL AND GENDER RELATIONS:

- Tradition and religion (customers)
- Lack of support from their male counterparts.
- Availability constraints related to the many tasks assumed by women.
- Loan service often in the hands of men.
- Few formal or informal sources of financing and disregard for joint guarantees.
- Concentration of financial institutions in major urban centers and remoteness of these services.

(iii) TECHNICALLY

- Ignorance of the mechanism of the banking system.
- Unfavorable access conditions for women (non-existence of specific credit policies).
- Failure to master profit making activities and lack of training or project follow-up.

(iv) TRAINING AND ORGANISATION:

- Illiteracy and lack of training in general.
- Inadequate information and awareness, lack of solid and reliable organization.

2.2.10.3 THE COMPARATIVE ANALYSIS BETWEEN TANZANIA'S SACCOs AND KENYA'S SACCOs

1. Sectoral and supervisory authority for both countries come under cooperative law covered by banking law, although this does not clearly reflected in the attribution of a specific function to the central Bank or the ministry of finance.
2. Both countries lack of interaction and exchange between the SACCOs and other Microfinance institutions and the virtual non-existence of methodological cross – fertilization between the two types of institution i.e. they fail to receive instructions from the central Bank regarding the preparations of financial statements and the prudential norms to be observed.
3. Membership profile for the two countries have been standardized and has spread almost all of the parts of their countries as they share many basic features in the way are established, the profile of their membership the financial products offered their structure and to a certain extent to a degree of social and financial viability is similar wherever they are established.
4. Both countries, the SACCOs still enjoy a monopoly position in their market as they have been established in rural areas while the Microfinance NGOs are more concentrated in urban centers.

SACCOs serve cash crops farmers in rural areas and salaried individuals in urban areas (school teacher for instance), while microfinance NGOs serve micro-entrepreneur in towns and the banks serve formal enterprises and wealthy individuals

SACCOs in both countries are not organized into networks as the structure is divided into two levels the SACCOs at the base with huge membership potential (hundred of thousands of members and an apex structure directly above them at the national level with no intermediate body.

5. In Kenya and Tanzania the SACCOs are covered by cooperative law, are registered with the Ministry of Agricultural and cooperation.
6. Both countries have narrow margin of the level of profitability of SACCOs due to high costs incurred in rural, remote areas. This low level of profitability prevents the institutions from major appropriate provision for unforeseen events (return on assets ranges from 1-7% return in capital ranges 10-50%).
7. Both countries encourage to reach a very large number of women in a short period of time by creating new financial products better suited to their demands also allows them to transform a much larger proportion of the savings mobilized into loans to apply higher interest rates with a view to making the institution as a whole sustainable and to make an effort to extend the scope of their activities towards new members, particularly less privileged new members living in remote areas villages.
8. The recent economic liberalization in both Kenya and Tanzania has broken in the marketing of cash crops like coffee and tea and encouraged the appearance of private operators on the scene who can choose to deal with cooperatives or by pass them by buying directly from individual producers.
9. The process of creating SACCOs starts in the field i.e. Most of a few former members of an existing SACCOs decide to form a new SACCOs further to change in their personal situation.

2.2.10.4: IMPORTANCE OF SAVINGS MOBILIZATION AND MANAGEMENT IN ECONOMIC DEVELOPMENT.

1. Savings represents that part of income that has not been consumed. This provides resources for investment purposes. There are three broad types of savings at the level of the domestic economy namely: voluntary savings, involuntary savings and policy induced savings generated to increase output in a situation of less than full employment.

2. The importance of savings in the developing economies can be discussed from two main perspectives. The first relates to the resource gap which needs to be bridged through enhanced savings culture amongst the population. As a result of low per capita income, most developing countries have low savings rates relative to their counterparts in the advanced economies and this has affected the level of capital formation in those countries.

3. Among the developing countries, savings rates vary considerably. Studies have shown that East Asian countries save more than 30% of their Gross National Disposable Income, while savings GDP ratio in Sub-Saharan Africa is less than 15 per cent. Regional disparities have been on the increase over the past three decades as savings rates have doubled in East Asia and stagnated in Sub-Saharan Africa, Latin America and the Caribbean. Studies have, however, shown that the poor are capable of saving more where the environment is conducive. In a United Nations workshop on savings in 1999, it was concluded that the importance of savings lies in its potential to reach the poorest the poor.

4. In many developing countries, more capital is held in the informal economy than in the formal economy. A large part of this capital is held in small amounts by those living near or below the poverty line. Developing countries can bring these numerous small capital holdings into the formal sector by providing poor households with savings services that can meet their needs and made readily accessible to them. This assertion provides the impetus for the establishment of micro finance institutions (MFIs), such that access to savings services could be enhanced. This has lifted the pace of economic development in some of those countries. In spite of the imperfect financial environment in most developing countries studies have shown that micro finance institutions have succeeded in some countries in South Asia and part of Africa notably Zambia, Tanzania and Uganda. Bangladesh is often cited as the model for successful implementation of the MFIs for the poor.

5. Another perspective is that with sound macroeconomic environment, supported by a stable and honest government, the environment for resource mobilization and its effective utilization would have been created. These pre-conditions have been lacking in most developing countries and this explains the low saving capacity among these countries. These challenges facing most of these countries, therefore, centre on the need to ensure popular participation in

both governance and economic activities, which could generate incomes for the vast majority, and thus enhance savings and investment. This would accelerate the pace of economic development.

6. The importance of putting institutional framework in place to provide avenues for savings and investment must also be recognized. While formal institutions have worked efficiently in the developed economies, the outcomes, in the developing countries have been less than satisfactory. The financial dualism that characterize most developing economies and the need to put the informal sector in proper focus pose serious challenges for savings mobilization in these economies. Cross-country experiences in Africa, Asia and Latin America have shown that savings can be harnessed from the poor given the right institutional arrangements and efforts at reaching the population with innovative products meet their needs.

2.2.10.5: INSTITUTIONAL PROVIDERS OF MICROFINANCE SERVICES.

The principal providers of financial services to the poor and low-income households in the rural and urban areas of Tanzania consist of licensed commercial banks, regional and rural unit banks; savings and credit cooperative societies; and several NGOs whose micro-credit delivery operations are funded and supported with technical assistance by international donors.

Regulated and Supervised Institutions providers.

Tanzania has (17) commercial banks, 10 non- financial institutions, one regional bank and 2 rural unit banks which are subject to licensing, regulation and supervision by the Bank of Tanzania under the provisions of the Bank of Tanzania Act (1995), Banking and Financial Institutions Act (1991), Foreign Exchange Act (1992). The licensed and supervised institutions are also subject to the regulatory guidelines issued by Bank of Tanzania such as the Banking and Financial Institutions Regulations 1997), Bureau de Change Regulations (1996), Foreign Exchange Regulation (1996), and various guidelines specifying mandatory prudential standards to be complied with regarding management of risk assets, capital adequacy and concentration of credit and exposure limits.

Commercial Banks are like the other institutional providers of microfinance services, fairly new to microfinance compared to other countries in Asia and Latin America, and even to some other countries in Africa. The three commercial banks which have financial and products aimed at the poor and low income households are (a) National Microfinance Bank, a government-owned bank being prepared for privatization, (b) CRDB Bank, which had been restructured and re-capitalized from the former Cooperative and Rural Development Bank, and (c) Akiba Commercial Bank. The Postal Bank, a licensed state- owned non-bank financial institution, provides a variety of savings deposit services nationwide.

National Microfinance Bank (NMB), together with NBC (1997) Ltd. were created from the restructuring of the National Bank of Commerce which held a monopoly in commercial banking until 1984. NMB has a fairly large base of savings and time deposits: about Tshs 70 billion outstanding savings deposits from 670,000 accounts as of end-1999. The microfinance loan portfolio outstanding as of end-2001 is Tshs 907.5 million. The average loan amount is comparable to the loan profile for Akiba and MEDA, while the average deposit amount is 65% of the average member deposit of urban SACCOs.

NMB sees opportunities to expand its microfinance market by providing (a) loans to micro and small enterprises for the purchase and inventory and supply of goods, (b) collection and payment services to large corporate clients to/from micro and small enterprises, and (c) add-on services such as money transfers and payroll services to both the large corporate clients and micro and small enterprises.

CRDB (1996) Ltd. is one of the oldest banking institutions in Tanzania, beginning its corporate life as Tanzania Rural Development Bank, changing into Cooperative and Rural Development Bank and then CRDB (1995) and Finally into CRDB (1996) Ltd. Despite its name, CRDB is not cooperative financial organizations are still significant shareholders. CRDB remains a privately-owned financial institution with the Danish International Development Agency (DANIDA) as one of its single largest share-holders. CRDB has a fairly large network of branches which provides banking services to all types of businesses including both the rural-based and urban-based SACCOs.

CRDB's microfinance operations are carried out through a specialized, dedicated Microfinance department, which is funded by DANIDA and supported by it with technical assistance. The strategic mission for the microfinance department is to identify and develop banking relationships with a wide range of MFIs at the branch level; most likely the SACCOs will constitute the single largest type of MFIs that will be covered by the program. With the sub-wholesaler approach to providing microfinance services CRDB expects to incur an operating and transaction cost profile comparatively lower than what might encountered in making loans directly to small individual borrowers.

Akiba Commercial Bank is a relatively new bank which began operations in 1997. Private investors own 47% of the bank, with 31% owned by foreign investors and 22.6% owned by public investment institutions such as Tanzania Development Finance Ltd, National Insurance Corp. and Presidential Pension Fund. Its original mission of specializing in providing financial services to small and medium-size enterprises met stiff competition, and changed in August 1999 to providing a range of banking and financial services to micro and small businesses on a commercial basis. Akiba currently has 3 branches- all in Dar-es-Salaam. Its microfinance loan offerings include:

Group Microfinance Loans, from Tshs 50,000-100,000

Individual Microfinance Loans, from Tshs 100,000- 5.0 million

Small Business Loans, from Tshs 5.0 million-10.0 million

Loans to SACCOs

Tanzania Postal Bank was created by an Act of Parliament in 1991 to replace Tanganyika Post Office Savings Bank, and commenced operations in 1992 as a non-bank financial institution licensed by Bank of Tanzania. TPB's main objective has been to mobilize local savings and promote the savings habit among small-scale savers, particularly individuals. It provides savings deposit services in all post offices throughout the country, through ordinary savings service passbooks and domicile-quick accounts. TPB is restricted from carrying out new lending, due to high levels of provisioning for delinquent loans which is similar to that of postal banks in other countries in Africa. The institutions are able to take advantage of their widespread

presence in carrying on the traditional business of accepting and safekeeping of savings deposits. However, physical presence alone is not sufficient for carrying out micro-credit business; the postal system does not have, and it would probably be too costly for the entity to acquire the specialized technical staff skills and information and operating systems required to conduct micro-credit business.

Regional Banks and Rural Unit Banks comprise the other institutional providers of micro-finance services which are licensed and supervised by Bank of Tanzania as specialized community banks. Kilimanjaro Cooperative Bank was established in 1997 with marketing cooperatives and SACCOs as primary shareholders and with Rabobank of the Netherlands providing technical assistance. Currently there are 3 licensed and supervised Rural Unit Banks-consisting of Mufindi Community Bank, Mwanga Rural Community Bank and Mbinga Community Bank. Other community banks are in the process of being organized.

Other Institutional Providers not subject to Prudential Regulation

Tanzania has two categories of institutional providers of microfinance which are not subject to prudential regulation- the Savings and Credit Cooperatives Societies (SACCOS) and the financial Non-Government Organizations (NGOs). These two categories of institutional providers of microfinance services pre-date the entry of commercial banks into microfinance. The number of SACCOs, their outreach to members and clients, resources generated from members in terms of share capital and savings, and the volume of loans outstanding to member-borrowers far exceed those for the financial NGOs.

SACCOs Available data as of January 2001 indicate a total number 646 registered societies, of which some 60% or 395 can be classified as rural SACCOs and 40% or 251 as urban SACCOs (mostly wage-based membership). The total membership base is some 130,000 with urban SACCOs accounting for 47,000 and rural SACCOs having some 83,000 members.

SACCOs generally consists of wage-and salary earners, while rural SACCOs are more likely to have self-employed farmers and small holder agriculture producers as their membership base. The total of members' loans outstanding was equivalent to about 75% of member's deposits,

which underscores the principle of self-reliance that characterizes the financial cooperative movement worldwide.

NGOs. A significant number of NGOs provide microfinance services to the poor and low income households in Tanzania. None of the NGOs are subject to any regulation with respect to the micro credit and financing activities they carry out. The microfinance NGOs are registered legal entities, either as companies limited by guarantee (i.e., non-stock companies) under the provisions of the Companies Act, or as Societies under the provisions of the Societies Ordinance or as Trusts under the provisions of the Trustees Incorporation Ordinance. Two of the largest microfinance NGOs in terms of outreach and client base are the Mennonite Economic Development Association(MEDA) which utilizes the individual lending methodology in catering to about 4,000 micro entrepreneurs, and PRIDE-Tanzania (affiliated with the Kenya-based PRIDE Africa) which uses solidarity or group based lending methodology.

The Presidential Trust Fund (PTF) had been privatized and has been operating as microfinance NGO.

A summary profile of selected NGOs (differentiated by their respective credit methodologies in the table below.

Table 11: Profile of Selected Microfinance NGOs

	PTF	MEDA	PRIDE
Area of Operation	Dar es Salaam, Coast, Morogoro Regions	Dar es Salaam, Mbeya Regions	National wide 9except for 4 Regions)
Number of Offices	5 branches	15 offices in 2 branches (Dar es Salaam, Mbeya	22 branches
Credit Methodology	Group - based loans	Individual loan	Group-based loans
Microfinance Products	9 - month loans with compulsory savings	8-10month loans with compulsory savings (20% of loan amount as security)	Loans with 6-month to 2-year maturity. Repeat loans thru several cycles, following PRIDE model pioneered in Kenya. Has build up Loan insurance Fund
	Swiss contact credit project in Morogoro - traders associations		
	Hananasif community - based credit project		
Size of Loans Offered	Data/Info not available	Tshs 250,000 - 3.5 million	Data/Info not available
Target Clients	Youth and women (93%)	individual owners of micro and small business	Owners of micro enterprises/businesses. 80% of client base women
Outreach	Approx. 8,000 clients	Approx. 4,000 clients	???
Operational Self-Sufficiency (Self - reported)	124%	110% operational; 107% financial self - sufficiency	96%
Primary Donor Supporter	AMNA, ADF, SIDA, DFID	CIDA, DANIDA, Belgian Cooperation, USAID	NORAD, SIDA, PRIDE - Africa

Source: Tanzania Ministry of Finance; Bank of Tanzania.

An umbrella organization for microfinance has recently been organized and established with considerable support from various international donors, the Tanzania Association of Micro Finance Institutions (TAMFI).

The objectives set out for TAMFI- to serve as a central unifying force for the development and expansion of a range of institutions providing financial services to the poor and low-income households, and to be the principal private sector advocacy group for the microfinance industry- are fairly straightforward, and resemble those for similar network organizations that have been set up in other countries in Africa, such as the Ghana Microfinance Institutions Network (GHAMFIN). Having been set up formally and registered only in staffing and operations, and becomes more active, it will be interesting to observe whether and how the more numerous institutional providers of microfinance services—the SACCOs and their own network organization, the Savings and Credit Cooperative Union League of Tanzania (SCCULT) will become an integral part of TAMFI.

2.2.10.6: STRATEGIES FOR SAVINGS MOBILIZATION AND MANAGEMENT IN TANZANIA.

Strategies to enhance savings mobilization and management must recognize the importance of the small savers and the need to encourage them. The strategies for savings and management as they relate to the Tanzanian economy are as follows:

(i) Poverty Reduction Initiatives.

The poverty must be addressed in order to put a larger population in the category of savers. For poverty reduction initiatives to succeed, the beneficiaries must be empowered and made to contribute to the wealth of the economy through their involvement in viable business or trade. There is also the need to streamline the various poverty reduction programmes to ensure the achievement of the desired objectives. In recognition of the need to empower the poor and involve them in nation-building, the present Government has made the poverty reduction strategy the cornerstone of its economic policy.

(ii) Competitive Financial Environment.

The current efforts at ensuring a sound and stable financial system, through sanitization and strengthening of the supervisory frame work are expected to provide a conducive financial environment that engenders greater competition. This is expected to facilitate the introduction of new savings products that could enhance the mobilization of resources for development.

(iii) Capital Market Reforms.

The capital market is expected to play a pivotal role in the mobilization of long-term resources for development. The current reform efforts in the Tanzanian capital market provide opportunities for both public and private organizations to access the market for investible funds. Efforts will be sustained to make the market more efficient in order to attract foreign investments into the country.

iv) Growth in Output

The economy has to grow in order to allow for savings mobilization. The current efforts are rehabilitating the existing infrastructural facilities are aimed at increasing the productive capacity of the economy, which is expected to raise per capita income and thereby enhance savings.

(v) Stable Macroeconomic Environment

The pursuit of sound macroeconomic policies is considered important in savings mobilization and management. Sound economic policies will ensure the achievement of low inflation which facilitates the savings-investment process.

In Tanzania, more emphasis is being placed on improved co-ordination of fiscal and monetary policies, as well as other economic policies in order to achieve macroeconomic stability which is essential for sustainable growth.

2.2.10.7: THE CHALLENGES FACING THE EAST AFRICA SACCOs

The challenges facing the SACCOs are not the same in Kenya and Tanzania due to the differences of stage in development in these two countries.

In Kenya, the main challenges are:-

- **Market liberalization:** The SACCOs are linked closely to the marketing systems of the coffee cooperatives and the tea development office. But the liberalization of the market for agricultural products is leading to the weakening those markets deals with export products.
- **Recent acceleration in the growth of the largest SACCOs** which needs to revise their internal organization their management styles their tools and their approach to staff training.
- **Several SACCOs** have started collecting savings from the public and providing banking services in the absence of a well-define legal or regulatory framework or a deposit insurance fund.

The main challenges facing the financial SACCOs in the coming year are as follows:-

- **Organization development**

The SACCOs need to expand their membership to include other economically active groups beyond their current base which focuses a commodity.

- **Operational Development**

New products will have to be developed to meet the demand of farmers in a free market environment, as well as the demand from a category of client that has been neglected thus permanently women

- Likewise, these institutions will have to acquire techniques for issuing loans in order to make better use of excess liquidity. Which is considerable for the benefit of their members?

- **Regulation:**

A dialogue should be initiated with the government in order to define a national policy and a suitable regulatory framework which will clearly defined the supervisory and control responsibilities.

- **Innovation:**

Different types of innovation will need to be accompanied in the changes describe above by collaborating with the “ROSCAS” and informal savings and credit groups that are numerous and dynamic in Kenya.

Challenges in Tanzania

In Tanzania the demand for financial services in rural areas is largely unmet. Recent reforms and market liberalization have led to the withdrawal of banks from rural areas where they were making a loss and financial NGOs still have limited outreach.

Thus today, even if the Tanzanian SACCOs do not appear to be very dynamic or innovative, they are nevertheless faced with the challenges associated with increasing outreach and improving the sustainability of microfinance in the country.

In fact the challenges to be met are considerable and can be defined as follows:-

- An enabling environment created by the government which is committed to allow the Microfinance sector to develop with the least possible interference. Indeed the current weakness of the SACCOs is a result of their marginalization in 1976 in favor of the “Ujamaa (socialism) village”
- An appropriate structure at the secondary level with an apex body that is more familiar with the needs and concerns of the SACCOs, is able to give advice provide quality services and help them to implement the reforms needed and combine forces.

- Links should be formed with the financial NGOs so that innovation and techniques can be shared in order to promote change.
- The management style of the SACCOs should be modernized and professionalized with the introduction of computer systems the training of management in the financial techniques used in the networked banking sector, and the introduction of management to credit analysis and credit management techniques.
- The extension of the movement to rural areas in Tanzania beyond the areas of concentration and to members other than coffee farmers.

Recommendations

Although seminars and workshops have been organized to facilitate exchange of information among East Africa countries, these activities have not had significant impact probably because these institutions do not share the same pre occupations and operating principles.

Needs several exchanges of experience and cooperating aimed in promoting reflection on the innovations developed in other countries, outline the East Africa cooperation Banks to assess the complementarity's and the relationship between these banks and the SACCOs, between SACCOs and financial NGOs in East Africa to compare the unique aspects of each system and the profiles of the clients they get

Definition of key terms

1. ROSCA – Rotating Saving and Credit Associations – these are groups save their own money and then lend it out to each member of the group in succession.

CHAPTER THREE

METHODOLOGY OF THE STUDY

3.1.0: Measurement of household in living standard.

The poorest 20 % households were [chosen to represent](#) average households in the country. Since poverty measures a sort of inequality that confines attention to a specified slice bottom of income distribution, it was decided to choose arbitrary private income received by the poorest 20% of households in the economy as the income of the average households. Then through econometric, it was estimated the extent to which lending interest rate of SACCOs has affected income received by poorest 20 % households in the country i.e. how SACCOs has increased monetary income and contribution expenditures of poorest 20 percent households in Tanzania.

Income Poverty.

This is defined as the situation when households do not have enough income **to** sustain **the** consumption expenditure of equal or more than 1 USD per day. Income poverty is the main variable used in this study to assess the impact of SACCOs on the living standard of the poorest 20 percent households in Tanzania.

Non – income poverty.

This occurs when households have a bit little amount of money but they do not have access to basic consumer goods and services. Though non income poverty have not been included in econometric analysis, it has been used whenever a need arise in order to highlight a particular point

Informal Micro finance Institutions.

These are financial institutions whose activities fall outside the scope of formal financial institutions. They include informal individual money lenders, savings and credit cooperative societies and Savings (SACCOs) and Credit Cooperatives Association (SACAs).

3.1 .1: Data Type

The study used mainly primary and secondary data from individual entrepreneurs and farmers receiving credit from both formal and informal credit institutions as well as those who did not. The formal financial institutions considered in this study were commercial banks, non-bank financial institutions, savings and credit cooperative societies (SACCOs). Informal finance [as researcher](#) said earlier that has been used to refer to all transactions, loans and deposits occurring outside the regulation of a central monetary or financial market authority (Adams and Von Pischke, 1992; Aryeetey and Udry, 1997). The informal financial institutions in this study consisted of rotating savings and credit associations (ROSCAs), savings and credit associations (SACAs), mutual assistance groups(MAGs), relatives and friends, welfare associations, community -based organizations and non government organizations(NGOs). The primary data were collected by administering structured questionnaires to the sampled respondents.

3.1.2: Research Design

In planning for the research study, the researcher was mindful of the need to have a well articulated research design. Such a research design is desirable for the objective of data collection that will be useful in addressing the research questions as well as test the stated hypothesis. It is therefore a veritable guide for data generation, especially primary data. The research strategy adopted in this study is the survey technique. This strategy was chosen because of the nature of the research topic which demands the collection of significant amount of data from a meaningful population size in an efficient manner. [Because](#) this method is well understood and perceived as authoritative by people in general, [it was most appropriate for its adoption.](#)

The research study was both exploratory and formal. The study was exploratory because it has the objective of discovering future research tasks. It was equally formal because it further extends the exploratory work by testing the hypotheses designed and also answers the research questions asked. The research tries to find out what support measures were given to SACCOs and by whom, which made it a descriptive study in one hand. On the other hand, the study was causal in the sense that attempt was made to find out the causal relationships

among variables such as the support measures and the end users, in this case, the SACCOs. The research environment was the field conditions which were the operating environment of the various subsystems identified in the conceptual model.

Two survey methods including questionnaires and interviews were used because the respondents have diverse background. Interviews were used to obtain information from SACCO's managers, government institutions, non-governmental organizations, business development service providers and international organizations that provide support to SACCOs.

Questionnaires were used to obtain information from commercial banks, development finance institutions, research institutions as well as owners of SACCOs. The limited number of business support including Chief Executives.

The goal of a formal research design is to test the hypothesis or answer the research question posed (Cooper and Schindler, 2001). The research design therefore, expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on relations of the problem (Deming, 1960).

3.1.3: Structure of Questionnaire

The questionnaire is recognized as an important method of quantitative data collection and therefore, attempt was made to design it in a way as to capture accurate data and high response rate. In designing the questionnaire, it was assumed that the respondents who are major stakeholders in providing supports to SACCOs as well as the beneficiaries (i.e. SACCOs themselves). Were sufficiently informed on the subject matter.

The questionnaire was therefore designed in such way as to elicit responses from scientists and researchers in public research and development institutions, senior personnel in the banking industry and managers and owner's of SACCOs.

In constructing the questionnaire in terms of wording and layout, consideration was given to its usefulness as a guide for decision or opinion making. The funneling approach was adopted in designing the overall structure of the questionnaire. This approach involved asking general questions first before gradually restructuring the focus through more specific questions, thereby leaving the most direct question until the last (Stokes, 1998). This technique is used to reduce elements of bias which could come from asking specific questions up front.

Efforts were made to eschew biased wording in the framing of the questionnaire. Cooper and schindler (2001) observed that strong adjectives can be particularly distorting in the formation of questions. Also attempts were made not to personalize questions. Open-ended and closed questions were asked bearing in mind the different back ground of the respondents such as:

- Respondent motivation: Closed questions have been found to require less motivation and answering them is less threatening to respondents (Cooper and Schindler, 2001). Closed questions are preferable in large survey as they reduce the variability of response, make fewer demands on interviewer skills and much easier to analyze (Cooper &Schindler, 2001).
- Communication Skill: Open-ended questions require a stronger grasp of vocabulary and a greater ability to frame responses than do closed questions. Often respondents find it difficult to answer open-ended questions. In order to extract the best from respondents, the following response strategies were adopted in designing the questionnaire.
- Question Sequence: Arrangement of questions play a significant role in achieving the desired response. Consequently, stimulating questions were asked first before more sensitive ones. The design of the questionnaire was therefore structured in a manner to extract the best from the respondents based on the following strategies:
 - Free response (or open-ended questions)
 - Dichotomous response (e.g. Yes or No.)
 - Multiple choice response providing more than two alternatives

- Checklist response
- Rating and ranking responses.

In order to improve on the value of the survey results, the questionnaire and interview schedules were pre-tested. The researcher [outlined the importance of pre-testing as](#) relates to the following:

- Respondent interest - it is important to discover the respondent reactions to the questions.
- Meaning - Are the wordings of the questions meaningful and readily understood by respondents.
- Continuity and flow—Questions should read effortlessly and flow from one to another and from section to section.

3.1.4 Methods of Data Collection and Sampling.

Sampling

Both probability and non-probability sampling will be employed in this study. The data collection process required a preliminary survey in order to construct the sampling frame and draw a sample. A pilot survey was conducted for this purpose. A population of small-scale enterprises in agricultural and non-agricultural activities was identified in the study region of southern highland zone of Tanzania, with the help of the district offices of the Ministry of Agriculture, Marketing and Cooperatives. This included both credit and non credit users. Since there is no official register of individual entrepreneurs operating in these markets, it was not possible to have a listing of the traders. Respondents were therefore randomly selected from this population in the selected markets using a random chart. Systematic random sampling was then used to pick subsequent respondents. The entrepreneurs were also used to identify the available informal sources of credit from which they had benefited. This was necessary in order to avoid the problem of sample selection bias and also the possibility of informal lenders not known in the formal system.

A sample size of 250 respondents was initially targeted. However, only 170 respondents were successfully interviewed, distributed as follows: Morogoro 47 respondents, Mbeya 63 respondents, Dodoma 30 respondents, Iringa 23 respondents and Ruvuma 7 respondents.

3.1.5: Data Collections

Primary data was collected using both self-administered and interview methods. The primary data was collected using semi-structured and in depth interviews. Semi-structured interviews were undertaken by taking note of responses to a list of questions on the subject matter. The following key questions formed part of the questions asked during semi-structured interviews:

- Who are the public and private sector support institutions involved with SACCOs development in Tanzania?
- Are the support institutions well equipped to deliver the services required by SACCOs?

- What are the roles of institutions engaged in the supply side of public sector business support?
- Has the existing support measures been able to address effectively the needs of SACCOs?
- Are the SACCOs properly positioned to receive the desired services from the public support institutions?
- What are the limitations to the inability of SACCOs to benefit from various support measures put in place by government?
- What are the expectations of SACCOs from public as well as private support institutions to improve on their performance?
- What key building blocks of an effective system that can be put in place to improve the performance of SACCOs?

The importance of consulting secondary sources of data and information was recognized in this study. Hakim (1982) noted the need for researchers to consider the possibility of re-analyzing an existing data in order to answer their research questions and meet their research objectives.

Saunders et al (1997) recognized the importance of secondary data, especially where comparisons are made in order to answer research questions and address the research objectives. It is therefore imperative to address the research questions using a combination of secondary and primary data. The secondary data consulted include both quantitative and qualitative data. The sources of secondary data were ascertained through literature review informal discussions with experts, colleagues, seminars and conferences as well as published guides.

- Data on the internet were located using search tools. The World Wide Web was searched for information. The convenience of the Web and the extraordinary amount of information to be found on it are compelling reasons for using it as an information source (Cooper and Schindler, 2001). Search engine such as Yahoo= (<http://yahoo.com>), Google= (<http://www.google.com>), Hotmail= (<http://www.hotmail.com>) and MSN= (<http://www.msn.com>) were used to access vast information on SACCOs that assisted in the study. Other sources of information used include personal or informal discussions with associates and friends in the Key sub-sectors relevant to the study as well as personal documents provided by them. Abdullah (2005) noted the need to meet the following criteria in using personal documents in a study of this nature.

- (i) That the document must be a written one.
- (ii) That the document must have been produced on the authors initiative or if not, in such a way that their introspective content has been determined entirely by author, and
- (iii) That the document focused on the authors personal experiences.

NOTE: All sources of data, both primary and secondary sources were evaluated to ensure that they are relevant to the research objectives as well as assist the researcher to answer the research questions.

In the first stage, questionnaires were to select SACCOs in Northern Zone, Central Zone, Lake Zone, Southern Highlands Zone and Lake Zone: Regions covered.

The study covered the following SACCOs and their respective Regions and Zones:

I: Northern Zone: Regions Covered: - Arusha and Tanga Regions

III. Central Zone: Regions covered: - Dodoma and Singida Regions.

IV. Lake Zone: Regions covered:-Mara and Mwanza Regions.

V. Southern Highlands Zone- Mbeya, Iringa, Rukwa and Ruvuma Regions.

In each Region, a total of 20 SACCOs were covered. 10 from rural areas and 10 from Urban Areas. [For those](#) from Rural Areas, [they](#) were further subdivided into those concerned with crop production/ marketing and those concerned with pastoralists/ animal keepers.

In the second stage, direct personal interviews were made with officials of SACCOs, and selected farmers- crop producers and animal keepers in rural areas, and households engaged in micro trade in both rural and urban areas of the mentioned Zones and Regions.

3.1.6: Examination of micro sect oral distribution of loans from savings and credit cooperatives societies (SACCOs) in Tanzania.

Further analysis was to separate these informal micro finance institutions according to their major loaned sectors (i.e. crop production, distribution and marketing, trade and commerce and small scale manufacturing sectors); their allocations (Rural or urban SACCOs). The aim of this was to ascertain where most loaned funds of Savings and Credit Cooperatives Societies (SACCOs) are allocated, its most likely impact on poverty reduction initiative through rising monetary income of the poorest 20 % households in both rural and urban areas of Tanzania. For that analysis, tables and charts were used for the analysis of their major loaned sectors, these tables and charts were separated into two parts namely (i) Those for rural areas and (ii) Those for urban areas.

3.1.7 Quality of Research Data.

The issue of the creditability of research findings was seriously considered in the research design. Reducing the possibility of doubting the creditability of research findings informed why attention was paid to the issue of reliability and validity. Two critical questions the researcher tried to address in the cause of carrying out this study as noted by Easter by- Smith et al, (1991) were:

- Will the methods adopted yield the same result on different occasions?
- Will similar observations be made by different researchers on different occasions?

Robinson (1993) identified four threats to reliability of research results to include subject error, subject bias, and observer error and observer bias. The researcher was aware of the potential problems extraneous influences will have on respondents in offering valid and candid answers to questions asked during the field of study. Consequently, elaborate steps were taken to ensure confidentiality and anonymity of respondents to questionnaires and to ensure that the data derived from the study are valid and relevant to the research objectives.

Specifically, steps were taken to ensure that proper things were done as it relates to the following:-

- Identification, of the research population: Efforts were made to ensure that the choice of the population was logical to guarantee generalizations to be made across the whole population.
- Data collection: Concerted efforts were also made to ensure that the processes adopted to collect data yielded valid data.
- Data interpretation: Appropriate theoretical frameworks were chosen in data interpretation. Induction and deduction processes were employed to arrive at the conclusions on each of the hypotheses. This implies that conclusions were drawn from both existing facts and valid reasons given by respondents to questions asked.
- Development of conclusions: The researcher was conscious of the need to ensure that conclusions made should stand up to the closest scrutiny.

Asika (2001) observed that research design may be said to be valid if it enable the researcher elicit the correct responses from the sample subjects. In this study, the research was considered valid based on the fact that the desired responses were [gotten](#) from sample population. Furthermore, the content validity was determined by ensuring that all the questions asked in the questionnaire fully address the research objectives and hypothesis.

3.1.8: Data Processing

The data resulting from the study could be both quantitative and qualitative and as such, need processing and analysis. The essence is to put the data in contextual form to enable the researcher answer the research questions as well as address the research objectives. Consequently, quantitative analysis using simple tables, bar charts, percentage distributions and statistical analysis were carried out in order to establish the relationships between various variables. Abdullah (2004) noted the need to ensure that the following steps were taken:

- That the tables and diagrams have brief and clear descriptive title.
- That the units of measurement are clearly stated.
- That the sources of data used are clearly stated.
- That notes to explain abbreviations and legends are clearly stated.
- The size of the sample on which the values in the table are based is stated.
- That table had clear column and row leadings.

The analysis carried out enabled the researcher establish the relationships between variables and trends in patterns of associations.

3.1.9: Final Model Used in Regression

The study uses the following model to capture the impact of SACCOs on income of the poorest 20 percent households in Tanzania... The model is derived and as a single equation linear model expressed in log linear form, as specified below:

$$\text{Grate 20\% In poor} = C + (1-G) \text{RGDP rate} + \text{GSS rate} + \text{SL rate} + \text{DMF} + e$$

$C =$ Constant term

G rate 20% in poor = Growth rate of nominal private income received by poorest 20% households in Tanzania.

$\text{RGDP rate} =$ Real Growth Domestic Product Rate.

$\text{GSS ratel} =$ Growth rate of Government Investment in Social services.

G= Gin Coefficient.

SLr= Nominal SACCOs Lending Rate in a year.

Dmf= A dummy variable for entrepreneurship policy. It takes the value of 0 in 1961-1969, 1995-2005, and 1 in 1969-1994 and post 2005. 0 implies little education of entrepreneurship and 1 implies more education of entrepreneurship in Tanzania.

E= error terms to capture other factors net captured in the specified variables.

Ln= Natural logarithms.

PI20%His= Private income of poorest Households

RGDP Rate= Real, GDP Growth Rate

GI = Government investment in infrastructure

G= Gini Coefficient

Dmf= A Dummy variable for monetary policy. It takes the value of 0 in 1961=1969, 1995-2005 and 1 in 1969-1994 and post 2005. 0 implies little tightness of monetary policy and 1 implies more tightness of monetary policy.

E= error terms to capture other factors net captured in the specified variables

Ln= Natural Logarithms

3.1.10: Tools of data analysis.

The instruments used in the collection and gathering of data include questionnaires, personal interviews, library desk while [such as](#) the statistical package were utilized in the regression analysis. Moreover, tables, graphs and charts were also be utilized. For the purpose of regression, statistical packages namely Social Scientists Statistical Packages (SSSP) was employed to run regression and draw regression related charts.

3. 1.11: Type of Research:

The study is based on the sampling survey type of research.

3.1.12: **Limitations**

- Difficult in trying to minimize errors inherent in rating scales. The process of handling the likert scale required special attention from the researcher. It is important for the researcher to make sure that respondents had understood and make good judgment of the purpose of the research project and the individual statements making up the questionnaire in order to minimize errors/bias which could be possibly be brought in by respondents' tendencies.
- Difficult responding in time the questionnaire submitted to the respondents.
- Lack of confidence in the information/data obtained from the business units.

3.1.13: The reason for using a particular research Philosophy and Methodology in the proposed research design

- To assist those undertaking research to cultivate the garden so that at the end of the day expect to harvest the good research work which will be used to describe an approach to comprehending our real world.

Yes: There are positive elements since research is designed to handle a problem. Sometimes this needs describing, expanding or improving about which information is needed so that future event occurrences can be predicted and policies decided upon.

3.1.14 **Phenomenological elements.**

Research problems, questions or hypothesis are derived in the part from theories that science has accumulated over years. Event that is not capable of being understood, described, explained, or predicted by using existing theories or laws represents a possible research problem. Having derived research problems, questions or hypotheses from theory, research is conducted in the sense that are collected and analyzed to discover new facts and relationships.

Is a positive quantification: - Since the research is based on the measurement of quantity or amount which can be expressed in broad general way, keeping in view either some practical concern or some scientific or intellectual interest.

3.1.15: Qualitative data gathering

Is concerned with qualitative Phenomenon which involves quality or kind for instance when we are interested in the investigating the reasons for human behavior (i.e. Why people think or do certain things.)

The qualitative research is especially important in the behavioral sciences where the aim is to discover the underlying motives of human behavior which must seek guidance from experimental psychologists.

3.1.16: The research study is action

Why: Because the research focuses on a strategy for influencing the stock of knowledge in solving practical problem of a particular organization. The research aim at understanding and explaining the real world problems which can be done in two ways, first, external research where the observer looks outward upon others from a host and second internal research where the observer is considered part of participant.

3.1.17: What are the specifics of the study?

To provide the intellectual facilitation of the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximal information with minimal expenditure of effort, time and money.

The research was designed to meet the various groups of people such as Research and Development institutions, senior personnel in the banking industry, Micro finance institutions, Managers and owners of SACCOs, Individuals/Stakeholders of SACCOs.

Those students who are to write a Master's or PhD thesis aimed to attain a high position in the social structure (source of livelihood).

Professionals in research Methodology; Philosophers and thinkers (for new ideas and insights).
Literary Men and Women, (development of new styles and creative work)

Analysts and intellectuals (The generalizations of new theories)

People: Or all people/ institutional interested in providing guidelines for solving different business, governmental and social problems such as scientists, thinkers for the development promotion.

Places. The study will be expected to be taken in a place where a number of activities to promote the use of Sacco's services/products are to be implemented and useful, and where the financial support and the business development services to SACCOs supported by financial institutions in Tanzania are highly needed.

Why: To find out the truth which is hidden and which has not yet discovered to those people haven't skills and knowledge to solve various problems.

1. The proposed research fit socio – historically because original contributes to the development of existing stock of knowledge making for its advancement until finds a solution to a problem.
 - The additional considerations will be taken for the purpose of generalizing to extend correct or verify knowledge whether that knowledge aids in construction of theory or in the practice of an art.

The undertakings fit in desire to face the challenge in solving the unsolved problems or desire to get intellectual joy of doing some creative work. The desired information can be accessed through:-

- I. Formulating the research problem which either relates to states of nature and those, which relate to relationships between variables.
 - II. Extensive Literature survey – the research should undertake extensive literature survey corrected to the problem (III) Development of working hypothesis – Researcher should state in clear terms the working hypothesis or hypotheses which aimed to draw attention and test its logical or empirical consequences.
 - IV. Development of working hypotheses – the researcher should state in clear terms the working hypothesis / hypotheses used as assumption made in order to draw out and test its logical or empirical consequences.
-
- I. Preparing the research design – the researcher will be required to prepare a research design used to provide for the collection of relevant evidence with minimal expenditure of effort, time and money. To achieve these will depend mainly on the research purpose.
 - II. Determining sample design: the researcher must decide the way of selecting a sample or what is popularly known as the sample design.
 - III. Collection the data: Primary data can be collected either through experiment or through survey.
 - IV. Analysis of data:- After the data have been collected the researcher turns to the task of analyzing them which needs /requires a number of closely related operations such as establishment of categories the application of these categories to raw data through coding, tabulations and drawing statistical inferences.
-
- Hypothesis testing – the hypothesis may be tested through the use of one or more of such tests, depending upon the nature and objected of research inquire which will result in either accepting the hypothesis or rejecting.

- V. Generalizations and interpretation – as a matter of fact the real value of research lies in its ability to arrive at certain generalizations.
- VI. Preparation of the report or the thesis – the researcher has to prepare the report of what has been done by him. Writing of report must be so with great care keeping in view the following:-

The layout of the report should contain the preliminary pages, the main text and the end matter

- The role of interviewer– to analyze the find out if the researchers have enough knowledge and skills particularly on the research involves e.g. for a course, asked questions to see if they are suitable for a particular course of study at a college/university.

The role of consultant – To give a technical/expert advice on a particular subject to other companies' people or organizations that are interested to the information before making a decision about it.

The role of Facilitator: Facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximal information with minimal expenditure of effort, time and money.

2. What are specifics of the study?

Is to obtain and discovering future research tasks. It was equally formal because it further extends the exploratory work by testing the hypotheses designed and also answers the research questions asked.

The research study tried to find out what support measures were given to SACCOs and by whom, which made it a descriptive study in one hand. On the other hand, the study was casual in the sense that attempt was made to find out the casual relationships among variables such as the support measures and the end users, in this case, the SACCOs; the environment was

the field conditions which were the operating environment of the various subsystems identified in the conceptual model.

The research was designed to meet the various groups of people such as research and development institutions, senior personnel in the banking industry, Microfinance institutions, Managers and owners of SACCOs, individuals/ stakeholders of SACCOs.

The study will be expected to be taken further in a place where a number of activities to promote the use of Sacco's services /products are to be implemented and useful and where the financial support services to SACCOs in Tanzania and where the business development support services needed by SACCOs and provided by support institutions are highly needed.

Why? Enables a researcher to discuss his problems with his colleagues and others who have enough experience in the same area or in working on similar problems.

4. How is the data to be collected?

The task of data collections begins after a research problem has been defined and research design/ plan chalked out. While deciding about the method of data collection to be used for the study. The special data gathering techniques utilized group-based techniques since involved those who first raised the problem and the researcher enter into discussion with those who have a good knowledge of the problem concerned or similar other problems keep in view the environment within which the problems is to be studied and understood. The researcher should take into considerations two types of data collection namely primary and secondary data.

The primary data – are those which are collected a fresh and for the first time and thus happen to be original in character, this can be done through surveys, census, observation or through observation or through direct communication with respondents in one form or another or through personal interviews

Secondary Data – Are those which have already been collected by someone else and which have been passed through the statistical process. The researcher will have to select one or other method of data collection.

The method of collecting Primary and Secondary data differs since primary data are to be originally collected, while in case of secondary data the nature of data collection work is merely that of compilation.

The sort of data it will be the investigator measures the effects of an experiment which he conducts intentionally in defining the research problem. The researcher must tackle the task intelligently to avoid the perplexity encountered in a research operation.

Defining a research problem properly and clearly is a crucial part of a research study and must in no case be accomplished hurriedly. The research problem should be defined in a systematic manner, giving due weight age to all relating points. The techniques for the purpose involves the undertaking of the following steps generally one after the other.

- (i) Defining statement of a problem.
- (ii) Understanding the nature of the problem
- (iii) Surveying the available literature
- (iv) Developing the ideas through discussions.
- (v) Rephrasing the research problem into a working position.

The value of Administrative Data

The finding has set to answer the critical policy and program questions of “what works”, “for whom”, and “at what cost”, the panel finds that:

- **Policy makers and program administrators will require more and better data sources than they now have if they are to adequately monitor program operations and evaluate program outcomes.** Program administrators and policy makers will need reliable state and local data if, among other things, they are to: summarize program operations; determine who is being served by which programs, which is under served etc.
- Current research survey data can not adequately monitor the diverse, local programs currently being established by state and local governments.

- Obtain reliable information over time and cross programs and agencies, it will be necessary to augment current administrative databases and to link them together. Administrative data provide detailed and accurate program information, large sample sizes that allow for more types of analyses, and state-specific data that reflect variations in state and local programs.
- (i) Administrative data can also provide information on the same individual or case over long periods of time. Such capabilities are increasingly important if we are to understand how, for example, recipient behavior and well-being change in response to both time-limited benefits and varying economic and labor force conditions.
- (ii) Due to largely to advances in computer technology, linking administrative databases is easier, less expensive, and more reliable ever before. Such efforts can provide richer, more comprehensive information on how the poor, the working poor, and others are faring and how, and to what extent, they contribute to and/ or consume public tax and transfer benefits.

The Research Potential of Administrative Data.

This report is about a particular source of information that can be used to monitor and evaluate emerging programs and the nation's changing policy. More precisely, this report deals with data collected in the operation of Central and local government for the poor and disadvantaged.

The advantages of administrative data

For many types of analyses and research, administrative data have always offered advantages that are outlined below as follows:-

- *Detail and accuracy of program information.* Administrative data are detailed and very accurate measures of programmatic status and outcomes. Detailed information on the

characteristics of participants, the services they have received, and the actions they have taken cannot be obtained in any other way.

- *Large sample sizes permit more types of analyses.* Administrative data sets typically include thousands-if not millions of records and often include the entire universe of participants.
- *State- specific data can reflect state programs.* If welfare programs have different forms in different states, then only a state-level data collection effort is likely to insure that the right information is obtained from the right people.
- *Low cost relative to the alternatives.* The cost of obtaining administrative data for research may be low (and comparably lower than implementing a range of state-level surveys) if most or all of the information is already collected for management purposes.
- *The ability to obtain many kinds of information through matching.* A given administrative data-set can be made more useful with links to other data. Administrators and researchers need to know about multiple program use in order to see the entire picture of services received and actions of program participants.

Developing the Research Potential of Administrative Data

A number of observations shared by the panel about administrative data and its role in future research efforts were important in motivating the panel's work. They were:-

- Administrative data sources will need to play a greater role in the monitoring and evaluating of the impacts of social assistance programs in the coming years.
- To meet the research needs of future evaluations of policy and programs, there will be a growing emphasis on building administrative databases for linking information across time and across programs and agencies.

- **Several lessons may be learned from the experiences of existing efforts to develop on-going administrative data for use in policy relevant research:** A key element in the development of successful administrative databases for research, especially those of an on-going nature, usually have involved a collaboration between Local and Central Governments and outside academic and independent research groups or institutions.

5. How will the data fit in the research process?

The data will fit in the research process if the research procedures used should be described in sufficient detail to permit another research to repeat the research for further advancement, keeping the continuity of what has already been attained. The procedural design of the research should be carefully planned to yield results that are as objective as possible. The researcher reports with complete frankness flaws in procedural design and estimate their effects upon the findings. The analysis of data should be sufficiently adequate to reveal its significance and the methods of analysis used should be appropriate and the validity and reliability of the data should be checked carefully.

Conclusions to be confined to those justified by the data of the research and limited to those for which data provided is inadequate.

When? Through out when special significance in solving various operational and planning problems of business and industry are in use. Operations research and Market research, along with motivational research, are considered crucial and their results assist, in more than one way, in taking business decisions.

By Whom? Is equally important for social scientists in studying social relationship and in seeking answers to various social problems. It provides the intellectual satisfaction of knowing a few things just for the sake of knowledge and also has practical utility for the social scientists to know for the sake of being able to do something better or in a more efficiency manner.

How? Through experiment approach /greater control over the research environment, simulation approach (construction of an artificial environment within relevant information and data generation.

For social scientists in studying social relationships and in seeking answers to various social problems;

- To provide the intellectual satisfaction of knowing a few things just for the sake of knowledge and being able to do something better or in a more efficient manner.
- To Professionals is research methodology for a source of livelihood.
- To Philosophers and Thinkers mean the outlet for new styles and creative work.

What form(s) will the “outputs” take?

Systematic – The output is structured with specified steps to be taken in a specified sequence in accordance with the well defined set of rules.

Logical – The research is guided by the rules of logical reasoning and the logical process of induction and deduction are of great values in carrying out research.

Empirical – The research is related basically to one or more aspects of a real situation and deals with concrete data provides a basis for external validity to research output.

Replicable – This characteristic allows research output to be verified by replicating the study and thereby building a sound basis for decisions.

The roles that the study will play in the practical processes under study are the following:

- To enable real world problem to be understood, solve or appreciated.

- To enable research questions and hypotheses derived from scientific theories to be tested so as to allow adopt/adapt the existing theories.
- To bring up light other unexpected issues this may be important discoveries.
- Helps to bring more concepts, variables and relationships and thus helping to uncover the real world.

6. How each of the step in the project been thought through in terms of their feasibility?

Each of the steps in the project been thought through by:-

- (i) **Defining the statement of the problem** - keeping in view either some practical concern or some scientific or interest intellectual, i.e. the researcher must immerse himself thoroughly in the subject matter concerning which he wishes to pose a problem.
- (ii) **Understanding the nature of the problem.**
 - To discuss the problem with those who first raised it in order to find out how the problem originally came about and with what objective in view.
- (iii) **Surveying the available literature** – All the available literature concerning the problem at hand must necessarily be surveyed and examined.
- (iv) **Developing the ideas through discussion:-** Various new ideas can be developed through discussion. Hence, a researcher must discuss his problem with his colleagues and others who have enough experience in the same area or in working on similar problems.
- (v) **Rephrasing the research problem:**
 - The researcher must sit to rephrase the research problem into a working proposition. **When** the nature of the problem has been clearly understood, the environment (within

which the problem has got to be studied) has been defined, discussions over the problem have taken place and the available literature has been surveyed and examined.

- Yes, there is a realistic time – scales for various elements e.g. The factors behind poor loan repayment rate in rural Tanzania since 1980 – 2000. The reasons for economic decline since 1985 – 1990.
- Government, business, non-government organizations, international organizations, individuals and other groups benefit from the realistic time- scales elements.
- The realistic time –scales can be used to reduce uncertainty embodied in the future by allowing social scientists to play advisory and /or consulting roles.
- Knowing the impact of legal framework on business operations and successes in Tanzania or impact of corruption in Tanzania on economic development or problems faced by informal Micro finances in Tanzania.

CHAPTER FOUR

DATA PRESENTATION, DATA ANALYSIS AND MAIN FINDINGS

4.1.0 Introduction.

The chapter attempts to analyze data generated from the study which include qualitative and quantitative information collected from groups of respondents. The groups of respondents were owners and managers of SACCOs as well as business support organizations, researchers from research institutions and personnel from banks and finance development institutions.

4.1.1. RESULTS FROM QUESTIONNAIRES, INTERVIEWS, AND OBSERVATION METHODS.

The instrument used for generation of the data analyzed which is the questionnaire was structured in a way as to elicit as much responses as possible on the business environment, research and development and finance. The questionnaires were distributed and retrieved from these groups of respondents for analysis.

General questions which tried to identify the nature and activities of institutions or firms responding preceded the more informed questions targeting support measures to SACCOs. In all the categories of subject areas studied efforts were made to identify critical factors affecting support to SACCOs in addition to an assessment of attitude of SACCOs to those support institutions.

The issue of Microfinance development policy as well as financial institutional framework established to support SACCOs were studied and analyzed under Sacco's strategy.

The analysis as responded in this chapter is structured as follows:

- Responses to questionnaires
- Business environment
- Research and Development support
- Finance support services
- Legal framework

4.1.2: Responses to Questionnaire.

The study recognized the importance of determining the response rate in order to validate and justify the findings.

4.1.3: Business Environment.

The environment in which SACCOs operates is very crucial for their growth and development as well as their contribution to the overall economic development of the country. Institutions and businesses interact daily at different levels. These range from direct contacts such as issuance of business licenses to much more indirect channels of government actions including effect of fiscal and monetary policies.

The challenge of this study was to determine the perception of SACCOs of their operating environment and come up with strategies that will support SACCOs to grow and improve their performance within their domain of operations.

The study therefore attempts to evaluate the legal framework, business regulation, Taxation, Microeconomic policy, business culture and infrastructure as they affect Sacco's operations.

Responses

Rural Financial Institutions are the cornerstone of financing rural development and micro-enterprises in developing countries. Small farmers and the poor require the support of the rural financial institutions in order to finance their development programmes.

In the words of Padmanabhan (1988: 10) "Lack of economic growth was seen as a consequence of shortage of physical capital. A vicious cycle low capital, low incomes, low savings and consequent low capital seemed to be operating in rural areas. It was this thinking and reasoning of 1950's which led to the mushrooming of specialized rural financial institutions .The logic of traditional rural credit financing based on the following assumptions;

Assumptions related to saver /borrower behavior are that the rural poor can not save and therefore will not respond to saving incentives, and the farmers need cheap loans

before they adopt new technologies and make major farm investments. Assumptions concerning lenders are that informal lenders exploitative and hence charge interest rates that entail large element of monopoly profit”.

(Adams and Graham 1984 in Sarris, 1966:6). Based on this kind of thinking and reasoning rural financial institutions were expected to provide cheap and sometimes free credit for rural development. However, most rural financial institutions established in 1950's and 1960's did not achieve planned objectives. Writers of the **Ohio school** and others have criticized institutions that followed supply led approach. Low interest rates, subsidized credit, poor loans processing and delivery, centralized decision making and bureaucracy have been cited as the major cause of failure of rural financial institutions performance in developing countries.

Credit enables small farmers and micro-enterprises to finance their development and income generating activities. Moreover, issues which justify the need for credit to micro-enterprises and small farmers always limit small farmers and micro-enterprises access to credit. Levitsky and Prasad (1987: 1) suggest reasons which reduce small enterprises access to institutional finance due to lending to small enterprises is considered to be risky, banks and financial institutions are biased in favor of lending to large corporate borrowers, the administrative costs of lending to small are always considered to be high, small enterprises seeking loans are always perceived to be unable to provide accounting records and physical collateral.

“The financial institutions can encourage efficient allocation of the stock of tangible wealth by bringing about changes in types of asset holders. Second, financial institutions can encourage efficient allocation of new investment by intermediation between savers and entrepreneur investors. Third, they can increase the rate of accumulation of capital by providing increased incentives to save, invest and work” (Padmanabhan 1988:8). Financial institutions can help small farmers and micro-enterprises to save, invest in profitable ventures and increase accumulation of capital for overall rural development and poverty reduction.

Outreach and Savings Mobilization

“Outreach is a hybrid that assesses the extent to which a rural financial institution has succeeded in reaching its target clientele and the degree to which the rural financial institutions met that clientele’s demand for financial services” Yaron et al (1992: 191). Indicators used to measure outreach are such as number and annual growth of savings and loan accounts and annual growth rate of the loan portfolio. Furthermore, other measures such as relative income level, percentage of rural clients, percentage of women and distribution network can as well as be used to measure outreach and savings mobilization. Savings mobilization is an important indicator of measuring outreach as it is one indicator of the empowerment of the poor and capital accumulation which is important for poverty eradication.

TABLE 12: The Distribution of micro financial institutions in Tanzania

No	Region	Population 1996	No. SACCOs	No of Bank Branches	SACCO s/ Bank Rate	Population Bank Density	Population SACCOs Density
1	Arusha	1,808,335	76	11	6.9	164,394	23,794
2	DSM	1,965,096	121	34	3.5	57,797	16,640
3	Coast	754,797	31	6	5.2	125,799	24,348
4	Dodoma	1,493,358	38	5	7.6	298,672	39,299
5	Iringa	1,476,491	76	9	8.4	164,054	19,427
6	Kagera	1,625,697	13	6	2.2	270,949	125,054
7	Kigoma	1,028,196	4	3	1.3	342,732	257,049
8	Kilimanjaro	1,306,134	127	12	10.6	108,844	10,284
9	Lindi	752,632	41	5	8.2	150,526	18,357
10	Mara	1,197,404	8	4	2.0	299,351	149,675
11	Mbeya	1,884,658	140	11	12.7	171,333	13,462
12	Morogoro	1,571,685	29	8	3.6	196,461	54,196
13	Mtwara	992,002	11	6	1.8	165,334	90,182

No	Region	Population 1996	No. SACCOs	No of Bank Branches	SACCO s/ Bank Rate	Population Bank Density	Population SACCOs Density
14	Mwanza	2,301,578	15	9	1.7	256,064	153,638
15	Rukwa	978,465	0	4	-	244,616	-
16	Ruvuma	1,011,169	39	4	9.7	252,792	25,927
17	Shinyanga	2,217,235	64	6	10.7	369,539	34,644
18	Singida	967,274	14	7	2.0	138,182	34,644
19	Tabora	1,260,453	19	4	4.7	315,113	66,091
20	Tanga	1,511,836	30	9	3.3	167,982	50,594
Total		28,104,676	906	167	5.4	168,291	31,021

Table 1: Regional Distribution of Institutions in 1996

Source: Bank of Tanzania, Supervision Division (1996) Estimates of Population for 1996, Have been computed from 1988 Population census data in Bureau of Statistics, 1988 Population National Profile.

Table 12 illustrates that the Tanzania rural population is poorly served by bank financial institutions. On average of bank density it is 168,291 people per unit. Given the nature of population distribution and remoteness of the population, bank density suggests many people do not have access to financial institutions. People are forced to travel long distance in order to get bank services.

The distribution of SACCOs is cognitive in comparison with banks. However, the SACCOs density of 31,021 people per unit is not adequate. SACCOs are widely spread and accessible by many people than banks.

It is interesting to note that most of banks branches and SACCOs are in the major towns and cities. Given the fact that most of the poor people live in less developed regions proves the case that most of financial institutions in Tanzania are not serving the poor and small farmers who live in less developed regions, Dares-Salaam, the Tanzania

biggest commercial city have more SACCOs and Bank branches than the rest of the regions.

Table 12 informs us as well that most Tanzanians depend on SACCOs rather than banks, reflected by the average of 5.4 SACCOs per bank branch in Tanzania mainland. One can argue that integrating SACCOs and Banks can result into effective and efficient financial system of serving both small farmers and micro-enterprises in Tanzania.

When it comes to saving, however, the difference between the NGO's, banks and SACCOs in customer profiles narrows down. Four of the seven banks, which classified their savings accounts balances, are within Tshs 50,000. This compares with most of the SACCOs where between 60-100 per cent of the accounts balances are within the same range (Oketch et al, 1997, p.20). These findings provide three important implications for micro financial institutions. First, most of the rural people with limited income can save, if given opportunities. These assertions are provided by the Bank of Tanzania's 1997) findings that

“contrary to traditional thinking but in line with increasingly empirical evidence from various parts of the world, the study suggests that almost 96% households in rural Tanzania make deliberate attempts to set aside part of their income in the form of saving at one point or another. Only 4.1% of households do not save, mainly because their incomes are so low that they rarely have any excess”.

Another evidence for rural willingness and capacity to save is provided in the following quotation. “Success in developing rural saving clubs in Zambia, Lesotho, and Malawi, and mobilization of savings through postal savings, savings bank and credit savings unions in many parts of Africa provide further evidence on rural saving capacities”. (Adams, D., 1978, P.556). Second, banks have got something to learn from NGOs and SACCOs which attract many small farmers, micro-enterprises and the poor. Another study conducted in Tanzania proves the case. “ Survey data revealed substantial evidence of increased deposits in informal sector institutions. In Tanzania, the total volume of deposits in the Savings and Credit Co-operatives Societies (S&CCs surveyed rose by 67% and in ROSCA by 113% (both faster in rural areas) due to

increase in both members and average deposit size” (Aryeetey, E et al, 1997, pp. 31-32).

Third, savings accounts are more popular among small income earners. This concept is emphasized by the analysis of customers’ accounts by product in the following financial institutions branches in table 11 below.

Table 13: Analysis Customers Accounts by Products (Figures in Percentage)

No.	Place	Savings (%)	Time (%)	Demand (%)	Loans A/C (%)
1	Mbeya	71.7	1.3	26.9	0.2
2	Mwanza	84.7	0.8	14.4	0.05
3	Arusha	75.7	1.7	22.5	0.25
4	Hai	85.5	1.6	13.0	0.0
5	Tukuyu	84.0	1.7	14.2	0.0
6	Monduli	99.1	0.9	0.0	0.8
7	Magu	89.4	0.7	9.9	0.9
8	Korogwe	91.4	1.8	6.7	0.0
9	Kisarawe	100	0.0	0.0	0.0
10	Isike	91.4	1.1	7.5	0.4
11	Igunga	81.8	0.4	17.8	0.0
12	Chalinze	100	0.0	0.0	0.7

Source: Oketch et al (1997) Survey Data

However, most of new private banks require the average of Tshs.100, 000 to open saving account. Such a measure is putting off low income earners, small farmers and micro-enterprises from opening savings accounts in such institutions. Furthermore, such measures are contrary to the objectives of allowing private banks into Tanzania financial markets. Table 13 above proves that savings accounts are more popular not only in rural areas but also in towns. In all branches Savings accounts are at least 80% of other types of banking instruments. Micro financial institutions need to understand that low income earners and

small farmers are most likely to save if and only if these institutions will offer alternative products for low income earners and small farmers.

Credit Performance and Credit Portfolio

One of the prime functions of micro financial institutions is to issue loans to customers.

The size of loans and repayment rates are therefore critical factors to consider in analyzing the performance and understanding the types of customers served. Most of financial institutions in Tanzania have been facing the problem of non-performing loans. Non-performing loans are loans which their customers have yet started to pay back their loans or have a major proportional of arrears.

Table 14: Provides average loans size per borrower in given institutions in the period 1994-1996.

Table 14: Average Loan Size per Borrower (Tanzania Shillings)

Institution Category	1996	1995	1994
CRDB	20,107,409	6,433,887	5,227,406
NBC	6,044,365	1,905,510	1,042,570
TPB	25,000,000	50,000,000	50,000
NGO's	29,664	31,887	37,832
KCB	NA	NA	NA
SACCOs	37,603	42,281	31,388

Source: Oketch et al (1997, p.23)

Table 14 above suggests that NGO's and SACCOs serve most of low income earners and small farmers than banks. This fact is derived from the average loan size. Average loans size per borrower in banks ranges into millions while in SACCOs and NGO's the average loans per borrower ranges into thousands. Based on this analysis banks need to change this trend and issue more loans to small farmers and micro-enterprises. Without deliberate measures to rectify this trend Tanzania's desire to alleviate poverty through increased lending and availability of credit to small farmers and micro-enterprises will never be achieved.

Financial institutions are expected to collect extended loans on time. Based on data collected by Oketch et al (1997) the problem of loans repayments exists in Tanzania. However, Oketch et al (1 bid) did not undertake detailed analysis on the causes of the problem of non-performing loans. Other factors such as timing of loan processing and delivery, projects appraisal methods and repayments arrangements are key issues to consider.

Table 15 below summarizes the percentage of non-performing loans of sampled micro financial institutions in Tanzania. Percentage of non-performing loans of performing loans is the ratio of the amount of loan due but not paid to total amount of loan. 100% of non-performing loans implies that the total loan due is yet to be repaid by the borrower.

Table 15: Percentage of Non-Performing loans.

No.	Branch %	Non-Performing Loans (Late 10/Total %
1	Chaburuma	...
2	Chalinze	95
3	Isike	96
4	Igunga	100
5	Kisarawe	...
6	Korogwe	...
7	Magu	98
8	Tukuyu	...
9	Arusha	99
10	Hai	...
11	Mbeya	100
12	Mwanza	...
13	Lumumba	...
14	KCB	...

15	TPB	...
16	TGT	...
17	IFAD-Mbeya	39
18	MEDA	96
19	PRIDE	...
20	Nyanza	00
21	Iwindi	100
22	Wino	2
23	Mwanza	...
24	Usafi	...
25	Mkwepu	...
26	Marangu West	...
27	WETCU	...
28	Juhudi	...
29	Morogoro	---

Source: Oketch et al (1997, sheet 1)

Table 15 suggests that there is a serious problem of loans repayments in Tanzania micro financial institutions, particularly in banks. Recalling the fact that banks extend loans in millions to big borrowers, we can therefore argue that big borrowers are mainly responsible for loan defaulting. This argument is supported by almost 100% of on time repayments of loans in SACCOs and NGO's. So long as NGO's and SACCOs extend loans to low income earners and the poor, we can therefore propose that NGO's and SACCOs maintain relatively high repayments rates. It is noticeable in the Oketch et al study, "PRIDE Tanzania and four of [the](#) SACCOs in the sample appear to have higher repayments rates. This is probably explained by the group guarantee mechanism and peer pressure which is the hall mark of successful micro financial across the World". (Oketch et al, 1997, p.23)

It is obvious that there is poor performance of loans repayment in micro financial institutions in Tanzania. What are the causes of this poor credit performance? Of course there are different answers to this question. According to Co-operative and Rural Development Bank (1991, p.27)

poor performance of the credit plan in the period 1990/1991 might have been contributed by the following factors:

(i) Failure to collect overdue from co-operative Unions which as at 30th 06.1991 stood at Tanzania shillings 6,128,123,857 i.e.72.61% of the total portfolio.

(ii) Failure to get crop proceeds from crop Marketing Boards due mainly to changes in the crop ownership. Ownership rests with Unions instead of boards.

(iii) Effects of trade liberalization, leading to unplanned venture in the export trade under the retention scheme; and

(iv) Failure to exercise prudence in the management and administration of loans and overdrafts.

In the light foregoing problems, poor performance of financial institutions in credit management is a many sided problem. Mainly, government policies and intervention accelerated the problem of loans management as cited above. In such circumstances, rational government policies and increasing autonomy and independence of financial institutions are key issues towards increased proper loan management.

Asset Structure Analysis

Asset structure reflects institutions funds management and solvency. "Whatever a business might be in the long run, its survival depends, amongst other things, on its immediate ability to pay its bills and when they fall due. If its funds are over invested in fixed assets this may not be possible". (Brockington, 1993, p.205). The same logic applies to financial institutions. Financial institutions must invest in profitable ventures in order to maintain customers' confidence. Furthermore, financial institutions must be able and get prepared at all times to settle customers claims.

According to the asset structure of NGO's and SACCOs is dominated by both net loan portfolio and cash fund. The situation is different on banks which have higher proportional of assets invested in fixed assets. For example PRIDE Tanzania and Gatsby Trust have high cash

and bank balances which have been over 30% for three years. Oketch et al (1997:29) one could argue that this indicates poor investment decisions. Of course care must be taken on deciding the type of current assets to invest. Treasury bills and time deposits are worthy investments ventures for financial institutions although hardly in line with their prime objectives.

Earnings Analysis

The earnings analysis for the 14 branches is highly affected by the huge provisions for doubtful loans. Seven out of the nine National Bank of Commerce (NBC) branches had Return on Assets (ROA) Total being zero or less respectively. The ROA among CRDB branches was slightly better but less than ten percent. CRDB Hai was a new branch and by the end of 1996 was not breaking even. The ROA continued to worsen over three years on average among the NGO's. By 1996 only Gatsby had a positive ROA of 30% resulting from grant given. ROA is also poor in SACCOs averaging less than 5%" (Oketch et al, 1997, p.31). Return on Assets (ROA) measures returns on assets before interests and taxes. The higher positive percentage of ROA reflects better, efficiency and effective utilization of capital. Less return on assets suggests poor performance and possibly loss making institutions.

Moreover, ROA is not the only measure of earnings institutions performance. Oketch (Ibid) analysis would have been more useful if other financial performance ratios such as return on equity, current ratio, debt-equity ratio and possibly Z-score could be applied.

However, it is important that most of micro finance financial institutions in Tanzania are not utilizing assets effectively and efficiently. For financial institution zero and negative ROA erodes customers' confidence. Investors prefer to invest in institutions which can utilize their resources better. CRDB seems to have done better in terms of ROA criteria. Probably, this is because CRDB started earlier to reform its operations and structure.

Financial institutions in Tanzania must improve their performance in order to increase overall efficiency and effectiveness of assets utilization. The action taken by different institutions simply to close down loss making branches does not solve the cause of the problem.

Efficiency and Effectiveness Analysis

Effectiveness and efficiency are important criteria for institutions performance. Effectiveness measures the magnitude and the scale of institutions performance. On the other hand, efficiency measures quality productivity and returns on assets and resources. Below is the table summarizing important measures of institutions effectiveness and efficiency?

Table 16 has been adapted and modified based on Oketch et al (1997) statistical findings of surveyed and analyzed micro financial institutions in the period covering 1994-1996.

Table 16: Average Effectiveness and Efficiency Performance measures of Institutions

Efficiency/Effective Measure	% Change 1994-1995	% change 1995-1996	Average Of % Change
<i>Deposit Mobilization</i>	<i>129.61</i>	<i>170.25</i>	<i>145.1</i>
<i>No. of Loans</i>	<i>94.0</i>	<i>105.4</i>	<i>101.1</i>
<i>Deposit/ loan ratio</i>	<i>147.1</i>	<i>237.1</i>	<i>220.0</i>
<i>Total Income/total expenses ratio</i>	<i>118.8</i>	<i>(298)</i>	<i>(100.4)</i>
<i>Personnel cost</i>	<i>114.8</i>	<i>91.9</i>	<i>103.3</i>
<i>Operating income cost</i>	<i>63.7</i>	<i>58.4</i>	<i>61.0</i>
<i>Net Loan portfolio/ Total assets ratio</i>	<i>65.6</i>	<i>15.3</i>	<i>63.2</i>
<i>Investment/Total Assets ratio</i>	<i>115.0</i>	<i>126</i>	<i>106.1</i>
<i>Lending Income/Total ratio</i>	<i>87.9</i>	<i>179.5</i>	<i>106.6</i>
<i>Deposit/Staff ratio</i>	<i>162.56</i>	<i>171.4</i>	<i>170.5</i>

Adapted and modified from Oketch et al (1997) Statistical Sheet.

Table 16 suggests that on average in the period 1994-1996 deposit mobilization increased by 145.1%. In the year 1995-1996 the change in deposit mobilization was higher by 40.64%. This increase in deposit mobilization suggests the increase in the effectiveness of financial mobilization.

However, operating income per total costs, net loan portfolio per total assets and total income per total expenses suggest that micro financial institutions did not perform well in the stated period. Operating income per costs increased at a decreasing rate of 5% suggesting that costs outweighed operating income. Furthermore, net loan portfolio per total assets decreased by more than confirming the decline and limited capacity of lending of the micro financial institutions in Tanzania.

Total income per total expenses ratio indicates that most of the financial institutions were operating at a loss. In the period between 1995-1996 the total income in comparison with total expenses declined by 298%. In spite of the loss, micro financial institutions continued to operate. It is only subsidy, government support and donor grants which enabled most of micro financial institutions to remain in business. Financial institutions in Tanzania should continue with reforms and change the way of doing things in order to reduce loss and dependence. Innovative measures should be taken in order to rescue the situation.

Micro Financial Institutions Managers

Micro financial institutions managers have got a key role to play for better performance of micro finance institutions. First and foremost managers must focus on capacity building, motivation of employees and training. The success of micro financial institutions requires committed, motivated and well trained employees. The analysis has shown that most of micro financial institutions have limited number of qualified employees. Managers should take deliberate measures to improve management systems. Employees should be highly motivated and staff development should be on top of the agenda. Investing in people is one of the prerequisite for micro financial institutions development and better performance.

Managers must aim at reducing transaction costs, adopting group lending mechanism and promoting the link between formal and non-formal financial institutions. Informal financial institutions will help formal institutions to solve the problem of information, reduce costs and increase the outreach for saving mobilization and service delivery to rural poor.

Managers must understand and segment their customers. This analysis has shown that rural poor can serve if given the opportunity. The tendency of most of micro financial institutions to require high minimum amount for opening saving account should be avoided. Lowest

minimum opening balance will attract more savers. Micro financial institutions should take this opportunity for the purpose of mobilizing funds and helping the poor as well.

Furthermore, Micro financial institutions should improve the process of loans application, delivery, repayment and monitoring. Reducing non-performing loans and default is important for sustainability of rural financial markets.

Rural Poor and Micro-enterprises

Rural poor and micro-enterprises should organize themselves in groups in order to secure micro financial institutions confidence. Micro financial institutions prefer lending to groups rather than individuals. Above all, groups act as a good substitute for physical collateral. In these aspect small farmers, the poor and micro-enterprises should organize themselves in groups for both savings mobilizations, and increasing their accessibility to formal micro financial institutions. The poor are most likely to influence the lenders through groups and to secure loans for investment and poverty reduction.

Conclusions

The performance of micro financial institutions in Tanzania raises many questions than answers. However, micro financial institutions have done their best to serve the poor and small enterprises. It is important to understand that the Rural Financial Markets comprises lenders, borrowers, savers and intermediaries. Policy makers and other stakeholders in microfinance sector must focus on the development of overall rural financial markets. Creating viable lenders, borrowers and savers is a prerequisite for micro financial institutions better performance and the development of sustainable rural financial markets.

4.1.4: Research and Development support.

The study identified the public Research and Development institutions especially those rendering support to SACCOs through their Research and Development programmes. Research and Development programme is often carried out for SACCOs with the prime aim of improving quality and standards of their products, applications of new process or techniques to reduce costs and to increase productivity.

The Research Institutions in Tanzania by virtue of their mandates are expected to support SACCOs through provision of technological and scientific assistance. Research institutions are designed to have resources in terms of high-level manpower and specialized equipment which are used in the conduct of research leading to the production of research results. These results according to specific objectives based on questionnaires are:

Accordingly specific objective number one was to investigate how Savings and Credit Societies (SACCOs) mobilize savings from members and non members in Tanzania. Its corresponding research questions were research question one. Research question number one asks; to what extent have SACCOs mobilized Savings from members and non members in Tanzania? Accordingly, from the combination of specific objective number one and research Question number one, the study found that despite its increasing in their numbers; the amount of Savings mobilized by SACCOs from both rural and urban areas of Tanzania are still low due to the fact that most of these SACCOs are concentrated on urban areas and few in rural areas while in both rural and urban areas they still cover smaller percentage of population. Also other factors which have contributed to low level saving mobilization by SACCOs in Tanzania has been low level savings contributions by members partly due to the fact that most of them fall into lowest income category households, Specifics objective number two was to examine distribution of loans from SACCOs in Tanzania. Its corresponding questions were what is the structure distribution of loans by investment type by SACCOs borrowed? The study found that most proportions of the borrowed SACCOs loan is invested in merchandise trade goods, foods, furniture and timber selling, little in agricultural and animal livestock keeping activities and least in assets of companies listed in Dar Es Salaam Stock Exchange. The above information was obtained from a surveyed 50 selected SACCOs in 14 regions of Tanzania.

Specific objective number three was to identify the list of methods used to assess SACCOs portfolio investment in Tanzania its corresponding question was; what is the method used to assess portfolio investment of SACCOs in Tanzania? The study found that there is not yet established effective approach to evaluate the performance of SACCOs in Tanzania. Instead the evaluators are still depending on the traditional methods of comparing traditional SACCOs figures such as number of members, number of shares, amount of savings, loan disbursed etc. There is still not yet set rules to evaluate performance of member's projects financed by SACCO's loans.

Specific objective number four and research question was; what factors are important in assessing the performance of SACCOs in Tanzania?

As in specific objective and research question three above, the study has found that in Tanzania, policy makers and researchers are still using traditional factors of assessing SACCOs performance such as amount of savings collected, number of members, amount and number of shares, amount and number of loan outstanding, number of defaulters etc. However, moreover, this study has found that some SACCOs put impressive untrue data in order to cheat for the purpose of getting additional financial assistance from the government, local donors and foreign donors.

Specific objective number five was:

To determine the frequency of tangible and intangible benefits and human elements and their importance in assessing appraisal of SACCOs portfolio investment. Research question number four was; does the frequency review of tangible benefits, intangible benefits and human elements have importance in appraising SACCO's portfolio investment? This study has found that these have not yet helped much to evaluate and appraise SACCOs portfolio investment since the frequent conducted review of SACCOs just is done to examine SACCOs balance sheet in terms of revenues, expenditures and profit/loss pattern but does not examine profile of member project patterns financed by SACCOs loans bring in more profits and which ones brings in more loss and the factors that have lead to such occurrence.

This in fact has caused wrong figures of some SACCOs being reported contrary to what actually is taking place within most SACCOs in Tanzania.

Specific objective number six was to identify financial products offered by SACCOs to its members; it's correspondingly research question number six was: what are products and services offered by SACCOs and how can they satisfy members, customers, competitors and facilitators? The study found that the established SACCOs in Tanzania for a long time they have been concentrating on saving mobilization and loan disbursing only, thus neglecting to adopt any innovative approach to develop other new financial products suitable to organized informal microfinance institutions which could thus lead to improvement of delivery of

microfinance services in both rural and urban areas of the country, hence contribute positively to the roles of Savings and Credit Cooperative Society to reduce and income inequality among most population of Tanzania. Thus bringing life improvements and general economic development of the country.

Specific objective number seven was to identify the extent to which different cooperative managers at different Management levels are satisfied with the existing SACCOs operating system. This corresponds with research question number seven which asks to what extent does cooperative managers are satisfied with SACCO's performance in Tanzania?. The study found that almost all cooperative Managers in Tanzania up to the year 2009 when this dissertation was being prepared, have not yet fully been satisfied with the performance of SACCOs in Tanzania in relation to its (SACCOs) major objectives of using its organized micro loans schemes as major tool of reducing poverty among its members, and also at the same time increasing the number of members covered by these microfinance institutions in Tanzania. This study has found that almost all officially recognized Savings and Credit Cooperatives Societies (SACCOs) have been putting a lot of concentration to saving mobilization, loan disbursement and loan recovery, without being involved to assess and evaluate members micro project performance being financed by micro loans from SACCOs. Specific objective number nine was to make suggestions on how to design proper rural financial services programs to help reduce income poverty in most rural areas of Tanzania of Tanzania. Its accompanied research question number nine was; which type of rural financial services reduces income poverty among most rural population in Tanzania?.

From a combination of these study found that proper micro finance program suitable to reduce poverty among most rural population in Tanzania should be designed after taking into considerations specifics social economic conditions and major dominant economic activities found in each rural areas of Tanzania. This is because though agriculture dominates most activities in rural area of Tanzania. There are still wide differences of activities done in each rural area from one region to another such as influenced by geographical structure, climate, type of crops, culture of the people etc. As such no single type of program can suit to all rural community of Tanzania.

APPENDEX A.

Dear Respondent,

In fulfillment of the requirements for the award of Doctor of Philosophy (PhD), I currently undertaking; please respond to the questions contained in the attached questionnaire.

Please note that this is strictly an academic exercise towards the attainment of the above purpose.

I will appreciate for a good response towards this task.

Yours Sincerely,

Stephen Laurent Isaac Mwakajumilo.

4.1.4 (i) QUESTIONNAIRE ON RESEARCH AND DEVELOPMENT.

(The questionnaire is for academic research only).

(ii)NAME OF INSTITUTE.....

ADDRESS.....

(iii)STAFF STRENGTH.....

(a) Technical

(b) Administrative

(iv) Which of this research is your organization mainly involved (i) Mission oriented research (ii) Academic Research (iii) scientific institution research (iv) others (specify)

(v) What type of Research and Development service do you provide that target market needs? (i) Applied research only (ii) Basic research only (Both research)

(vi) Who are your major clients? (i)The public (ii) the financial institutions (iii) the Government (IV) The private sector

(vii) Do your research activities target the SACCOs Movement? Yes/No

(vii) If your answer to number 5.6 is “No” State the reasons.

(viii) Please list the main factors affecting the research activities (i)

(ii) (iii)..... (iv) Others

(ix) It has been observed that efforts to increase research and development activity in SACCOs are difficult. Do you agree or disagree with this view? a. Agree b. Disagree

(x) If you disagree, give your reasons.

- (xi) Do you inform SACCOs about your capabilities, services, innovations and research results? Yes/No
- (xii) If “yes” how do you achieve this.....
- (xiii) How do you identify the needs of SACCOs in order to decide on what services are required
 - (i) By visiting SACCOs (ii) Surveys (iii) Through seminars/Workshops/Conferences
- (iv) Others (Specify)
- (xiv) Please list in the order of importance the main factors affecting Research support to SACCOs.....

4.1.4 (ii) QUESTIONNAIRE ON LEGAL FRAMEWORK

- (i) Please state your assessment of legal framework for SACCO’s development in the country as (i) Efficient (ii) In-efficient
- (ii) Judicial system suffers from long delays in processing claims and is very discretionary. (i) Agree (ii) Disagree (iii) Partially agree
- (iii) Knowledge of commercial law is low and collection of collateral takes considerable length of time
 - (i) Agree (ii) Disagree (iii) Partially agree
- (iv) Please suggest what can be done to improve on legal framework for SACCOs development.....

4.1.4 (iii) GENERAL QUESTIONS ON RESEARCH INFORMATION.

- (i) What are your comments on the factors that have made SACCOs Institutions to get achievements in terms of operational efficiency since their establishment, and enable to compete from other banking institutions in the country?-----

- (ii) What are your comments on the factors that have made SACCOs to get achievements on increasing the level of savings mobilization.....
- (iii) What are your comments on the factors that have made SACCOs to get achievements on increase of the number of borrowers and loans issued?.....

- (iv) What are your comments on the factors that have made SACCOs to get achievements on of the level of loan recovery and reduce the number of loan defaulters?.....
- (v) What are your comments on the factors that hindered the SACCOs to achieve over and above expectations?.....
- (vi) What challenges and recommendations do you pose to SACCOs in order that the micro finance sustain in the current stiff competitions?.....
- (vii) Provide any other useful information with regards to this topic.....

4.1.5: SUGGESTIONS ON IMPROVEMENT OF LEGAL FRAMEWORK FOR SACCOs DEVELOPMENT IN TANZANIA,

- Reduce the bureaucracy in conduct of business in government/public institutions.
- Judicially should be restricted to guarantee speedy legal process especially in settlement of commercial disputes.
- Facilitate easy documentation and ensure urgent decision making process in the court system.
- Reduce the existing bottlenecks and create the desired awareness of the legal procedures for doing business.
- Improve on legal requirement for granting of loan especially that associated with collaterals.
- Setting up of a committee comprising knowledgeable and experienced legal practitioner to develop proper legal framework for SACCOs.
- Designate special courts to handle SACCO's matters.

- Provide modern facilities and infrastructures for legal administration in order to enhance proceedings and judicial process in general.

4.1.6: Business Regulation.

It is a common knowledge that entrepreneurs are governing conduct of businesses as well as the predictability of their implementation and frequency of changes. Few new businesses, the regulations for setting up an enterprise or new operations are important. It has been reported severally business regulations in Tanzania are complex, unpredictable and that low paid officials lead to corrupt practices.

To evaluate the business regulations as it affects SACCOs, respondents were asked to indicate whether the business regulations are complex or not. Also, the structure of fees imposed on them at local level as well as its nature in terms of multiplicity was evaluated.

The percentage of respondents who believed that business regulations are too complex was 47.5% compared to those with contrary opinion 8.1%. However, 43.7% feels that it is complex. Also, respondents were of the view that the fee structure is either fairly complex 30.3% or too complex (54.9%) depending on the locality. The fees charged by local administration are multiple (67.4%) and unpredictable (25.2%) because of revenue generation activities of the Two- tiers Government (local and central governments). More than half of the respondents (63.7%) agreed with the view that low-paid officials lead to corruption, while 26.6% disagreed.

4.1.7: Finance Support Services.

Finance access has been realized as a major constraint for all SACCOs which can seriously affect the ability of a small industry to survive, expand markets, and improve manpower or productivity. The source of finance activities that observed for SACCOs is offered as loans. However, lack of collateral, fear of excessive debt burdens and the low profitability for banks in lending to SACCOs.

Unfortunately, from the findings of this study loans made available to SACCOs by the financial institutions are mainly short-term rather than long-term loans. However, loans to SACCOs for capital investment should be long-term in order to mitigate on loan maturity.

It is observed from this study that financial institutions are less motivated to compete for SACCOs clients under tight monetary policies and government deficit finance as well as profitable short term lending opportunities. Consequently, lines of credit targeted at SACCOs are unlikely to be successful especially term loans that involves substantial transaction costs to evaluate. The appropriate support programmes that would offer training of financial institutions staff to evaluate small borrowers quickly and monitor them in addition to training entrepreneurs to keep good financial accounts are needed to put in place. These findings from the study revealed that there is currently a considerable gap in the funding of SACCOs which development finance institutions have to fill. The development finance institutions which are major financiers of SACCOs with the cheapest and most competitive funds will be strengthened.

In order to encourage banking system lending to the industrial sector especially SACCOs the United Republic of Tanzania in collaboration with the Bank of Tanzania established the Credit Guarantee Scheme to the small and medium enterprises to provide credit to the Tanzanian nationals that are operated in Tanzania and engaged in production and export of goods and services from Tanzania. The Credit Guarantee Scheme offers risk-mitigating services to banks for loans granted to Sacco's operators.

4.1.8: Legal framework.

The importance of a good framework in the conduct of businesses can not be over emphasized. In order to determine the perception of entrepreneurs of the nature of existing legal framework for conduct of businesses, the respondents were asked to comment on whether the existing legal framework is efficient or not.

The majority of Microfinance institutions surveyed (86.7%) were of the view that the existing legal framework was inefficient compared to those who believed that it is efficient (13.3%).

Furthermore, it has been observed that the judicial system suffers from long delays in processing claims and is very discretionary in this regard. The study therefore attempted to

validate this observation by asking the Microfinance institutions to agree or disagree with the statement.

Considerable numbers of respondents (75.8%) were of the view that the judicial process is not efficient as the judicial system suffers undue delays in processing claims, while (15.8%) of the respondents could not make any categorical opinion on the statement, 8.4% of them disagreed completely. Also the respondents were asked of their view as it relates to knowledge of commercial law and settlement of commercial disputes within the operations of the court system.

The judicial process for contractual disputes is very crucial in building investors confidence in any economy. For SACCOs, it is desirable to establish the confidence they have if they registered in the Court Chamber of Commerce.

Most of the respondents were of the view that the knowledge of Commercial law is very poor and that the judicial system suffers from lengthy process in settlement of commercial disputes especially at lower and intermediate levels of the judicial system. Those who hold contrary opinion or actually are ignorant from what is happening within the court system. Based on the views expressed above on the existing legal framework, respondents suggested on improvement of the legal framework for conduct of business especially those affect SACCOs movement in Tanzania.

4.1.9: Member Borrowing Behavior

Members were asked whether they have any special types of loans, e.g. house loans, home improvement loans, vehicle loans, a loan from a store to purchase goods or rent equipment, a personal loan, business loans, education or travel loans.

Respondents who reported that they had taken out loans were also asked whether they had borrowed the money from their SACCOs or from some other financial institutions. Survey results clearly indicate that there has been an unambiguous increase in the proportion borrowing members who take out loans with their SACCOs rather than with other financial institutions. For example, the number of respondents reporting that they had house loans or home improvements loans with their SACCOs increased.

4.1.10: General Services.

Respondents were asked to state whether they agree or disagree with a series of statements describing the quality of SACCO's services. In response to these statements, 75% of respondents said that SACCOs are friendlier than banks, and that SACCOs are more conveniently located.

4.1.11: Financial Services.

A high proportion of respondents (70%) agreed that "SACCOs do not offer many of the financial services that they need," although it may be that in agreeing with this statement, respondents were expressing a general frustration with the economy and their own economic situation, in addition to their dissatisfaction with SACCOs financial services.

Some respondents are satisfied with the lending services offered by their SACCOs. 68% agree that it is easier to get loan from their SACCOs than from a bank, and that SACCOs require less collateral than banks. 70% agree with the statement "SACCOs always have enough funds available to make loans. Only 29% of respondents agree that SACCOs take a long time to approve and give out loans". Or that "SACCOs frequently do not have enough money in hand to make a loan so the member has to wait".

If SACCOs are indeed offering competitive lending services relative to other financial institutions, then it is up to SACCOs to make sure that both the current membership and potential members are aware of this fact. Individuals who are attracted to Sacco's membership as a result of superior lending services are also depositors.

4.1.12: What Members like Best about SACCOs?

When respondents were asked what they like best about their SACCOs, more than 60% cited the high quality of lending services offered by their SACCOs. Specifically, members commented that it is easy to get a loan from the SACCOs when an individual meets loan requirements, and that the repayment period is long enough to allow members to be able to pay off a loan.

30% of respondents said that they most appreciated their SACCO's fast and friendly service, convenient location and convenient hours of operation. 7.8% of respondents appreciated the

fact that their SACCOs serves all kinds of people, holds frequent member meetings to discuss SACCOs improvement, and educates members on the importance of saving; only 2.2% of respondents agreed.

4.1.13: What Members like Least about SACCOs?

When asked “what is the most important problem that your SACCOs should try to change?”, 45% of respondents suggested a change in lending services. 28% thought that collateral requirements should be relaxed, and that the maximum amount that members are eligible to borrow should be increased. Specific suggestions included:

- 1) Increase the loan/savings ratio;
- 2) Base loan size on ability to pay rather than savings, especially when the loan is paid by payroll deduction;
- 3) Give bigger longer terms loans. Some members stated that they thought loan size should be based not only on the quantity of shares, but also on deposits; apparently some members do not understand that this is already the case. 13% respondents think that the SACCOs should concentrate on reducing the time required for loan approval and disbursement of loan funds, and 12% suggest lowering the interest rate on loans.

4.1.14: New Services

When asked “What is the most important new service that you think your SACCOs should offer in the future?”, 35% of the respondents suggested that SACCOs offer bigger longer term loans including house loans and home improvement loans. Another 10% would like SACCOs to offer loans on household items, tools, machines, business or farm equipment, bicycles, and vehicles using the item as collateral rather than savings. 7% of respondents think that SACCOs should offer a more complete line of business services. 14% of respondents think that SACCOs should offer business start-up loans, large long term business loans, a special business savings accounts. 6% of respondents would like SACCOs to offer loans on special terms for farming, livestock rearing, and poultry raising.

It also suggested that the SACCOs should employ trained field staff who could monitor business and building loans, and could offer business and building advice. 17% of respondents think that fixed deposit accounts are the one most important new service that SACCOs should provide.

Finally, respondents were asked whether they would be interested in attending training sessions in managing share and deposit accounts; managing financial investments like fixed term accounts, retirement accounts or other special purpose savings accounts; and business management. An overwhelming majority of respondents (95 to 97 percent) said that they would like to attend these training sessions. While it is not likely that all SACCO's members would actually attend such sessions, it is certainly clear that many members would find this sort of financial advice useful.

The challenge for SACCOs is to come up with a variety of communication and teaching tools which can effectively communicate this information to members. Possibilities include instructional pamphlets and video tapes, one-on one financial counseling, and small group training sessions.

4.1.15: Summary of Research Findings and Recommendations

The purpose of this report is to provide information which can be used by SACCO's membership, staff, board and committee members, by Tanzania Federation of Cooperatives and SCCULT, to further improve SACCO's ability to provide financial services which complete favorably with other financial institutions.

4.1.16: Saving Services

All SACCO's members are required to hold share accounts, and most members also have demand deposit accounts, it should be noted, however, that half of all respondents also have savings accounts in other financial institutions including banks and building societies.

What is more disturbing than the fact that SACCOs members hold savings with other financial institutions is the fact that almost half of the respondents have their largest savings account with a financial institution other than their SACCOs.

When those who keep their largest savings at a bank were asked why they do so, almost half reported that it is because they have a tradition of banking with this institution. The good news for SACCOs is that very few respondents cited high rates of interest, safety, or the bank's reputation as a reason for keeping their largest savings account with a bank. This suggests that SACCOs are competing favorably with banks except in the area of "tradition", a factor which is outside SACCOs control. With time, and a concerted publicity effort, it is likely that SACCOs could begin to draw member's savings away from banks, provided that SACCOs continue to offer competitive interest rates on savings.

What is also clear, however, is that SACCOs, are not competing favorably with building societies. Since 2008 there has been an unambiguous increase in the proportion of Sacco's respondents with savings in building societies. When asked why they keep their largest savings account with a building society, 44% of the 2008 respondents reported that they do because building societies offer the highest rate of interest on savings. Another 15% of the 2008 respondents do so in order to qualify for a loan from the building society, suggesting that the ability of building societies to offer large long term loans (e.g. house loans) is drawing savings away from SACCOs and into building societies.

It is therefore recommended that SACCOs augment their ability to mobilize savings from current members by raising interest rates on savings to levels that are competitive with building society interest rates, and begin to offer large long term loans that are sufficient to purchase and build houses.

4.1.17: Lending Services

Respondents who have taken out loans were asked whether they had borrowed the money from their SACCOs, or from other financial institution. Survey results clearly demonstrated that the proportion of borrowing members who take out loans from their SACCOs has increased since 2008. These results indicate that SACCOs have improved their lending capacity.

In the future, respondents who operate semi-subsistence or commercial farms are most likely going to borrow money to facilitate purchase of farm inputs and hiring of temporary employees. Members with small-scale non-farm businesses are most likely going to borrow funds to facilitate purchase of stocks, inventories, and raw materials. This means that SACCOs should be prepared to provide relatively small loans, with repayment plans that accommodate the needs of farmers and small-scale businessmen. Special repayment terms may need to apply to farm loans since farmers receive the bulk of their income in lump sum payments at harvest time, rather than at regular monthly intervals.

When asked “What is the one most important new service that you think your SACCOs should offer in the future?”, one-third of the 2008 respondents suggested that SACCOs offer bigger longer term loans including mortgages, home construction loans and home improvement loans. Another 15% would like SACCOs to offer loans on tools, machines, bicycles, vehicles and household items using the item as collateral rather than savings.

Appendix A: Trend of Government Expenditures on Social Services and SACCOs lending Rate in Tanzania

Year	Real Private Disposable income Received by lowest 20% households (Million Tshs)	1 – n) RGDP Rate	Average Interest Rate Charged by SACCOs to borrowers	Gess Million Shs	Real GDP Growth Rate
1961	17.81	4.391	1	290,000	2.0
1962	21.57	4.381	1	341,000	3.8
1963	21.94	4.381	1	350,000	5.1
1964	17.52	4.301	1	377,614	4.2
1965	14.57	4.121	1	400,000	3.5
1966	22.31	4.000	1	411,688	4.1
1967	37.98	3.952	1	428,523	5.2
1968	41.72	3.614	1	433,258	1.8
1999	64.43	3.497	1	438,333	5.8
1970	64.50	2.502	3	443,548	4.2

Year	Real Private Disposable income Received by lowest 20% households (Million Tshs)	1 – n) RGDP Rate	Average Interest Rate Charged by SACCOs to borrowers	Gess Million Shs	Real GDP Growth Rate
1971	32.93	3.943	3	451,004	6.7
1972	31.44	1.802	5	456,811	10.0
1973	23.24	1.436	4	461,448	2.5
1974	21.28	3.233	3	493,223	6.0
1975	109.97	3.696	7	496,335	6.4
1976	79.03	0.227	6	499,017	6.6
1977	112.89	1.204	0	500,004	5.8
1978	56.06	1.296	0	510,441	5.5
1979	74.41	1.392	0	587,110	3.6
1980	56.06	1.760	0	610,336	2.8
1981	74.41	0.297	0	638,000	1.7
1982	98.25	3.600	0	673,111	-2..4
1983	119.30	1.456	0	781,000	4.6
1984	109.12	2.085	0	500,000	5.0
1985	159.49	2.852	0	555,661	-1.8
1986	215.35	1.191	0	573,432	7.0
1987	315.42	3.103	0	583,222	4.4
1988	535.47	2.624	0	593,000	1.2
1989	1,089.98	2.587	0	613,411	-0.1
1990	1,781.83	2.940	0	713,000	3.1
1991	1,313.75	3.762	0	722,000	1.8
1992	2,232.00	2.298	8	886,324	0.4
1993	2,859.32	2.744	8	911,000	1.4
1994	1,885.66	1.950	8	700,000	3.6
1995	4,273.73	2.328	13	701,000	4.2
1996	6,561.59	2.702	15	751,000	3.3
1997	6,906.45	2.112	18	699,571	4.0
1998	6,485.38	2.547	22	894,000	4.7
1999	16,666.08	3.008	25	656.707	5.7
2000	19,834.84	3.087	25	758.111	6.1
2001	24,807.28	3.514	28.4	767.681	6.8
2002	26,707.30	3.678	29.7	771.001	6.9
2003	27,914.41	3.683	31.1	798.715	7.3

Year	Real Private Disposable income Received by lowest 20% households (Million Tshs)	1 – n) RGDP Rate	Average Interest Rate Charged by SACCOs to borrowers	Gess Million Shs	Real GDP Growth Rate
2004	28,780.00	3.894	32.5	819.084	7.5
2005	28,963.57	7.118	33.4	826.017	7.7
2006	29,076.13	7.614	34.6	838.719	7.9
2007	29,586.11	7.821	36.8	871.011	8.3

Source: Ramadhan Selestine (2004); Growth, Income Distribution and the living Standard of Average Households in Tanzania. PhD Thesis; Washington International University

APPENDIX B: Data used in the Regression Analysis.

Year	Real Private Income Received by Lowest 20% Households Mill.Tzs	(1- n)RGDP rate	Real Govt investment in Infrastructure Millions. Tzs	Real GDP Growth Rate	Inflation	Dummy for Monetary Policy**1
1961	17.81	4.391	167.0	2.0	1.0	0
1962	21.57	4.381	141.8	3.8	1.1	0
1963	21.94	4.381	92.0	5.1	1.5	0
1964	17.52	4.301	55.8	4.2	1.9	0
1965	14.92	4.121	51.0	3.5	2.1	0
1966	14.57	4.000	60.0	4.1	2.5	0
1967	22.31	3.952	88.2	5.2	2.8	0
1968	37.98	3.900	104.7	1.8	3.0	0
1969	41.72	3.614	100.3	5.8	3.1	1
1970	64.43	3.497	154.7	4.2	3.4	1
1971	64.50	2.502	236.6	6.7	3.8	1
1972	32.93	3.943	137.3	10.0	8.0	1
1973	31.44	1.802	104.0	2.5	10.0	1
1974	23.24	1.436	58.3	6.0	19.5	1
1975	21.28	3.233	35.5	6.4	26.1	1

Year	Real Private Income Received by Lowest 20% Households Mill.Tzs	(1-n)RGDP rate	Real Govt investment in Infrastructure Millions. Tzs	Real GDP Growth Rate	Inflation	Dummy for Monetary Policy**I
1976	109.97	3.696	150.6	6.6	6.9	1
1977	79.03	0.227	85.7	5.8	11.6	1
1978	103.29	1.204	82.2	5.5	12.2	1
1979	112.85	1.392	155.2	3.6	12.8	1
1980	56.06	1.760	62.2	2.8	30.8	1
1981	74.41	0.297	82.9	1.7	25.6	1
1982	98.25	3.600	103.3	-2.4	28.9	1
1983	119.30	1.456	62.3	4.6	27.1	1
1984	109.12	2.085	61.0	5.0	36.1	1
1985	159.47	2.852	81.0	-1.8	33.3	1
1986	215.35	1.191	129.3	7.0	32.4	1
1987	315.42	3.103	476.6	4.4	29.9	1
1988	535.47	2.624	822.4	1.2	31.2	1
1989	1089.98	2.587	926.2	-0.1	25.8	1
1990	1781.83	2.940	1910.5	3.1	35.1	1
1991	1313.75	3.762	1620.4	1.8	32.2	1
1992	2232.00	2.298	3384.2	0.4	20.1	1
1993	2859.32	2.744	2553.0	1.4	39.1	1
1994	1885.66	1.950	2121.2	3.6	20.4	1
1995	4273.73	2.328	2637.2	4.2	17.4	1
1996	6561.59	2.702	3805.9	3.3	14.7	1
1997	6906.45	2.112	4511.8	4.0	9.2	0
1998	6485.38	2.547	5300.0	4.7	5.8	0
1999	16666.08	3.008	5864.0	5.7	5.6	0
2000	19834.84	3.087	6311.0	6.1	4.9	0
2001	24807.28	3.514	7584.0	6.8	4.7	0
2002	26707.30	3.678	8688.0	6.9	4.6	0

Source: Wagao,J (1981): Income Distribution in Developing Countries; the case of Tanzania ; PhD Thesis, University of Sussex; World Bank; development indicators: Bank of Tanzania (1981); Tanzania-Twenty Years After Independence; 1961-1981; Planning Commission; Tanzania Economic Surveys (Various Issues); N. Lugoye (2001); Growth, Income Inequality and Poverty in Tanzania; MA Thesis; University of Dares Salaam Tanzania and own consumption.

**** Implies very little availability of bank micro credits to the poor and 1 imply substantial availability of bank micro credits to the poor.**

APPENDIX 'C' GENERAL RESULTS OF REGRESSIONS

REGRESSION

- ⇒ DESCRIPTIVES MEAN STDDEV CORR SIGM
- ⇒ MISSING LISTWISE
- ⇒ STATISTICS COEFF OUTS CI BCOV R ANOVA COLLIN TOL CHANGE ZPP
- ⇒ CRITERIA = PIN (.05) POUT (.10)
- ⇒ NO ORIGIN
- ⇒ DEPENDENT Real PIncome
- ⇒ METHOD = ENTER RGDRate RealGVInv Dumy monetary Saccos Lend Rate
- ⇒ PARTIAL PLOT ALL
- ⇒ RESIDUALS DURBIN HIST (ZRESID) NORM (ZRESID)
- ⇒ CASEWISE PLOT (ZRESID) ALL

Regression

(DataSet 1) C: /Users/Nsekela/Desktop/MWAKAJUMILO.sav

Descriptive Statistics

	Mean	Std. Deviation	N
RealPIncome	5282.1470	9166.210096	47
RGDPRate	3.1570851	1.56922197	47
RealGVInv	2739.8681	4519.5565736	47
Dumymonetary	.5957447	.49605288	47
SaccosLendRate	8.917021	12.5700009	47

RealGVInv	Dumymonetary	SaccosLendRate
.903	-.591	.948
.634	-.601	.554
1.000	-.529	.954
-.529	1.000	-.578
.954	-.578	1.000
.000	.000	.000
.000	.000	.000
.000	.000	.000
.000	.000	.000
.000	.000	.000
47	47	47
47	47	47
47	47	47
47	47	47
47	47	47

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin - Watson
					R Square Change	F Change	df 1	df2	Sig. F Change	
1	.95 ^a	.905	.896	2959.941350	.905	99.784	4	42	.000	.598

a. Predictors: (Constant), SaccosLendRate, RGDPRate, Dumymonetaary, RealGVInv

b. Dependent Variable: RealPIIncome

ANOVA^b

++++++

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.5E+009	4	874232333.01	99.784	.000 ^a
Residual	3.7E+008	42	8761252.797		
Total	3.9E+009	46			

a. Predictors: (Constant), Saccos Lend Rate, RGDRate, Dum monetary, RealGVInv

b. Dependent Variable: Real PIncome

Model		Unstandardized Coefficients		Standardize d Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper bound
1	(Constant)	2131.321	874.1		2.106	0.09	-1769.289	6031.930
	(I-G)	-533.969	4.24.835	-.091	-1.257	.216	-1391.321	323.383
	RGDPRate	.236	.074	0.116	1.968	0.04	-.519	.991
	RealGVInv	-1978.560	216.8	-.107	-3.585	0.001	-4498.150	541.030
	Dumymonera tary SaccosLendRate	602.128	130.47	.826	4.615	.000	338.812	865.444

Coefficients^a

	Correlations		Collinearity Statistics	
	Zero-order	Partial	Tolerance	VIF
(Constant)				
RGDPRate	.504	-.190	.429	2.333
RealGVInv	.903	.097	.067	15.005
Dumymonetary	-.591	-.238	.497	2.014
SaccosLendRate	.948	.580	.071	14.123

Dependent Variable: RealPIncome

Coefficient Correlations^a

	SaccosLendRate	RGDPRate	Dumymonetary	RealGVInv
Correlations				
SaccosLendRate	1.000	.379	.419	-.939
RGDPRate	.379	1.000	.499	-.504
Dumymonetary	.419	.499	1.000	-.318
RealGVInv	-.939	-.504	-.318	1.000
Covariances				
SaccosLendRate	17024.594	21031.685	68183.147	-45.833
RGDPRate	21031.685	180484.778	264609.48	-80.127
Dumymonetary	68183.147	264609.475	1558770.8	-148.556
RealGVInv	-45.833	-80.127	-148.556	.140

Dependent Variable: RealPIncome

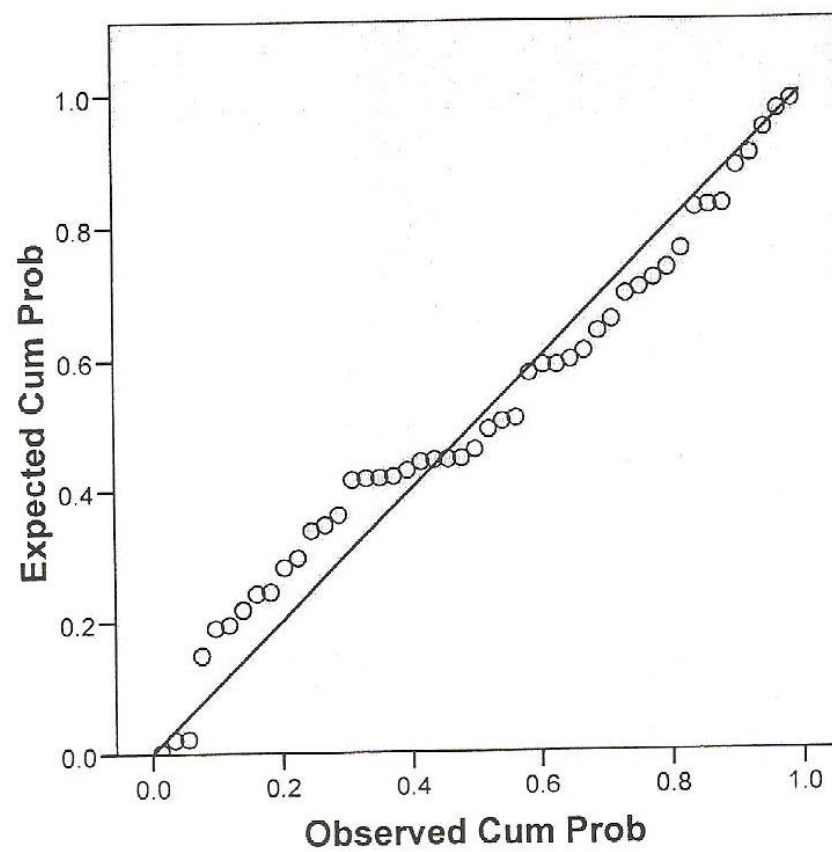
Collinearity Diagnostics^a

Dimension	Eigenvalue	Condition Index	Variance Proportions				
			(Constant)	RGDPRate	RealGVInv	Dumymonetary	SaccosLendRate
1	3.455	1.000	.00	.01	.00	.01	.00
2	1.252	1.661	.00	.00	.01	.08	.01
3	.218	3.983	.01	.16	.02	.31	.02
4	.057	7.772	.30	.29	.15	.22	.17
5	.018	13.893	.68	.54	.81	.39	.80

Dependent Variable: RealPIncome

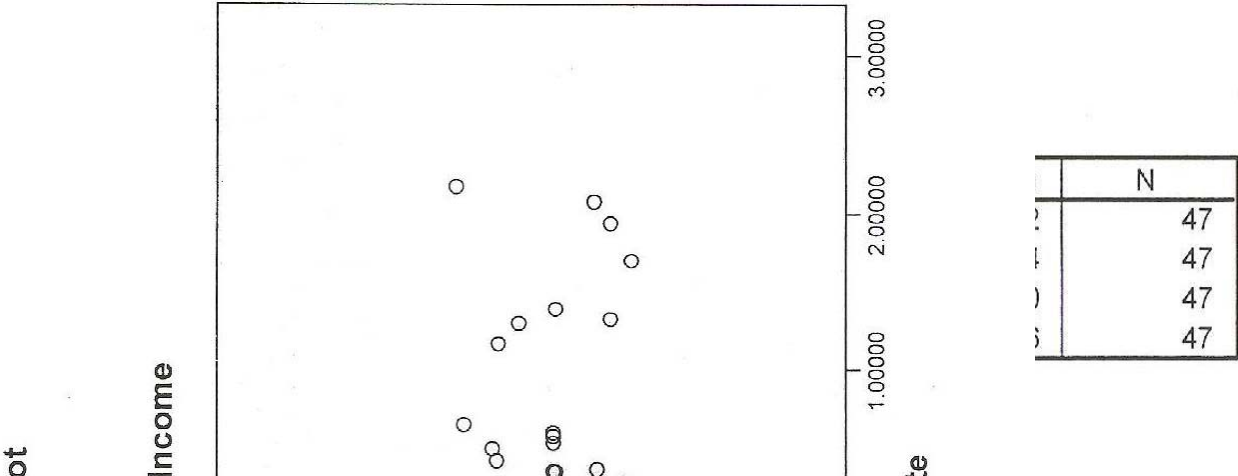
Normal P-P Plot of Regression Standardized Residual

Dependent Variable: RealPIncome



Casewise Diagnostics^a

Case Number	Std. Residual	RealPIncome	Predicted Value	Residual
38	-2.967	6485.380	15268.0114	-8782.631
39	-.100	16666.08	16961.2431	-295.1631
40	.949	19834.84	17024.4755	2810.3645
41	1.913	24807.28	19143.9167	5663.3633
42	2.232	26707.30	20099.4681	6607.8319
43	1.588	25914.41	21215.1086	4699.3014
44	1.205	25780.00	22212.0257	3567.9743
45	1.309	24963.00	21088.3159	3874.6841
46	-.692	23076.00	25124.6362	-2048.636

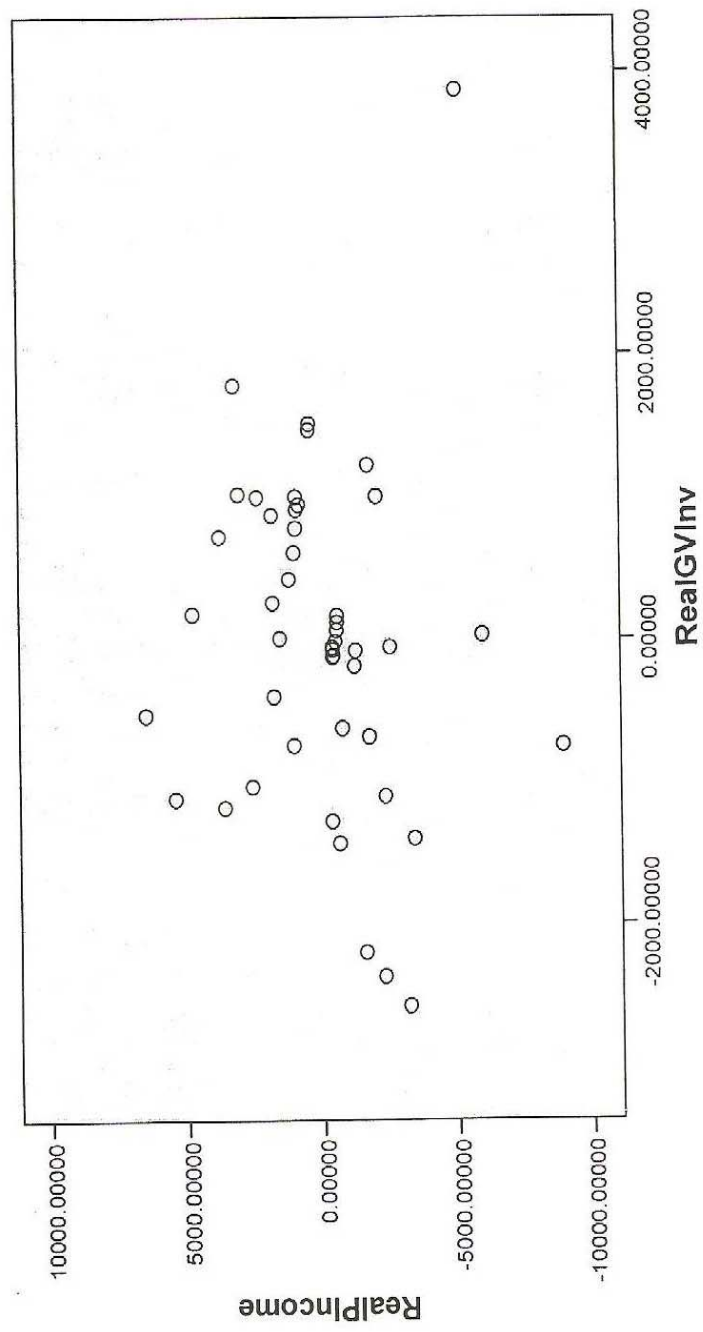


Casewise Diagnostics^a

Case Number	Std. Residual	RealPIIncome	Predicted Value	Residual
1	-.139	17.81000	428.173468	-410.3635
2	-.137	21.57000	427.570246	-406.0002
3	-.133	21.94000	415.825917	-393.8859
4	-.146	17.52000	450.006407	-432.4864
5	-.179	14.92000	544.988872	-530.0689
6	-.202	14.57000	611.721610	-597.1516
7	-.210	22.31000	644.002533	-621.6925
8	-.215	37.98000	675.660122	-637.6801
9	.403	41.72000	-1151.2227	1192.9427
10	-.022	64.43000	128.336428	-63.90643
11	-.208	64.50000	678.950210	-614.4502
12	-.357	32.98000	1090.33835	-1057.358
13	-.538	31.44000	1623.58538	-1592.145
14	-.400	23.24000	1206.11286	-1182.873
15	-.878	21.28000	2620.33628	-2599.056
16	-.580	109.9700	1827.49308	-1717.523
17	.009	79.03000	51.7598985	27.270101
18	.194	103.2900	-470.75337	574.04337
19	.225	112.8500	-553.92399	666.77399
20	.280	56.06000	-772.35683	828.41683
21	.021	74.41000	13.7217336	60.688266
22	.623	98.25000	-1745.1675	1843.4175
23	.246	119.3000	-610.00662	729.30662
24	.357	109.1200	-946.17980	1055.2998
25	.510	159.4700	-1351.0175	1510.4875
26	.226	215.3500	-452.70419	668.05419
27	.577	315.4200	-1391.7495	1707.1695
28	.537	535.4700	-1054.4283	1589.8983
29	.710	1089.980	-1010.1923	2100.1723
30	.929	1781.830	-966.55603	2748.3860
31	.942	1313.750	-1473.8929	2787.6429
32	-.780	2232.000	4540.81714	-2308.817
33	-.421	2859.320	4106.64508	-1247.325
34	-.859	1885.660	4428.78524	-2543.125
35	-1.042	4273.730	7359.27216	-3085.542
36	-.702	6561.590	8639.43771	-2077.848
37	-2.027	6906.450	12905.8956	-5999.446

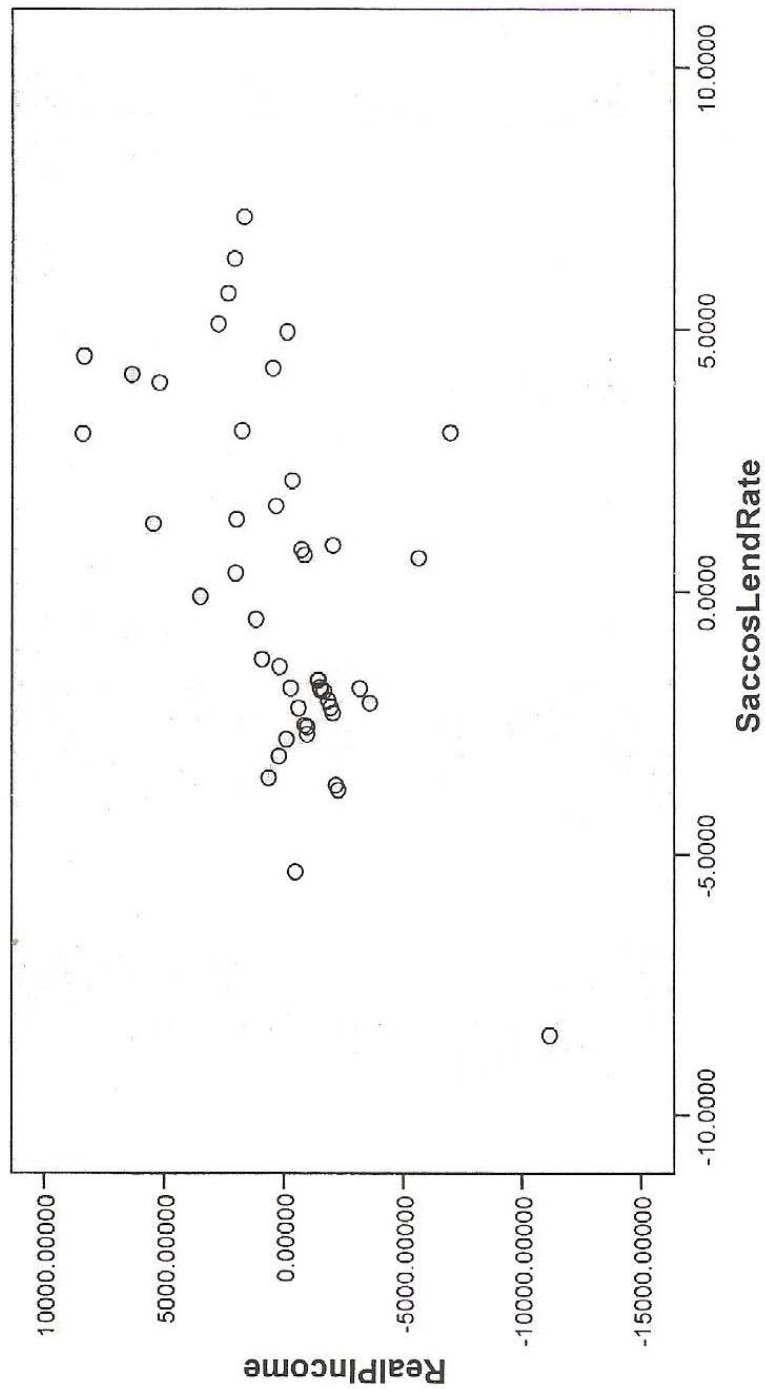
Partial Regression Plot

Dependent Variable: RealPIncome



Partial Regression Plot

Dependent Variable: RealPIncome



CONCLUSION

The performance of micro financial institutions in Tanzania raises many questions than answers. However, micro financial institutions have done their best to serve the poor and small enterprises. It is important to understand that the Rural Financial Markets comprises lenders, borrowers, savers and intermediaries. Policy makers and other stakeholders in

microfinance sector must focus on the development of overall rural financial markets. Creating viable lenders, borrowers and savers is a prerequisite for micro financial institutions better performance and the development of sustainable rural financial markets.

5.0 QUESTIONNAIRE ON RESEARCH AND DEVELOPMENT.

(The questionnaire is for academic research only).

5.1 NAME OF INSTITUTE.....

ADDRESS.....

5.2 STAFF STRENGTH.....

(i) Technical

(ii) Administrative

5.3 Which of this research is your organization mainly involved (i) Mission oriented research (ii) Academic Research (iii) Scientific institution research (iv) Others (specify)

5.4 What type of Research and Development service do you provide that target market needs? (i) Applied research only (ii) Basic research only (Both research)

5.5 Who are your major clients? (i)The public (ii) the financial institutions (iii) the Government (IV) The private sector

5.6 Do your research activities target the SACCOs Movement? Yes/No

5.7 If your answer to number 5.6 is “No” State the reasons.

5.8 Please list the main factors affecting the research activities (i)

(ii) (iii)..... (iv) Others

5.9 It has been observed that efforts to increase research and development activity in SACCOs are difficult. Do you agree or disagree with this view? a. Agree b. Disagree

5.10 If you disagree, give your reasons.

5.11 Do you inform SACCOs about your capabilities, services, innovations and research results? Yes/No

5.12 If “yes” how do you achieve this.....

5.13 How you identify the needs of SACCOs in order to decide on what services are required

(i) By visiting SACCOs (ii) Surveys (iii) Through seminars/Workshops/Conferences (iv) Others (Specify)

5.14 Please list in the other importance of the main factors affecting Research support to SACCOs.....

5.2: Measures taken by the Tanzanian Government to strengthen Savings and Credit Cooperative Societies (SACCOs)

Since 2000, The Tanzanian Government has undertaken various measures to strengthen the role of Savings and Credit Cooperatives Societies (SACCOs) of reducing poverty in the country. These include:

- (i) Strengthening the linkage between Savings and credit Cooperatives Societies (SACCOs) and formal banks in order to facilitate easy channeling of micro loans from formal banks to low income households in the country.
- (ii) To facilitate Savings and Credit Cooperatives Societies (SACCOs) to offer formal bank services to rural populations where due to geographical locations, formal banks can't serve this type of rural community well.
- (iii) To strengthen inter SACCOs loaning programme (Central Finance Programme) which is run through Savings and Credit Cooperative Union League of Tanzania-SCCULT.

5.3: RECOMMENDATIONS OF THE STUDY

(a) General Recommendations

To move in the right direction, the Government should prepare a transparent strategy for rebuilding the co-operative movement involving other interested parties like NGOs and other sympathizers of co-operative enterprise. This will ensure that the Government avoids the tendency to dominate the co-operative as in the past.

Ensuring their viability and sustainability, cooperative enterprises will need to expand their sources of financing to include non-traditional, non-governmental partners. Given the decline in state-sponsored cooperative networks, cooperative need to seek new forms of external capitalization to do diversify their sources of funding without jeopardizing their democratic approach and autonomy.

Increasing globalization, especially the opening up of markets for agricultural products, cooperatives should take advantage of information and biotechnologies, introduce farm policy changes, and adopt new approaches and strategies of doing business. To secure their survival, cooperative should take measures to enable them offer high quality goods and services at competitive prices by undertaking innovations such as product diversification to adjust to shifting market demands.

The cooperatives are truly voluntary, autonomous and run by their members to ensure that the interests of members are not influenced by the legacies of political or external intrusions which make them vulnerable to changes in political leadership or the vagaries of political interests.

Cooperatives need to broaden and deepen their outreach by promoting self-organization of the poor, underprivileged and marginalized population in rural and urban areas consistent with the community-driven approach to the development. This will help the raise of the visibility of cooperatives to the potential benefits to society of cooperative activity.

Given their grass-root reach, cooperatives can help implement financial programmes that target lower income households, through micro credit and assurance; provide job training and retraining. Subsidize the creation of small business; and serve as conduits for the delivery of government services.

Government, in consultation and/or collaboration with the cooperative movement, can further promote the growth and viability of cooperatives by reviewing, amending and enacting legislation, administrative procedures and requirements that are consistent with the formation and growth of cooperatives in a rapidly changing socio-economic environment. Furthermore, programmes to improve access to technology and to enhance capacity building by strengthening organizational, leadership and financial skills of cooperative members also need to be introduced or enhanced, to ensure the long-term viability of cooperatives. Finally, Government needs to utilize cooperatives as competitive supplies of goods and services along with other business in order to promote the role of cooperatives as effective partners in the poverty reduction.

Bank and other institutions engaging in microfinance must prepare social funds for the poor and give them a chance to participate in a way that their skills can be used in the development of the community. Meanwhile the banks commit a minimum percentage of their portfolio to the micro enterprise sector or provide tax incentives as a means of investing a proportion of their capital.

6.0 QUESTIONNAIRE ON LEGAL FRAMEWORK

- 6.1 Please state your assessment of legal framework for SACCO’s development in the country as (i) Efficient (ii) In-efficient
- 6.2 Judicial system suffers from long delays in processing claims and is very discretionary. (i) Agree (ii) Disagree (iii) Partially agree
- 6.3 Knowledge of commercial law is low and collection of collateral takes considerable length of time
(i) Agree (ii) Disagree (iii) Partially agree
- 6.4 Please suggest what can be done to improve on legal framework for SACCOs development.....

7.0 GENERAL QUESTIONS ON RESEARCH INFORMATION.

- 7.1 What are your comments on the factors that have made SACCOs Institutions to get achievements in terms of operational efficiency since their establishment, and enable to compete from other banking institutions in the country?-----

- 7.2 What are your comments on the factors that have made SACCOs to get achievements on increasing the level of savings mobilization.....
- 7.3 What are your comments on the factors that have made SACCOs to get achievements on increase of the number of borrowers and loans issued?.....

7.4 What are your comments on the factors that have made SACCOs to get achievements on of the level of loan recovery and reduce the number of loan defaulters?.....

7.5 What are your comments on the factors that hindered the SACCOs to achieve over and above expectations?

7.6 What challenges and recommendations do you pose to SACCOs in order that the micro finance sustain in the current stiff competitions?

7.7 Provide any other useful information with regards to this topic

Table 17: TOTAL NUMBER OF COOPERATIVES UP TO MAY 30th, 2004

NA.	REGION	CROPS	DEPOSIT	ANIMALS	FISHING	HOUSING	MI N.	INDUSTRY	IRRIG.	TRANS · ACTIO N
1	Arusha	42	77	6	0	0	0	9	1	156
2	Dodoma	0	99	1	0	0	1	2	5	175
3	Dar es salaam	25	223	0	5	20	0	35	0	78
4	Iringa	122	108	2	4	0	0	18	0	157
5	Kagera	223	138	26	9	4	0	3	0	227
6	Kigoma	45	33	0	4	2	2	1	0	55
7	Kilimanjaro	100	115	5	0	0	0	9	0	180
8	Lindi	76	23	0	0	0	0	4	0	109
9	Manyara	45	43	7	0	0	2	3	1	46
10	Mara	144	86	2	6	1	1	1	0	201
11	Mbeya	133	140	21	5	0	0	10	0	336
12	Morogoro	84	70	3	0	3	0	15	4	79
13	Mtwara	149	40	0	0	0	0	8	2	205
14	Mwanza	344	29	2	20	0	2	8	0	446
15	Pwani	113	43	13	18	2	2	119	0	72
16	Rukwa	11	19	0	6	0	0	0	0	27
17	Ruvuma	113	31	0	1	0	0	0	0	130
18	Shinyanga	495	61	15	0	3	1	5	0	402
19	Singida	59	31	2	0	0	2	3	9	43
20	Tabora	244	56	0	7	0	2	3	0	302
21	Tanga	46	44	11	5	0	0	6	5	196
	Total	2,613	1,509	116	110	35	15	262	27	3,622

Source: Ministry Of Cooperatives / Marketing

Table 18A: SITUATION FOR THE SACCOs DEVELOPMENT UP TO MAY, 2004

NA.	REGION	TOTAL NO OF COOPORATIVES.		TOTAL NO. OF COOPS.	MEMBERS	SHARES TSHS	DEPOSITS TSHS
		URBAN	RURAL				
1	Arusha	39	38	77	15,198	318,866,022	219,521,095
2	Dodoma	54	45	99	12,257	1,437,556,000	210,704,000
3	Dar es salaam	217	6	223	37,908	4,924,416,170	440,049,458
4	Iringa	50	58	108	9,310	1,153,221,863	712,806,748
5	Kagera	50	88	138	4,525	30,812,961	88,742,502
6	Kigoma	15	18	33	1,901	26,614,000	4,718,000
7	Kilimanjaro	46	69	115	50,559	537,219,280	560,408,159
8	Lindi	18	5	23	1,505	151,597,973	1,793,227
9	Manyara	21	22	43	4,981	212,539,431	337,895,610
10	Mara	21	65	86	7,721	97,722,943	93,816,858
11	Mbeya	47	93	140	15,829	2,311,873,898	98,615,661
12	Morogoro	41	29	70	12,640	852,789,992	61,300,869
13	Mtwara	20	20	40	11,502	110,156,663	134,407,142
14	Mwanza	19	10	29	2,759	125,957,660	590,000
15	Pwani	20	23	43	2,409	377,500,000	233,294,541
16	Rukwa	13	6	19	1,176	29,600,900	96,011,785
17	Ruvuma	19	12	31	13,462	243,797,527	237,468,712
18	Shinyanga	23	38	61	5,527	240,939,670	13,041,829
19	Singida	7	24	31	3,271	173,817,630	13,000,000
20	Tabora	32	24	56	3,179	35,945,495	76,421,540
21	Tanga	33	11	44	1,726	166,875,512	1,169,015
	Total	805	704	1,509	219,345	13,559,821,590	3,635,776,751

Source: Ministry Of Cooperative / Marketing

Distribution of loaned funds from SACCOs to members' investments;

Sectoral distributions of loans from SACCOs to members of selected 170 SACCOs of 15 regions of Tanzania into the following sub sectors: Agriculture Crop Production, Crop Marketing, Animal keeping, Fish and Meat selling, Payment of basic social services (education and health fees), investment in financial assets of institutions listed in Dares-Salaam Stock Exchange, timber and furniture selling, reveals the following:-

Table 18B: Value of loan from SACCOs funded Micro projects of Members
(Million Tzs)

Sub micro sectors funded by SACCOs Loans	Number of Micro projects funded by SACCOs Loans	Value of funded projects.
Crop Production	419	3457.4
Crop Marketing	763	18,007.
Animal Keeping	575	426.5
Fish and Meat Selling	1327	231.0
Payment for Schools and medical fees	3654	600.0
Investments in Financial Assets of Institutions listed in Dares-Salaam Stock Exchange	183	144.4
Timber and Furniture Selling	6284	7732.2
Others	14135	53,489.0
Total	27340	18,087.50

Source: Selected SACCOs in 14 Regions of Tanzania

From table 18B, it is revealed that more proportion of SACCOs members loan is invested in timber and furniture selling, payment of school and medical fees, fish and meat selling, while little amount is invested in financial assets of institutions listed in Dares-Salaam Stock Exchange. These data are for the position of March, 2009.

Table 19: SITUATION FOR THE AUDITED COOPERATIVES UP TO MAY, 2004

NA.	REGION	TOTAL NO OF COOPS	AUDITED COOPERATIVES				
			TOTAL	MAJOR	CROPS	SACCOs	OTHERS
1	Arusha	156	131	1	73	37	20
2	Dodoma	121	148	2	2	124	20
3	Dar es salaam	636	78	0	1	74	3
4	Iringa	268	155	0	60	81	14
5	Kagera	455	216	3	210	1	2
6	Kigoma	98	25	0	20	3	2
7	Kilimanjaro	260	154	1	90	40	23
8	Lindi	112	76	1	56	15	4
9	Manyara	104	42	0	32	10	0
10	Mara	246	170	1	150	15	4
11	Mbeya	349	260	2	181	56	21
12	Morogoro	215	73	0	37	26	10
13	Mtwara	206	178	0	155	16	7
14	Mwanza	445	438	1	428	5	4
15	Pwani	395	60	1	59	0	0
16	Rukwa	45	24	0	23	0	1
17	Ruvuma	152	130	2	86	41	1
18	Shinyanga	592	313	1	299	12	1
19	Singida	117	43	0	14	17	12
20	Tabora	337	213	1	196	13	3
21	Tanga	153	96	0	60	5	31
	Total	5,462	3,023	17	2,232	59	183

SOURCE: Ministry Of Cooperatives and Marketing / Coasco

Table 20: AUDITED COOPERATIVES UP TO MAY, 2004

NO.	REGION	COOPERATIVE	PERIOD
1.	Kilimanjaro	Kilimanjaro Native Co-operative Union Ltd	2002/03
2.	Mara	Tarime Co-operative Union Ltd	2001/02
3.	Mbeya	<ul style="list-style-type: none"> Rungwe Co-operative Union Ltd Chunya Tobacco Co-operative Ltd 	2002/03 2002
4.	Kagera	<ul style="list-style-type: none"> Biharamulo Co-operative Union Ltd Kagera Co-operative Union Ltd Kagera District Co-operative Ltd 	2001/02/03 2001/02/03 2001/02
5.	Arusha	Arusha Co-operative Union Ltd	2002/03
6.	Mwanza	Nyanza Co-operative Union Ltd	2001/02
7.	Dar es Salaam	<ul style="list-style-type: none"> Tanzania Federation of Co-operative, Savings and Credit Union League of Tanzania Coast Region Co-operative Union Ltd 	2001/02 2001/02 2002/03
8.	Rukwa	Lake Tanganyika Tobacco Growers CO-operative Union Ltd	2000/01 2001/02

Source: Ministry of Cooperatives and Marketing/ Coasco

Table 21: TRADITIONAL EXPORT CROPS – TONE

CROP	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005*
Coffee	58,000	37,000	52,439	37,500	45,000
Cotton	123,589	148,142	188,690	139,756	216,000
Cash nuts	121,379	67,369	95,000	78,557	100,000
Tobacco	24,840	27,702	25,065	33,556	
Tea	24,800	24,732	30,090	30,700	33,146
Sisal	19,909	22,960	23,641	23,859	25,000
Pyrethrum	1,850	1,900	979	649	1,000

* *Approximately* Source: Cooperative Bodies

(a) *Specific Recommendations.*

The recommendations of this study are based on the specific objectives and research questions, and findings of this study. In view of these, the following are recommended:

(a) More measures should be undertaken by Unions of SACCOs and the Government of Tanzania to increase more formation of SACCOs in rural areas where majority of Tanzania live. This should go hand in hand with measures aiming at increasing disposable income of rural community, so that they remain with enough income after allocation part of their income to consumption expenditures.

(b) The Government of Tanzania in collaboration with financial institutions and SACCOs should take more measures which will ensure that more borrowed funds by SACCOs should be allocated to rural small scale agriculture and also to investment in shares of companies listed in the Dares-Salaam Stock Exchange in order to increase diversification of loaned Sacco's funds.

The Government of Tanzania through its Ministry of Agriculture and Cooperatives should establish measures which will lead to effective approaches of assessing variations of SACCO's portfolio in Tanzania. This will thus effectively supplement the traditional methods of assessing SACCOs performance which are still practiced in Tanzania, such as number of members, number of loans issued, amount values of loans recovered etc which have proved ineffective to assess SACCOs performance in Tanzania.

Measures should also be established whereby SACCOs will be in positions to examine, appraise and evaluate member's micro projects financed by SACCO's loans. This will bridge the current gap, whereby after borrowing; no any follow up measures are implemented by SACCOs to assess the performance of members' projects financed by SACCO's loans. This in turn has contributed to significant number of SACCOs borrowers to use the borrowed loans for the purposes not intended cashiers.

Measures should be jointly undertaken by the Government of Tanzania, banks, pension funds, Capital market/Stock Exchange to and Union of SACCOs in Tanzania to enable SACCOs design new financial products which will suit different needs of SACCO's members in both rural and urban areas of Tanzania. In turn this will facilitate SACCOs to play its primary role of assisting

the Government to reduce both income poverty and non income poverty among majority of Tanzanians in both rural and urban areas.

Measures should be undertaken by the Government in order to ensure that in delivering its services of savings mobilizations and loan disbursements to its members, SACCOs should collaborate with specialized experts in various fields depending on types of micro activities of Sacco's members financed by Sacco's loans, such as marketing specialists, engineers, financial analysts, trade officers, economists, agriculture officers etc. In order to enable SACCOs members acquire enough professional skills in running their activities.

APPENDIX E: QUESTIONNAIRES USED TO COLLECT PRIMARY DATA

4.1.9 Questionnaire on Institutional support to SACCOs Growth.

Dear Respondent,

This is a public survey questionnaire which is aimed at identifying and collecting data about the SACCOs Growth.

In order to ensure confidentiality do not put down your name on the questionnaire.

1.0 NAME OF COMPANY/ORGANISATION-----

2.0 ADDRESS OF COMPANY.....

3.0 STAFF STRENGTH a. Managerial b. Non- Managerial

3.1 LEVEL OF SACCOs A. Small B. Medium c. Large.

3.2 Which of these categories of financing are your SACCOs mainly involved?

- Commercial Banking
- Development Financing
- Community Banking
- Others (please specify).

3.3 What type of financial service do you provide that target market needs?

(a) Short term loan (b) Long term loan (c) other Microfinance (d) all of the above

3.4 What is the current rate lending rate to SACCOs?

3.5 Is the current lending rate supportive to SACCOs Development?

3.6 Who are your major clients?

- (a) The big firms
- (b) Medium firms
- (c) The small firms

3.7 Do your banking activities target the SACCOs development?

(a) Yes (b) No

3.8 If the answer to 10.0 is “No” kindly state your reasons.....

.....

5.0 SUPPORTS TO SACCOs DEVELOPMENT

5.1 SACCOs do not participate in the stock market. Do you agree or disagree with this view?

5.2 If you agree, give your reasons

.....
.....

5.3 Do your SACCOs have a guarantee scheme?

Yes /no

5.4 If no give your reasons

.....
.....

5.5 List what you would like the government of Tanzania to do which will help to solve various problems in the SACCOs development.....

5.6 Who are your competitors starting with the greatest and down to the least?

i.....

ii.....

iii.....

iv.....

5.7 Has your company ever applied to borrow money from a Bank? Yes/No

5.8 If not why not (i) High interest rate (ii) No collateral (iii) not familiar with bank loan (iv) others

5.9 Have you ever been refused or denied to borrow money from a bank? Yes/No

5.10 What was the main reason your Bankers refused offering loan to your SACCOs? (a) To avoid Bank problem (b) Lack of security to pledge (c) Lack of competency Board Directors and Management (d) Others(specify).

5.11 What was the highest amount your company ever borrowed from a Bank?

5.12 What collateral or security did you pledge if any?

(i).....(ii).....(iii).....(iv).....

5.13 Have you ever had a problem in repaying a bank loan?

Yes/No

5.14 If yes what are the sources of the problem?

- 5.15 How have you been financing the operations of the organization? (i) Personal funds/Savings (ii) Friend support (iii) Bank loans (iv) Family funds (iv) Others (specify).....
- 5.16 Does your SACCOs have a good business relationship with your bankers? Yes/No
- 5.17 Does the annual growth of savings and loan accounts and annual growth rate of the loan portfolio fulfill the outreach and savings mobilization?
- 5.18 Does savings mobilization is an important indicator of measuring outreach?
- 5.19 How micro financial institutions issue loans to customers?
- 5.20 What are the causes of the poor credit performance?
- 5.21 What are the factors for increasing number of loan defaulters?
- 5.22 How efficiency and effectiveness are important criteria for institutions performance?
- 5.23 How earnings analyses are much affected by the huge provisions for doubtful loans?
- 5.24 How micro finance managers have a key role to play for better performance for the rural financial institutions?
- 5.25 How the micro finance institutions should organize themselves in groups in order to secure rural financial institutions?
- 5.26 How lack of economic growth seen as a consequence of shortage of physical capital?
- 5.27 How credit enables small and micro-enterprises to finance their development and income generating activities?

Appendix A suggests that an average in the period 1994-1996 deposit mobilization increased by 145.1%. In the year 1995-1996 the change in deposit mobilization was higher by 40.64%. This increase in deposit mobilization suggests the increase in the effectiveness of financial mobilization.

However, operating income per total costs, net loan portfolio per total assets and total income per total expenses suggest that micro financial institutions did not perform well in the stated period. Operating income per costs increased at a decreasing rate of 5% suggesting that costs outweighed operating income. Furthermore, net loan portfolio per total assets decreased by more than confirming the decline and limited capacity of lending of the micro financial institutions in Tanzania.

Total income per total expenses ratio indicates that most of the financial institutions were operating at a loss. In the period between 1995-1996 the total income in comparison with total expenses declined by 298%. In spite of the loss, micro financial institutions continued to operate. It is only subsidy, government support and donor grants which enabled most of micro financial institutions to remain in business. Financial institutions in Tanzania should continue with reforms and change the way of doing things in order to reduce loss and dependence. Innovative measures should be taken in order to rescue the situation.

APPENDIX F: RESULTS FROM THE USED REGRESSION DATA ANALYSIS

	Real Pinco	RGD Rate	Real GV Inv	Dummy money	Saccos Len
1	13.89000	4.39100	13.80000	.00000	1.0000
2	21.11173	4.38100	17.58621	.00000	1.0000
3	1.71535	4.38100	2.63930	.00000	1.0000
4	-20.1459	4.30100	7.88971	.00000	1.0000
5	14.8402	4.12100	5.92828	.00000	1.0000
6	-2.34584	4.00000	2.92200	.00000	1.0000
7	53.12286	3.95200	4.08926	.00000	1.0000
8	70.23756	3.90000	1.10496	.00000	1.0000
9	9.84729	3.61400	1.17136	1.00000	1.0000
10	54.43432	3.49700	1.18973	1.00000	3.0000
11	.10865	2.50200	1.68099	1.00000	3.0000
12	-48.8682	3.94300	1.28757	1.00000	5.0000
13	-4.66950	1.80200	1.01508	1.00000	4.0000
14	-26.0814	1.43600	6.88593	1.00000	3.0000
15	-8.43373	3.28800	.63095	1.00000	7.0000
16	416.7763	3.69600	.54036	1.00000	6.0000
17	-28.1349	.22700	.19779	1.00000	.0000
18	30.69720	1.20400	2.08738	1.00000	.0000
19	9.25549	1.39200	15.02015	1.00000	.0000
20	-50.3234	1.76000	3.95599	1.00000	.0000
21	32.73279	.29700	4.53259	1.00000	.0000

	Real Pinco	RGD Rate	Real GV Inv	Dummy money	Saccos Len
22	32.03870	3.60000	5.50329	1.00000	.0000
23	21.42494	1.45600	16.02841	1.00000	.0000
24	-8.53311	2.08500	-35.9795	1.00000	.0000
25	46.14186	2.85200	11.13220	1.00000	.0000
26	35.04107	1.19100	3.19817	1.00000	.0000
27	46.46854	3.10300	1.70726	1.00000	.0000
28	69.76412	2.62400	1.67655	1.00000	.0000
29	103.5558	2.58700	3.44199	1.00000	.0000
30	63.47364	2.94000	16.23528	1.00000	.0000
31	-26.2696	3.76200	1.26227	1.00000	.0000
32	69.89534	2.29800	22.75956	1.00000	8.0000
33	28.10573	2.74400	2.78408	1.00000	8.0000
34	-34.0522	1.95000	-23.1614	1.00000	8.0000
35	126.6437	2.32800	.14286	1.00000	13.0000
36	53.53310	2.70200	7.13267	1.00000	15.0000
37	5.25574	2.11200	-6.84807	.00000	18.0000
38	-6.09676	2.54700	27.79260	.00000	22.0000
39	156.9792	3.00800	-26.5428	.00000	25.0000
40	19.01323	3.08700	15.44129	.00000	25.0000
41	25.06922	3.51400	1.26235	.00000	28.4000
42	7.65912	3.67800	.43247	.00000	29.7000
43	-2.96881	3.68300	3.59455	.00000	31.1000
44	-.51867	3.89400	2.55022	.00000	32.5000
45	-3.16912	7.11800	.84643	.00000	33.4000
46	-7.55919	7.61400	1.53774	.00000	38.8000
47	-2.12294	7.82100	3.85016	.00000	43.2000

CHAPTER 5

5.0. CONCLUSSIONS AND RECOMMENDATIONS

5.1 CONCLUSSIONS

Financial development is playing an important role in Tanzania's economic progress. Financial failures, particularly insufficient institutions and high transactions costs limit poor people's access to formal finance and prevent low income people from borrowing, and saving. Providing extended access to financial services would enable Tanzania to reallocate capital, through mobilizing savings and increasing investments. The result could be increased capital accumulation, which in turn can lead to economic growth in Tanzania. From a micro perspective, individuals acquiring adequate financial services would be able to improve their private economy, through accumulating larger lump sums, for school, medicines, houses, stationary etc. which can increase human capital, the individuals 'productivity and ultimately contribute to poverty.

Since Tanzania has a history of high inflation, which has led people distrusting financial institutions and monetary saving and borrowing. Therefore gaining people's confidence is crucial, as is providing services with positive real interest rates. If individuals believe saving in an institution as being too risky, they will wisely consume or save in a non-monetary form.

An essential element is making financial services available for as many people as possible. Developing and improving occupational SACCOs, saving and credit cooperatives, can be one effective alternative to formal banks. SACCOs are reaching low-income people with financial services. If improvements are made and regulations are recognized they could operate as an intermediating institution, allocating resources between low income savers and borrowers. The financial ideal would be available, widespread formal services, resulting in the whole population having the opportunity to take part in the formal economic activities. Then there would be no use for an informal sector. But at present formal banks are far from having the capacity to offer financial services to the majority of Tanzania's population, i.e. people with low income.

In general, SACCOs in Tanzania have problems for financing their activity. The SACCOs are short of funds for necessary investments in education and technological resources, such as computers, building an office or keeping a safe, thus they could need external support. One advantage within a majority of the SACCOs is that, even if struggling hard, they have remained self-reliant. Self reliance indicates potential for being sustainable, however at the same time a precondition for sustainability as affording to provide members adequate services.

The level of knowledge concerning operating the SACCOs and financing saving products, differs among SACCOs. But poor bookkeeping skills are a prevalent problem in many SACCOs. However, SACCOs do have advantages; for example, occupational SACCOs have a great possibility reaching potential members, since they are situated at working places. Emphasizing SACCO's uncomplicated rules and regulations can be another way to attract potential savers and borrowers.

Members in the two occupational SACCOs studied find higher liquidity and a more beneficial interest rate to be the most important improvements to be made, before wanting to increase savings. Finding liquidity important might be an indication on members being worried over the future economic situation, they want to be certain that their savings are available at any time.

A great majority in the survey performed finds the SACCOs security to be insufficient, and moreover that providing safety on savings is one of the most important qualities when using financial services offered by the SACCOs.

In sub-Sahara Africa, there is ample evidence that the poor, particularly those in the rural sector, value both deposit and credit facilities. The existence and growth of cooperative banking and combined savings and credit institutions in the microfinance sector in sub-Saharan Africa reflects the growing demand for both savings and credit facilities.

There are strong linkages between formal and informal microfinance institutions (MFIs). The formal institutions have, in some cases, drawn on the savings mobilization methods earlier developed by traditional informal MFIs. In some cases, the former have also become bankers to the latter.

The group-based savings cum credit institutions that is prevalent in Africa, like elsewhere rely on peer pressure and joint liability (rather than collateral) to ensure loan repayment. In the case of loans to individuals, MFIs tend to rely on short maturity for repayment, high frequency of payments, and times, and a compulsory security deposit to encourage timely loan repayments.

There is evidence in Africa that MFIs, which engage in both savings mobilization and credit extension, have fair better financial position than those specializing either in deposit collection or lending. Those engaged in full intermediation tend to grow when they are able to expand their resource base through deposit collection. MFI operations that depend exclusively on funds from donors or the government are generally constrained by a limited resource base. Equally important, the performance of MFIs depends critically upon having autonomy in management decision making, including the setting of deposit and lending rates with an appropriate profit-making spread; being vigilant to avoid nonperforming loans; and building institutional capacity, addressing skill shortages.

Growing linkages between MFIs and the banking system in Africa appear to be mutuality beneficial. MFIs rely on banks for a variety of services, including deposit facilities, liquidity management services, and, in some cases, emergency credit lines to cover cash shortfalls. For banks, the benefits are the opportunity to expand their client base through MFIs, and to expand their operations through the network of MFIs (including in the rural sector). The linkages between MFIs and banks also help to strengthen the linkages more broadly between the economic activities in the formal and informal sectors of the economy, and provide opportunities for small entrepreneurs to graduate from micro credit to conventional bank loans.

Donors and NGOs have played an important supportive role in the development of MFIs in Sub-Saharan Africa. Most importantly they have helped to disseminate best practices tested internationally and regionally, build local capacity, and develop the entrepreneurial skills of borrowers. The impact of NGOs directly involved in lending schemes has been more mixed; mainly because of the potential adverse effects that subsidized lending by NGOs may have on the operations of MFIs.

Finally, governments in Sub-Saharan Africa play a key role in promoting the microfinance sector by putting in place the necessary laws, regulations, and institutions for the licensing, prudential regulation, and effective supervision of the sector. Official practices in each of these areas vary widely across countries, reflecting the stage of evolution in the country's microfinance sector, institutional capacity, and skilled personnel constraints, and differences in official approaches ranging between intensive regulation and a more "laissez-faire" approach. In general, regulatory requirements and prudential norms applied to MFIs need to be well adapted and flexibly designed to reflect the specific characteristics and stage of evolution of the MFIs in a given country. It appears that these requirements and norms for MFIs are financially less demanding than those applied to commercial banks; and newer and smaller MFIs have been subjected to less exacting licensing and regulatory requirements, and less closely supervised than the commercial banks and larger nonblank financial institutions. However, the growing linkages between MFIs and banks and the potential systematic effects of supervision of MFIs will become increasingly important.

The main constraints to developing the regulatory and prudential supervision framework are threefold. A first set of capacity constraints relate to the lack of bookkeeping and reporting standards, internal controls, and credit decision mechanisms at the level of the MFIs. A second set of capacity constraints are at the level of the institutions entrusted with supervision authority, mainly due to shortage of skilled and trained staff. Finally, the information or database on borrowers, their credit history, and repayment records have not kept pace with the growth of the microfinance sector.

5.2: Measures taken by the Tanzanian Government to strengthen Savings and Credit Cooperatives Societies (SACCOs)

Since 2000, The Tanzanian Government has undertaken various measures to strengthen the role of Savings and Credit Cooperatives Societies (SACCOs) of reducing poverty in the country. These include:

(i) Strengthening the linkage between Savings and Credit Cooperatives Societies (SACCOs) and formal banks in order to facilitate easy channeling of micro loans from formal banks to low income households in the country.

(ii) To facilitate Savings and Credit Cooperatives Societies (SACCOs) to offer formal bank services to rural populations where due to geographical locations, formal banks can't serve this type of rural community well.

(iii) To strengthen inter SACCOs loaning programme (Central Finance Programme) which is run through Savings and Credit Cooperative Union League of Tanzania-SCCULT.

5.3 Questionnaire on Institutional support to SACCOS Growth.

Dear Respondent

This is a public survey questionnaire which is aimed at identifying and collecting data about the SACCOs Growth.

In order to ensure confidentiality do not put down your name on the questionnaire

5.3.1 NAME OF COMPANY/ORGANISATION

5.3.2 ADDRESS OF COMPANY

5.3.3 STAFF STRENGTH a. Managerial b. Non- Managerial

5.3.4 LEVEL OF SACCOs A. Small B. Medium C. Large

5.3.5 Which of these categories of financing are your SACCOs mainly involved?

- Commercial Banking
- Development Financing
- Community Banking
- Other (please specify)

5.3.6 What type of financial service do you provide that target market needs?

(a) Short term loan (b) Long term loan (c) Other microfinance (d) all of the above

5.3.7 What is the current rate lending rate to SACCOs?

5.3.8 Is the current lending rate supportive to SACCOs Development?

5.3.9 Who are your major clients?

- (a) The big firms
- (b) Medium firms
- (c) The small firms

5.3.10 Do your banking activities target the SACCOs development?

(a) Yes (b) No

5.3.11 If the answer to 10.0 is “No” kindly state your reasons

.....
.....

5.4 SUPPORTS TO SACCOs DEVELOPMENT

5.4.1 SACCOs do not participate in the stock market. Do you agree or disagree with this view?

5.4.2 If you agree, give your reasons

.....
.....

5.4.3 Do your SACCOs have a guarantee scheme?

Yes /no

5.4.4 If no give your reasons

.....
.....

5.4.5 List what you would like the government of Tanzania to do which will help to solve various problems in the SACCOs development

.....

5.4.6 Who are your competitors starting with the greatest and down to the least?

i

ii

iii.....

5.4.7 Has your company ever applied to borrow money from a Bank? Yes /No

5.4.8 If not why not (i) High interest rate (ii) No collateral (iii) Not familiar with bank loan (iv) others

5.4.9 Have you ever been refused or denied to borrow money from a bank Yes/ No

5.4.10 What was the main reason your Bankers refused offering loan to your SACCOs?

(a) To avoid Bank problem (b) Lack of security to pledge (c) Lack of competency Board of Directors and Management (d) Others (specify)

5.4.11 What was the highest amount your company ever borrowed from a Bank?

5.4.12 What collateral or security did you pledge if any? (i)

(ii) (iii) (iv)

5.4.13 Have you ever had a problem in repaying a bank loan? Yes/No

- 5.4.14 If yes what are the sources of the problem?
- 5.4.15 How have you been financing the operations of the organization? (i) Personal Funds/Savings (ii) Friend support (iii) Bank loans (iv) Family funds (v) Other (specify)
- 5.4.16 Do your SACCOs have a good business relationship with your bankers? Yes/No
- 5.4.17 Does the annual growth of savings and loan accounts and annual growth rate of the loan portfolio fulfill the outreach and savings mobilization?
- 5.4.18 Does savings mobilization is an important indicates or measuring outreach?
- 5.4.19 How micro financial institutions issue loans to customers?
- 5.4.20 What are the causes of the poor credit performance?
- 5.4.21 What are the factors for increasing number of loan defaulters?
- 5.4.22 How efficiency and effectiveness are important criteria for institutions performance?
- 5.4.23 How earning analysis are much affected by the huge provisions for doubtful loans?
- 5.4.24 How micro finance managers have a key role to play for better performance for the rural financial institutions?
- 5.4.25 How the micro finance institutions should organize themselves in groups in order to secure rural financial institutions?
- 5.4.26 How lack of economic growth seen as a consequence of shortage of physical capital?
- 5.4.27 How credit enables small and micro-enterprises to finance their development and income generating activities?

THANK YOU VERY MUCH

Responses

Rural Financial Institutions are the cornerstone of financing rural development and micro-enterprises in developing countries. Small farmers and the poor require the support of the rural financial institutions in order to finance their development programmes. In the words of Padmanabhan (1988: 10) “Lack of economic growth was seen as a consequence of shortage of physical capital. A vicious cycle low capital, low

5.3: RECOMMENDATIONS OF THE STUDY

(a) General Recommendations

To move in the right direction, the Government should prepare a transparent strategy for rebuilding the co-operative movement involving other interested parties like NGOs and other sympathizers of co-operative enterprise. This will ensure that the Government avoids the tendency to dominate the co-operative as in the past.

Ensuring their viability and sustainability, cooperative enterprises will need to expand their sources of financing to include non-traditional, non-governmental partners. Given the decline in state-sponsored cooperative networks, cooperatives need to seek new forms of external capitalization to do diversify their sources of funding without jeopardizing their democratic approach and autonomy.

Increasing globalization, especially the opening up of markets for agricultural products, cooperatives should take advantage of information and biotechnologies, introduce farm policy changes, and adopt new approaches and strategies of doing business. To secure their survival, cooperatives should take measures to enable them offer high quality goods and services at competitive prices by undertaking innovations such as product diversification to adjust to shifting market demands.

The cooperatives are truly voluntary, autonomous and run by their members to ensure that the interests of members are not influenced by the legacies of political or external intrusions which make them vulnerable to changes in political leadership or the vagaries of political interests.

Cooperatives need to broaden and deepen their outreach by promoting self-organization of the poor, underprivileged and marginalized population in rural and urban areas consistent with the community-driven approach to the development. This will help the raise of the visibility of cooperatives to showcase the opportunities offered to citizens and to further inform Government of the potential benefits to society of cooperative activity.

Given their grass-root reach, cooperatives can help implement financial programmes that target lower income households, through micro credit and assurance; provide job training and

retraining, subsidize the creation of small businesses; and serve as conduits for the delivery of government services.

Government, in consultation and/ or collaboration with the cooperative movement, can further promote the growth and viability of cooperatives by reviewing, amending and enacting legislation, administrative procedures and requirements that are consistent with the formation and growth of cooperatives in a rapidly changing socio-economic environment. Furthermore, programmes to improve access to technology and to enhance capacity building by strengthening organizational, leadership and financial skills of cooperative members also need to be introduced or enhanced, to ensure the long-term viability of cooperatives. Finally, Government needs to utilize cooperatives as competitive suppliers of goods and services along with other businesses in order to promote the role of cooperatives as effective partners in the poverty reduction.

Banks and other institutions engaging in microfinance must prepare social funds for the poor and give them a chance to participate in a way that their skills can be used in the development of the community. Meanwhile the banks commit a minimum percentage of their portfolio to the micro enterprise sector or provide tax incentives as a means of investing a proportion of their capital.

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