MICRO-FINANCING INSTITUTIONS AND POVERTY ALLEVIATION IN TANZANIA: A REVIEW OF CURRENT PRACTICES

By

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1.0 Introduction

Substantial money and energy worldwide has been invested with the good intention of poverty alleviation in poverty stricken countries like Tanzania. Much of the support services in support of the micro and small enterprises as they are thought to play a key role in poverty alleviation. For example the World bank alone has lent over US $ 3 billion between 1973 and 1989 to foster a healthy growth of the MSE sector (Sarder, 1997). At the same time a number of outstanding Micro Finance Institutions (MFIs) have been established as a way of cutting the known vicious circle of poverty to the poor i.e. lack of capital thus lack of income and continued poverty. The established MFIs are enabling the poor and especially the poor households and Micro and small enterprises (MSE) to have access to credit. The major reason for these intervention measures is the lack of access to capital by the poor and MSE in the formal financial institutions. Factors that have caused the MSE and poor household from getting access to capital in the formal financial system are many. These include the lack of collateral, too high transaction costs incurred by the formal institutions to process and monitor the small volumes of credit that are normally demanded by the poor, lack of track records upon which the credit rating can be based and perception that MSE are risky customers. (Shayo-Temu, 1998). It has also been realized that most of the FFIs lack the innovative ability to design ways and means of offering financial services to the MSE and poor households.

Innovative ways of offering financial services to the poor have been first developed by non-governmental organizations (NGOs) which started to operate at small scale in delivery of credit to the poor utilizing the strengths of the poor and at the same time working upon against their weaknesses. The approaches that have been used include the self selection and screening of the borrowers, group lending and use of group solidarity/pressure for ensuring timely and full repayment, close monitoring and well established management information system, swift transactions i.e. very short time application to final approval and eventual receipt of the loan. In the same approaches, savings in different forms such as insurance against loan, fund raising etc is a mandatory component of the schemes. The recognition is that even the very poor can save. MSE as poor as they may be are treated as clients and not beneficiaries of the NGOs. The handling of clients/borrowers is therefore with business mindset backed up with social welfare enhancement motive. This has been referred to as social-market approach of financial services delivery to the MSE (Shayo-Temu1998). The NGOs that have concentrated their services in the credit and savings services for the poor households and MSEs are in this paper referred to as MFI-NGOs.

The most outstanding MFI-NGOs at global level have been the Grameen Bank of Bangladesh (Hashemi, 1997), BancoSol of Bolivia (Glosser 1994), Bank Rakyat Unit Desa System of Indonesia (Boomgard and Angell 1994), to mention but only a few. In Africa and particularly in East Africa, Juhudi Credit Scheme of KREP Kenya is one of the most successful MFI in terms of providing financial services (credit and savings) to poor entrepreneurs (Mutua 1994). Juhudi has been reckoned for being able to provide credit to the poor on commercial basis. K-rep through the Juhudi scheme has since of recent become a bank.

The Grameen Bank (GB) of Bangladesh (started by Professor Yunus at University of Chitaggong onan experiment basis in 1976) has won a reputation of Bank of the Poor. GB has great outreach covering almost 50% percent of the villages in the country in 1995. It has extended credit to over 3 million poor women in Bangladesh and the repayment rate has been 100%. It has been reported by many through GB most of the clientele have been empowered not only economically but also socially and their health status has improved.

Most of the success has been attributed to the modalities of credit delivery and follow up. Credit delivery model has been mainly group lending in GB although in other MFIs like the BancoSol and Bank Rakyat individual lending has being dominant. Committed and innovative management, motivated and dedicated staff to poverty alleviation, long term and continuos donor support, government political will to eradicate poverty are among other factors that have immensely contributed to the success and also sustenance of the services of the MFI over a long period.

MFIs in Tanzania

The existence of MFIs in the form and context described above has no long history in Tanzania as in other countries in the region such as Kenya. In kenya one MFI-NGO has graduated into a bank, i.e. the K-Rep Bank. In general NGOs in Tanzania were deliberately depressed during the socialist era because they were perceived as not playing a significant role in development process. However after the country's plunge into the economic crisis in the late 1970's and 80's, NGOs were recognized as one way of attracting foreign resources into the country. At the same time the structural adjustment programs together with other economic and social reform measures recognized the important role that the non-governmental institutions play in the development process. In deed the NGOs are now regarded as complementing the government efforts in development process and not a threat. As of year 2000 more than 1,800 NGOs have been registered countrywide (Assad 2000). Out of these 100 NGOs are operating as micro finance institutions. The estimated number of the clientele level is just about 240,000 (Dinwiddy, 2000). The MFIs coverage is still very low compared to the country's total population of about 32 million people; out of whom 80% live in the rural areas where the level of poverty is very high.

In this paper we shall present the practices of selected MFIs in the country. The findings in this paper are a result of study which intended to find the current practices of the MFIs in the country. The question that we are trying to answer is whether with current practices in the MFIs, there shall be any significant contribution in poverty alleviation. Following this introductory section is a statement of the problem that prompted us to undertake the study. In section three we describe the methodology. Section four has been devoted for the description and discussion of the findings. The last section makes conclusions and a few suggestions from the discussion.

2.0 Statement of the Problem

The Tanzanian government strongly recognizes the need for micro –credit and other financial services for the poor as a way towards poverty alleviation. As stated in the National Poverty Eradication Strategy (1998), the long-term objective of the government is to reduce abject poverty by 50 % by the yea 2010 and eradicate poverty by the year 2025 (vi). In order to realize this goal there is a need of developing financial system that can reach the majority of the poor in the rural areas. The system has to able to mobilize savings and at the same time deliver credit services to the poor. It for this reason that the government has been seriously launching and supporting micro finance programs and schemes that are in pursuit of this objective.

The growth of MFIs in Tanzania, particularly the non-governmental ones gained momentum from early 90's. As noted earlier there are about 100 MFIs in the country at the moment. Some of the MFIs in the country lack the capacity to deliver some of the expected services. Only a few of these MFI are not branches of international NGOs. They therefore have practices that have to be tailored to the needs and objectives of the mother NGOs. Those that are owned by private individuals have the objective to ensure that their activities and thus existence are sustained, thus the profit generation motive is implicit in their operations. The MFIs that are member owned will be guided by regulations that have been agreed with by all the members. Due to these differences there are differences in their delivery practices.

Elsewhere in the literature, it has been asserted that the modalities of the operations in Tanzania are similar. They all except a few use the group lending approach in the delivery of credit services (VPO and UNDP, 2000). Our contention is that there are differences in the credit practices of the various MFI depending on the objectives of the financiers, the ownership and experience gathered and possessed by the various MFIs. Most of the documented practices of the MFI concentrates on the credit delivery approaches. Other important elements such as clients selection criterion, repayment enforcement, approaches to savings mobilization strategies to expand outreach and measures towards sustainability remain un-researched and thus undocumented. Therefore the objective of the study was to identify the different MFIs' practices and examine as to how they contribute towards poverty alleviation.

3.0 The study Methodology

Most of the findings reported in this paper come from a study carried out in four regions, namely Dar es Salaam, Mbeya, Arusha and Mtwara. The study aimed at investigating the MFIs practices in the mentioned regions and how these practices bear upon poverty alleviation particularly on the women borrowers.

Two questionnaires were used in gathering the data. One questionnaire was sent and answered by the MFIs staff. The senior/program credit officers who are most conversant with the MFIs practices and strategic objectives were requested to provide the information. A total of 13 MFIs were studied and all of them gave useful data. The second questionnaire was served to the MFIs clients who provided data to substantiate the data which we received from the MFIs. Women borrowers in groups provided answers in form of discussion groups held and guided by the researcher. The number MFI borrowers that were interviewed was 87. In brief the questions to the borrowers were aimed at finding out the effects of the borrowed funds on their enterprises in terms of reduced poverty level (increase of disposable income) and creation of additional income generating activities.

In addition, a number of reports on MFIs were reviewed to supplement most of the information in the paper.

4.0 Findings of the Study

The study findings include the categories of the MFIs studied, practices of the MFIs and contribution to poverty alleviation.

4.1 Categories of MFI studied

From the study results we could categorize MFIs in the country into five groups. These are:

1. Government funded MFIs , these comprise the central or local government schemes that have been formed with a specific objective of delivering financial services mainly credit to specific groups of our population normally the mostly resources-disadvantaged ones like women, youth, disabled. These include the Women Development Fund of the Ministry of Community Development, Women affairs and Children, Dar es Salaam City Commission and SIDO.
2. The second category is that of the financial NGOs (MFI-NGOs). These include international branches of NGOs and locally founded and based NGOs that are dealing with the delivery of micro finance services to the poor. Those included in our study were Swiss Aid, PRIDE, MEDA, SEDA, SERO, Poverty Africa, FEDA, CIDEF.
3. Savings and Credit Co-operatives (SACCOs) are the third category. These are mostly formed by workers from the same organization (e.g. local government workers at municipal level) or professionals (e.g. teachers).
4. In the fourth category we count the private firms/religious organisations that are delivering financial services with one of their objectives being poverty reduction. In our survey these were such as Caritas and the Tanzania Finance Women Company.
5. Micro Financial services from the FFIs such as the Akiba Commercial Bank falls in the fifth category.

4.2 MFIs Practices and Poverty alleviation

In this section we shall discuss the practices of MFIs. The practices have been examined under seven different aspects namely:

- Clients selection procedures (including Location of borrowers)
- Repayment Enforcement
- Savings Mobilization
- Lending conditions
- Outreach including areas of operations
- Sustainability strategies in place
- Future Outlook

Differences between the various categories of MFIs will be described if found to be substantial.

4.2.1 Clients selection criteria/procedures

Almost all the categories of the MFIs described above except SIDO are targeting small businesses which are already in existence. Generally to all MFIs, no loans are given to a client with an outstanding debt. SIDO borrowers may also be business starters they must however produce good and viable business plans to qualify for the loans. Most the MFI-NGOs are targeting individuals in groups. But the credit department of FFIs like Akiba Commercial Bank, has a different clients selection system, that of searching for a guarantor for the individual borrowers and not group of other borrowers.

For the government supported schemes borrowers have to organize themselves in groups before they can apply for a loan from the schemes. It is not prescribed as to the composition of the group. Group members that are interested to borrow from the schemes do select themselves.

Similar procedures apply to the selection of clients to MFIs-NGOs. Self selection process is more strict in MFI-NGOs as members do visit each other's business premises to assess the viability before accepting a member into group. They also take interest to exchange information about their families before accepting a new member into a group. As a result clients for MFI-NGOs are closely related some are family members or friends.

Most the MFIs clients do undergo a pre-loan training as part of loan application process. No The length of the training is a minimum of one week but can also be as long as one month. Local government schemes take longer period (Dar es Salaam City Commission scheme).

The training takes a form of meeting in which the participants are informed about the rules and procedures of the MFI in question. The same opportunity is taken to sensitize the clients on the some basic skills of business and credit management. For an MFIs like PRIDE and Poverty Africa, only those potential borrowers that fully attend the pre-loan training qualify as clients that is be become clients.

Gender of the borrower is one the most influential factor that is considered in the selection process. This is particularly so in the MFI-NGOs. Almost all the financial NGOs are very specific on the proportion of women clients they wish to serve. For instance Poverty Africa clientele is 80% women, the same with PRIDE and SEDO. Others like MEDA 60 % of the clients are women. Loans are given to adults above 18 years.

Other MFIs programs of FFIs have not pre-specified but definitely serve women as well. SIDO and SACCOs offer their services regardless of the sex. However our study revealed that 46% of the SIDO borrowers were women entrepreneurs.

For SACCOs, the selection of borrowers is predetermined by the nature of the institution themselves. A borrower must be member and the size of loan has to be consistent with the rules namely a maximum of three times the value of savings. Capacity to pay is determined by the level of salary. Thus a higher salary attracts a higher loan than a lower salary.

Many of the businesses being supported are in trade sector and less in processing industries. Exceptions are here SIDO and SACCOs. The former is by history actively engaged in the manufacturing sector. SACCOs extend credit to the needy members engaged in agriculture (provision of loans to make bulky purchase in the post harvest periods –cashewnuts in Mtwara and), education, health or personal houses construction.

Weaknesses observed

What can be discerned from these selection criteria is that many of those poor people wishing to start micro business as a way of disentangling themselves from poverty cannot easily be accommodated in above criteria. They are effectively crowded out of the MFIs portfolio and also in SACCOs which are spread located the urban centres in the country.

Another observation is the kind of businesses that are being supported. Very little support is going into the processing /manufacturing sector. It is widely known that manufacturing sector adds higher value in the economy compared to others. It is therefore doubtful as to whether the contribution to poverty alleviation can be realized to the maximum by supporting mostly the trade sector and less the industrial sector.

Using the group formation and lending approach in the government MFI schemes has in some regions suffered from political intervention (VPO-UNDP, 2000). The politicians have used the schemes as their campaign instrument. The danger here is that the business philosophy in the delivery of the credit services suffers which ultimately lowers the willingness to repay and the ability of the scheme itself to become financially sustainable and to increase outreach.

4.2.2 Repayment Enforcement Mechanism

Loan repayment enforcement mechanisms are designed to suit the circumstances of the parties involved. They are usually a creation of the lender.

For the government schemes like SIDO borrowers enter into a contract with the borrower in which the grace period and other terms of the loan are specified. Normally a borrower is required to contribute a fixed percentage to the value of the project being financed before loan approval. At the same time if the loan is given in form of an asset the ownership does not pass to the borrower until after the payment of the final balance (Use of Hire Purchase system). For the funds like the local government or central government funds used the groups' pressure and credit officer were following up borrowers. Success rate with these measures was very minimal as compliance to rules was not in place.

Enforcing loan repayments from the financial NGOs (PRIDE, Poverty Africa, SERO, SEDA etc.) involved a blend of measures which all contributed to very high repayment rates. The following techniques are being practiced:

(a) Members of groups guarantee each other, there is no real asset as a collateral. Such that if repayment is due and a member cannot pay the other group members pay on her/his behalf.
(b) Starting with small sized loans that can be easily be repaid if business performs well.
(c) Imposition of penalty against the groups which fail to pay on time
(d) Social exclusion of members from groups if one fails deliberately to pay
(e) Frequent (most frequent are weekly) meetings to pressurize loan repayment.
(f) Very short grace period (e.g. one week) from loan receipt to repayment
(g) Very frequent repayment intervals (shortest one week) so that to lessen the risk of sales revenue diversion into other uses.
(h) Very close loan monitoring by the credit officer, in deed like the case of Poverty Africa, the credit officer are always on their toes following up their clients and at the some time offering assistance where it is need.
(i) Detailed and effective management information system in institutions. Management and staff in general are on top of the day knowing always what is going on in their loan portfolio.
(j) Use of incentives to repay. Increasing the loan sizes for good repeat borrowers that may need larger loans to finance their growing businesses does this.

The defaulters can in this way be followed up by the MFI before it is too late. At the same penetration of non-needy clients can be minimized.

The most important strengths of these loan enforcement practices are many.

- Certainty of very high (almost 100%) loan repayment rate
- Low risk on the part of the lenders arising from very low loan losses. Also the self selection procedures lowers the transactions costs for credit rating tremendously.
- Monitoring of the performance of borrowers if accompanied with some advisory services helps clients to improve performance. However this is done at a low scale.

- Enhanced sustainability chances of the MFI as an institution due to low transaction cost loan losses
- An increased outreach in terms of increased number of borrowers resulting from the fact that the loaned money (plus interest) flows quickly back to the lender who again can re-lend the money to even increased number of other borrowers

The weaknesses of above outlined loan enforcement practices are:

- High transaction costs on the side of the lender in particular the monitoring of loans, which is almost on a daily basis.
- High opportunity costs on the side of borrowers arising indirectly from the time spent on meetings (weekly meetings).
- If borrowers fail to repay they suffer the sociological effects of social exclusion from the groups they have been associating with. This is in deed a loss of social capital which many Africans make use in many incidences of their lives (Mayoux, 1997).

4.2.3 Savings Mobilization

Savings is the beginning of all financial intermediation. Credit delivery should ordinarily be accompanied by savings mobilization. The study has shown that the poor can save particularly the micro entrepreneurs.

Deposit taking institutions in Tanzania are subject to the central regulatory and supervisory authority, the Bank of Tanzania (BOT). Thus unless authorized by the BOT no institutions in Tanzania can legally take deposits as a financial institution. All MFI-NGOs are subject of this regulation. They are legally disallowed to operate as deposit taking institutions.

Our study revealed that NGO-MFIs and SACCOs mobilize some money "savings" from borrowers. An exception is for those MFIs like SIDO which are by their law of establishment explicitly prohibited to mobilize savings from borrowers.

The savings collected by MFI-NGO's mobilize savings in guise of members registration fees, loan insurance funds, groups funds. The savings are both compulsory and voluntary.

The compulsory savings are in form of loan insurance Funds (LIF) i.e borrowers contribute a part of the loan (5% to 10% of the borrowed amount into the LIF of the lender before receiving the loan. This amount is normally deducted and retained by the lender in the institutional account.

The voluntary savings are made by members in the group's accounts or paid into the borrower's bank accounts, which then save as an indicator of seriousness to credit demand. In MFIs like

PRIDE members do contribute deposit the money by the institution, while for organizations like TWFC, the borrowers have to provide bankers (FFI-linkage) evidence of the existence of the money in an account. The loan insurance fund serves as a collective collateral for the loans. It can be quite substantial, like the case of PRIDE where the loan insurance had grown to Tshs. 6.5 billion by March 1999 (VPO and UNDP, 2000).

All SACCOs are by definition thrift organizations among groups of workers in one organisation or in related organizations or professions. Thy are thus actively engaged in savings mobilization, which is the core activity. Members in SACCOs do not necessarily join with the motive for borrowing like in the MFI-NGOs. Membership in SACCOs range between 100 and 1000 persons. The SACCOs included in our survey was the CIDEF of Mtwara in which the members were borrowing according to the repayment conditions set by the organization. Most of the savings are used for emergency/precautionary motives.

The major concern here is the security of the members savings. The members forgo other benefits that they would get from their money. by saving with the MFIs . This opportunity cost ought to flow back to them in terms if interest. Collection of savings from the poor without return is further empowering rather than empowering them financially. It is unfortunately not specified for many MFI-NGOs as to how much interest the clients get out of their savings. They also cannot withdraw their savings as and when they want to. They must first quit from the MFI. This is where we feel that an MFI policy needs to be in place to serve the interest of both parties involved in the MFI business.

4.2.4 Lending Conditions

Lending conditions are the conditions that are imposed upon the MFI clients to comply with. They include interest rates charged, loan sizes, minimum savings prior to loan application, references or collateral. For those loans lent to rural areas, the village government acts as a guarantor for the loans disbursed to groups.

Most MFI-NGO's do lend as a rule and general practice to borrowers who have viable/profitable projects. Many of these projects have been on-going. All loans made carry interest rates. Interest rates for the MFI-NGOs vary between 17% to 40% per annum.

Interest rates for SACCOs have been observed as being relatively low ranging from 1.5% to 29%. Savings either in group fund (Poverty Africa)or in bank account (TWFC) ranges from Tshs. 1000 to 10,000/= per person (in year 1999).

Pre-loan training attendance on the side of borrowers is another condition for the borrowers. The length of training ranges from a total of one week to one month. The borrowers are required by some MFIs (PRIDE and City Commission borrowers) to pay for the training cost.

Loan sizes are various ranging from 40,000/= to Tshs. 2.5 million. The average loan for starting borrowers is however around Tshs 50,000 and the repeaters get higher amounts depending on the repayment speed.

MFIs such as MEDA demand positive recommendation or character reference from the influential parties such as market/ward leaders. MEDA does not use the group lending approach but uses through screening and sometimes takes household or personal property as security.

Borrower must be matured adults of 18 years or older.

Lending conditions and Poverty alleviation

As already pointed out above the clientele of MFIs are mainly existing businesses and matured adults. These practices omit the younger generation and starters from their portfolio. Unfortunately the young generation in this country lacks the social capital that is demanded by the MFIs. They also lack the character references that being demanded by some MFIs. To which source of capital will this group of population resort to? Thai has been pointed out by Mayoux(1999), that the focus on existing (women) entrepreneurs with proven busienss track record menas a neglect of others who might indeed need the assistance but lack businesses. This is in deed a shift to the better offs individuals which works against reduction of poverty.

In addition giving loans to existing business leaves other important aspects of poverty alleviation such as support to education and health expenditures. Loans directed to these sector will bring about lasting contribution to poverty reduction.

Interest rates have not been explicitly been mentioned as one of the limitations by the borrowers. What most of the small borrowers are interested in is more of the liquidity, to get the credit as quick as possible so that they can tackle immediate orders or finance their current operations. They do not therefor think intensively about the magnitude of the interest.

However, some (36 %) of the borrowers complained that the start up loans ranging from 40,000/= to 50,000/= (Poverty Africa, PRIDE, SEDA) are too low to start any meaning ful business. The application of the minimum loan to laterally to all borrowers may therefore be serving the interest of the lenders more than the borrowers. It puts all the borrowers in the same bandwagon regardless of the differences in financial needs. In fact the confession from some borrowers is that they borrow the money keep and repay as per schedule, repeat the same procedure until they qualify for the higher amounts that they need for their business activities.

This is certainly not the objective of the MFIs. It really delays the potential large borrowers from realizing the business activity they have in mind, and implicitly it also means delayed contribution to poverty reduction at aggregate level.

This is an area that needs further innovation as far micro finance industry is concerned. Actually the challenge is how to design a variety of products to different kinds of clients. This calls for product differentiation in the delivery of services. Bank Raykat Indonesia with its Unit deas System has been serving both poor MSSE and also those who need relatively large amounts at the same time. It is high time that MFIs draw lessons from these successful models from other countries.

4.2.5 Location of borrowers

Our findings show that most of the MFIS studied except the SACCOs, SIDO and religious organization like Caritas are urban and peri-urban based. This is consistent to all the studies of MFIs (K-rep 1997, Shayo-Temu 1998, VPO-UNDP 2000). This is definitely a good attempt to poverty alleviation in urban and peri-urban areas. However major shortcoming is the exclusion of rural areas, where the level of poverty and infact abject poverty is prevalent. The MFIs like PRIDE, SEDA and MEDA justify their confinement in urban areas by high cost of operation in rural areas. It is also argued that the group lending model like the one followed by PRIDE which demands frequent meetings of the borrowers cannot be easily be applied to rural areas where the population is more scattered.

In fact the major question is whether the current operating modalities can work in rural areas? What the innovations that need by made? Rural peasants are not salaried workers who can contribute to SACCOs from which they can later on borrow. What other alternative sources of income or civil organizations can be used to organize them so as to get access to micro finance services. The speed at which community banks are being opened does not yet answer these questions. It is hoped that the audience in this conference may come up with answers.

4.2.6 Sustainability strategies in place

The first strategy towards financial sustainability is the reduction of dependency ratio (Hashemi 1997). The dependency ratio shows the extent to which the MFIs loan portfolio are funded by the capital injections from either donors or government coffers. The strategies in place to raise further funds include the search for other donors implying further dependency on external funding.

The fact that MFI are able to mobilize savings in form of "insurance funds" or others shows that the poor can save. They only fail to save in their formal financial sector due to several reasons such as insecurity of deposits, and the reluctance of such institution to handle small sums in rural or peri urban areas. This avails an opportunity that can be made use of by the FFIs and enhance linkage between FFIs and MFIs.

In deed our review findings show that no single MFI has approached the doors of financial sustainability in terms of trying to forge the macro-micro financial linkages. Efforts towards this direction would show that the MFIs are operating profitably and have viable business that can are acceptable by the financial institutions on prudent business reasons. It would also mean that the MFIs have reached a business level in which lending from financial institutions for onward lending is profitable. This is for in instance a practice with BancoSol Bolivia and Grameen Bank of Bangladesh (Glosser 1994, Hashemi 1997).

It should however be acknowledged that micro-macro linkages require proper and functioning financial policies to be in place at both macro and micro levels. It is hoped that with the Micro Finance Policy in place the macro-micro linkages will be facilitated.

4.2.6 Future Outlook

The study by the VPO and UNDP (2000) has established a number of constraints faced MSE operators looking for access to credit. These include lack of collateral, high interest rates, too high indirect costs of borrowing, (bribes and follow–up costs) and preparation of project write-ups. Others problems include liquidity shortages in the sense that business cycles do not match with terms of loans, personality clash with the lending officials, corruption/nepotism. These problems have been observed in relation to FFIs. MFIs both SACCOs and MFI-NGOs have to work hard to ensure that such tendencies do not encroach them.

According to our study and others (Limbu 1998), there is little networking and co-ordination among MFIs. This has given a room to duplication of micro-credit services in such regions as Arusha and Dar es Salaam (Shayo Temu 1998). Moreover, the NGO-MFIs services are not properly aligned with that of government and public sector institutions financing MSEs. The recent efforts that led to the formation of the Tanzania Association of Micro Finance Institutions (TAMFI was officially launched in 1999) is a great milestone and big step towards the co-ordination of the work of MFI and within different categories of MFIs covered by the survey.

It is expected that networking and co-ordination will result into increased outreach nad greater impact on poverty alleviation.

5. Conclusions

What emerges from the above discussion is that both the government and donors still have a role to play in the efforts to strengthen the MFIs. Most MFIs with the exception of SACCOs are far from sustainability. They still need a lot support particularly in strategic/long term orientation of creating ways and means of achieving financial sustainability. To be able to contribute effectively to poverty alleviation, MFIs need to have well trained and equipped staff in micro finance. Thus capacity building should be a continuous exercise. Most the MFI lack the appropriate well trained human resources, who possess appropriate skills in micro finance services delivery. Appropriate technical support is much needed particularly is support the training programs of most of the MFIs. Donor support should be directed towards capacity building because this is decisive in sustainability of the MFIs.

The existing records that MFI borrowers in Tanzania do not exceed 250,000 in total. This is very small number compared by to the level of abject poverty in the country particular in rural areas. One can in fact conclude that MFI in this country have not yet managed to reduce poverty to a notable level (e.g. a million borrowers). MFIs in this country have not yet gone beyond the "subsistence dimensions" (Mosley, 1999). There is therefore the need to expand the MFI industry and more so this builds a case for strongly supporting the existing institutions, in terms of macro policies and financial backing where possible.

From the above discussion the urban bias of the MFIs ahs become avry apparent. There arguments that the existing MFIs in their present models find it expensive to operate in rural areas.

The un-answered questions what are the appropriate and less expensive modalities that can be applied in the delivery of services to the rural poor? This calls for further innovations and refinement of the existing modalities.

The savings-first institutions i.e. SACCOS tend to be financial sustainable as they are member based and funded, no donor support. In the long-run, this is important for continued outreach and impact. More generally, increasing the poor access to savings facilities in an important objective in and of itself. One possibility is that Government funds could supplement the capital base of savings first institutions such as SACCOs so as to expand the outreach.

Many of the existing MFIs provide small loans and successfully target women. The majority, however, operate in urban and peri-urban areas and, as a result, they miss the poor. They provide loans to ongoing business for working consumption, and education and health expenditures, which may be important for poverty eradication. Using the existing MFIs delivering to different target groups, or for different activities in more rural locations, may still be preferable to creating new institutions but a lot needs to be don in terms of adaptation and design of new products. Further lessons need to be learnt from Grameen Bank that has managed to serve over 3 million clients and covered over 50% of the villages of Bangladesh.

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Appendix: Brief MFIs Profiles

DCC: Dar es Salaam City Council fund

This fund was formed in order to curb the shortage of credit funds to the city micro entrepreneurs. It was started as an effort to complement the funds that were being provided by the Women Development Fund and the Youth Development Fund.

seems to have been able to contribute out of revenue to support the WDF and YDF. Moreover, unlike other town councils, the DCC operates a credit shop in addition to the two funds. Credit is provided to individuals and individuals organized in groups. Moreover, unlike other councils, the DCC has 6 staff specially recruited for the delivery of micro-credit services and offers other services-project write-up and assists clients in project management. The DCC also envisages starting a community development bank.

FFIs : Formal Financial Institutions

MEDA: Mennonite Economic Development Associates

MEDA started operating in Tanzania in 1987 with a start-up capital of US$300,000 from Canada and was licensed as an MFI-NGO 1993. It has two branches, one in Mbeya and another in Dar es salaam. The size of loan range from Tshs. 50,000 to Tshs. 150,000. The lending rate is 48 percent and charges for technical services offered to client by MEDA is 12 percent but falls to 6 percent and zero percent for the second and third round of borrowing. MEDA does not mobilize savings. Loans are provided both to individuals directly and to individuals organized in groups. Either of the targeted client must have an ongoing business; and, the loans are supplied on the basis of character trust assessment. Loans are screened first and clients must contribute 20 percent of the loan value in advance as loan insurance (i.e. collateral)

NGOs: Non-Government Organizations

PRIDE: Promotion of Rural Initiatives and Development Enterprise Tanzania

PRIDE stated in 1994 with the aim of testing the applicability of the Grameen Bank micro-lending model in Tanzania. PRIDE operates only in urban and peri-urban environments (the population must exceed 100,000 people). It currently operates a network of 22 branches in all regions in Tanzania except Mtwara, Lindi, Bukoba and Rukwa.

SACCOs: Saving Associations and Credit Cooperative Societies

The main source of capital of the SACCOS is share holdings and deposits of members to whom it provided credit.[1] The use of the loan is at the members discretion. For example, the use of the loans has included finance of businesses, household construction, education fees. There is only limited screening of loan applications, seemingly because of peer pressure associated with

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[1] The largest SACCOS had 1,000 members and the smallest had 100 members. In comparison to membership size of SACCOS in Kenya, those surveyed are small

SACCOS. The loan sizes depend on a member's share holdings and these shares provide collateral for the loans. The interest rates are variable, they range from 1.55 to as high as 24%.

In SACCOS, loan repayment is enhanced by the fact that deductions are automatically made from the lender's salary.

SEDA: Small Enterprises Development Agency

SEDA was initially started as a department of World Vision in 1993 with a capital injection of US$50,000 and subsequent capital injection from Ford Foundation and USAID. In 1996 SEDA was registered as a micro-finance NGO-MFI with its headquarters in Arusha. By May 1999 SEDA had branch offices in Arusha, Moshi and Mwanza. Two field offices started in Babati and Shinyanga in 1999. Loans are available for ongoing businesses with a minimum loan size of Tshs. 50,000. More than 77 percent of loans are made to women. The lending rate is 24 percent (down from 30 percent). In addition, 13 percent of the loan value is charged as cost of processing the loan and training the beneficiaries. SEDA only lends to individuals who must first form an *upatu* (ROSCA) group of not less than 10 members and contribute 20 percent of the loan amount in advance as collateral.

SIDO: Small Industries Development Organization

SIDO is a government-owned MFI that commenced operations in 1974. It has received capital injections of Tshs. 1,960 million with approximately three-quarters from the government and one-quarter from foreign donors and NGOs. It does not mobilize its own savings from the clients serviced with both start-up and working capital loans of between Tshs. 50,000 and Tshs. 6.5 million. In 1998, approximately 46 percent of total loans were disbursed to women, mostly in the urban areas. SIDO supports value adding projects in the areas of manufacturing such as metal fabrication, furniture and wood work industries, food canning and processing etc.

The lending rate charged is 30 percent per annum. SIDO, whose mission is to eradicate poverty, also provides complementary business services to clients that include training of clients, project write-up, and advocacy. SIDO retains as collateral ownership of the asset purchased by the loan until repayment is complete.

WDF: Women Development Fund

WDF is under the Ministry of Community Development, Women Affairs and Children, respectively. The fund was instituted in 1993/94 fiscal year and is administered to the targeted groups by the office of the District Community Development Office under the District Council.

The WDF started with Tshs. 1.5 billion and the targeted group was women who are formers organized in groups and live in villages. The lending rate for the WDF was set at 24 percent but was revised downwards to about 10% in 1999. Beneficiaries are expected to undergo training before credit delivery.

WDF is distributed to each region and each district where the district councils administer it. However, the volume of funds has been small relative to the population women in the country.