

RURAL AND MICRO-ENTERPRISE FINANCING IN TANZANIA: LESSONS FROM OTHER DEVELOPING COUNTRIES

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Abstract: Micro finance is widely regarded as a tool for poverty alleviation in developing countries and the level of poverty in those countries makes it even more popular. This article looks at the progress so far made in Tanzania in instituting micro finance activities as a means of alleviating poverty. Evidence shows that little progress has so far been made in financing rural and micro-enterprise activities despite the inception of financial sector reforms in 1991. This little progress could be attributed to, among other things, the failure by the reforms to include comprehensive and complementing policies on rural and micro-enterprise financing. This of course leads to a number of adverse effects on micro finance activities. The article also reviews the micro finance experience of three countries in South America, East Asia and Africa using selected successful micro finance institutions in those countries and draws some lessons that could be useful in strengthening the progress of micro finance activities in Tanzania.

INTRODUCTION

The provision of financial services to the rural population is one of the important components of a development strategy (Yaron, Benjamin and Charitonenko 1998). During the 1950s, most countries in the world experienced government interventions in rural financial markets. These interventions included targeted credit programs, interest subsidies, directing banks to make concessional loans to agricultural activities and in some countries they (the interventions) went as far as establishing and supporting state owned agricultural credit institutions. In Tanzania for example records indicate that, the efforts by the government to provide rural financing in the form of agriculture credit began since 1947.¹

These policy measures also had support from the international monetary authorities such as the World Bank. However, these programs ended up, with limited outreach, huge transaction costs and little identifiable impact at the farm level. The failure of these policy measures together with the effects of other financial repression policies led to the introduction of financial liberalization policies in most developing countries as a mechanism of trying to resolve those failures.

According to Wood (1994), the ultimate objective of financial liberalization is to provide a stimulus for economic growth. However, Bhagwati (1985) argues that economic growth without poverty alleviation is not sufficient. One of the possible economic tools for poverty alleviation is the provision of financial services to rural and micro - enterprise sector, namely, savings mobilization and provision of credit.

Despite the success signs of the financial sector reforms introduced in Tanzania during the early 1990s, there are a number of negative effects that have been recorded.² These include: the failure by the formal banking institutions to address the financial needs of the small - scale enterprises and the rural population, and the closure of rural bank branches hence unbanking the rural areas. This led to a decline of financial services in rural areas and a concentration of these services in urban areas.

This article is divided into five main sections. The first section covers the introductory part, followed by an overview of the rural and micro - enterprise - financing activities in Tanzania. Section three reviews the international experience on micro finance using selected international micro finance institutions, followed by some lessons drawn from this experience in section four. Section five concludes.

Rural and Micro - enterprise Financing Activities in Tanzania

The success of the war against poverty depends partly on the growth and success of rural and micro - enterprise activities. This is even more relevant in Tanzania where nearly 90 percent of the population depends on agriculture and small-scale production³. This view is to a certain extent supported by the contribution of the agriculture sector to GDP.⁴ For example between 1987 and

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¹ Satta (1999).

² Rashid (1997).

⁴ GDP refers to Gross Domestic Product

1996, the contribution of the agriculture sector to GDP was close to 30% (see Table 1).

On the other hand, the national poverty headcount percentage of total population between 1984 and 1995, was more than 51%. This implies that up to 1995 more than 51% of the population in Tanzania were living below the poverty line (World Bank, 1997)⁵. Similarly, a comparison of per capita income growth against total population growth lends additional support to the above mentioned level of poverty. For example between 1987 and 1996, the average annual growth rate of total population was 3.1% while that of per capita income was 0.2%⁶. The level of gross domestic savings also reflect the same level of poverty in Tanzania whereby between 1989 and 1995, its percentage to GDP declined from 14.3% to -7.1 (see Table 1 below).

(NBC) which has now been split into two units i.e. NBC (1997) LTD and The National Micro finance Bank; the former Co-operative and Rural Development Bank (CRDB) which has changed to CRDB (1996) Ltd.; and the former Tanzania Post Office Savings Bank which has now changed to Tanzania Postal Bank (TPB). Also included in the list of banks reviewed is The Kilimanjaro Co-operative Bank (KCB).

KCB was included in the list because it is a rural based bank while the other banks were included because of their branch network that covered most parts of the country at that time.⁷

The National Bank of Commerce (NBC) Experience

NBC was one of the state banks with a number of branches spread all over the country. The

Table 1: Tanzania: Annual percentage of selected economic development indicators to GDP at constant 1992 prices, 1987 - 1996

Year	Manufacturing	Agriculture	Services*	Gross Domestic Savings
1987	8.8	27.0	5.2	2.8
1988	8.7	26.0	5.4	5.2
1989	8.9	26.5	6.0	9.4
1990	8.7	26.6	5.7	14.3
1991	8.6	27.0	5.5	8.8
1992	8.2	26.6	5.7	2.2
1993	8.2	27.3	6.0	3.2
1994	8.1	28.0	6.0	3.3
1995	7.9	28.3	5.7	-7.1
1996	7.9	28.4	5.4	--

Source: African Development Indicators (World Bank, 1997) and Revised National Accounts of Tanzania (Bureau of Statistics and Parastatal Sector Reform Commission, 1997). The computation of growth rates used GDP at constant 1992 prices.

Note: * This is represented by Financial and Business Services.

Given the level of poverty, and dependence on the agricultural sector, it is obvious that rural and micro enterprise financing in Tanzania is an important requisite for poverty alleviation. The rural and micro-enterprise financing in Tanzania can be grouped into two initiatives i.e. the banks' initiatives and the NGOs' initiatives.

The Banks Experience and Initiatives in Micro Financing

The banks which were reviewed in this study include the former National Bank of Commerce

branches reviewed in this study show a broad decline in the number of borrowers between 1994 and 1996. Of the nine branches reviewed, 56% recorded a decline in loan outstanding between 1994 and 1996 while 44% recorded an increase in loan volume. Despite the wide network of its branches, NBC has never been involved in any significant micro financing activities.

⁵ According to the World Bank, poverty line is defined as that measure below which adequate nutrition, shelter, and personal amenities cannot be guaranteed.

⁶ These have been computed using the figures provided in appendix i

⁷ Currently some of the former NBC branches are not operational having been closed during the Bank's restructuring exercise.

The Co-operative and Rural Development Bank (CRDB) Experience

This was another state bank that specifically catered for rural financing. The branches of this bank that were reviewed display a sharp decline in the number of borrowers between 1994 and 1996. For instance Lumumba branch borrowers in 1996 were 15% of the 1994 position, with Mbeya having 10% and Mwanza with 19% of the 1994 number. Similarly, loan outstanding experienced a sharp fall between 1994 and 1996, with the 1996 position being 27% of the 1994 outstanding for Lumumba, 5% for Mbeya, and 81% for Mwanza.

Despite the participation of this bank in rural financing, its activities (particularly lending) were mainly directed to specific sectors as well as to Co-operatives only. Similarly, the focus of this bank was not to small savers and entrepreneurs.

The Kilimanjaro Co-operative Bank (KCB) Experience

This bank is fully owned by co-operative societies, which spread throughout the six districts of Kilimanjaro region. It was incorporated and registered on the 10th December 1994 under the Co-operative Societies Act of 1991 and licensed by the Bank of Tanzania to operate as a bank on 14th August 1995. By March 1997 KCB had reached over 780 savers and 6 borrower, the majority of whom (40%) came from a radius of 2 kilometers from the bank's head/branch office in Moshi town. KCB by this time had also managed to mobilize savings of over Tshs 500 million and made 6 loans only valued at slightly over Tshs 15 million.

The Experience of Tanzania Postal Bank (TPB)

This bank was officially established as an independent legal corporation under the Banking and Financial Institutions Act of 1991 following the split of the then Tanzania Postal and Telecommunications Company. Prior to this split it was just a unit of the Treasury for collecting deposits and investing them in government paper. This bank currently remains to be the main channel of mobilizing rural savings and the provider of rudimentary banking services to the 'common man'.

In other words TPB caters for small savings and is therefore dependents on small savers. Nevertheless, up to mid 1997 it had not yet

started lending to small borrowers. During 1994 a special loan of T.shs. 50m. was made to one borrower to finance a hotel project in Mbeya and in 1996 a repayment of T.shs. 25m. was made with respect to this loan (see Table 4 and 5).

NGOs Experience and Initiatives in Micro Financing

The main objective of most NGOs in the world is to facilitate social and economic emancipation of the small entrepreneurs in the rural and/or urban areas. Although in the past NGOs aimed at temporarily relieving the symptoms of poverty, this direction has almost been replaced with a full focus on poverty alleviation (Ditcher 1996). In Tanzania a few NGOs have been involved in micro finance. These include PRIDE Tanzania, Tanzania Gatsby Trust - Dar-Es-salaam and Savings and Credit Co-operative Societies (SACCOS).

The Experience of PRIDE Tanzania in Micro Financing

PRIDE Tanzania with its head office in Arusha, was incorporated and registered on 05/05/1993 as a company limited by guarantee and having no shares under the companies' ordinance chapter 212. The establishment of PRIDE Tanzania was through the initiative of, and technical assistance of PRIDE Africa - Nairobi which had acquired prior experience in micro finance programs from PRIDE Kenya which had been initiated in 1988 through funding and technical assistance from the Kenya Rural Enterprise Program (K-Rep).

Since its establishment in 1993, PRIDE Tanzania has been able to open 20 branches in major towns of the country through which the organization was able to reach and provide financial services to over 8000 small-scale entrepreneurs. The main economic activities financed by it include masonry, dairy, electronic repairs, trade and services like hair saloons and restaurants.

Since the disbursement of its first loan in May 1994, PRIDE Tanzania had, by the end of January 1997 extended 12,484 loans to over 7800 small scale entrepreneurs valued at over T.shs. 1 billion. During the same time PRIDE Tanzania was able to maintain a loan repayment rate of 100%. The number of borrowers, more than trebled both between 1994 and 1995, and

between 1995 and 1996. The loan repayment performance remained excellent and was maintained at 100% despite the trebling of the volume of loans during that period.

The Micro Finance Experience of Tanzania Gatsby Trust - Dar-Es-Salaam

This is a Non Governmental institution (NGO) incorporated on 3rd March 1992 under Trustee Corporation Ordinance Cap. 375, with a mission statement aiming at relief of poverty and advancement of education. The credit portfolio of this NGO increased from Tshs 47m to Tshs 87m between 1992 to 1996.

However, there were hardly any agricultural activities undertaken. Its loan portfolio is mainly in two parts; working capital and capital expenditure. The amount borrowed in both cases is more than Tshs 200,000. The loan repayment rate is said to be more than 90%. All in all the Trust appears to be lacking both financial and operational capacity to manage the credit program effectively. It however has good potential because of its strong leadership.

Savings and Credit Cooperative Societies (SACCOS) Experience in Micro Finance

Savings and Credit Cooperatives Societies (SACCOS) have had long roots in Tanzania. However various government actions since 1976, which destabilized the cooperatives, also had a major impact in destabilizing the SACCOS. As result, most SACCOS have had a very low level of operations or otherwise remained largely dormant. In this study, 4 SACCOS that had active credit operations were reviewed.

Wino SACCOS in Songea

This SACCOS, by 1996 had a total number of members totaling 228 with a volume of loan outstanding of Tshs 8.1 million in that year. By that time it had a good loan repayment rate with a ratio of late loan portfolio to total loan portfolio of 0.02.

Mwongozo SACCOS in Tabora

This SACCOS was established on 17/05/1993 and incorporated under the Co-operative Act 1991 No. 15 Sect.30. Since it's establishment, Mwongozo SACCOS managed to extend its membership from 112 in 1993 to 137 by April 30th, 1997 and the total loans already given

amounted to Tshs 4,425,510 of which Tshs 2,051,500 were disbursed in cash and the balance in the form of agricultural inputs for the three year period i.e. 1995-1997. Out of the current loans at that time, 33 were for agriculture, 2 were for education and 1 was for health financing.

Nyanza SACCOS in Mwanza

Nyanza SACCO is an active employee-based society. However, it suffers from a problem of having its accounts and records being late. The records for 1994 and 1995 indicate that there was a general decline of operations by 39.3% from 140 borrowers in 1994 to 85 in 1995 while the volume of loans outstanding declined by 4.8% from Tshs 4.95m in 1994 to Tshs 4.7m in 1995.

Marangu West Rural Savings and Credit Society

This SACCOS was registered, as an independent society on The 30th July 1993 under the Cooperative Societies Act No 15 of 1991. Since its inception it managed to mobilize substantial savings from its members of nearly Tshs 50 million as at 31/03/1997. By that time it was serving over 1900 rural co-operatives spread over all the seven villages of the Marangu West Location. However, this society up to March 1997 had not yet started to extend loans to its members.

Overall Experience of Banks and Financial NGOs in Micro Finance

The experience of the banks in Tanzania in the participation of rural and micro - enterprise financing shows that little progress has been done towards that direction. With the exception of the Kilimanjaro Co-operative Bank (KCB) which is a rural bank, the other banks particularly the state banks have had little participation in micro financing. In addition to that, these (state) banks closed most of their rural branches in the process of restructuring and at the same time the remaining urban branches focused on corporate customers under the assumption that, this segment is the most profitable in the market.

Similarly, foreign banks that entered the banking sector following the adoption of the financial sector reforms in 1991 opened branches in two or three cities only where they (still) believe there are corporate business activities (i.e. Mwanza, Arusha and Zanzibar). Otherwise their

concentration has been mainly in Dar-es-Salaam.⁵

The trend of both local and foreign banks operating in Tanzania, therefore, gives evidence of how the rural and micro - enterprise sector has been ignored. Other factors that account for the failure by the banks to adequately cover rural and micro - enterprise financing include: the failure by the banks themselves to determine the needs and preferences of their potential clientele; poor institutional coverage; weak management; lack of lending criteria; the existence of a non - conducive economic, financial, legal and social infrastructure for rural and micro finance activities.⁹

Table 2: Distribution of Branches of Foreign Banks in Tanzania Mainland

Name of Bank	No. of Branches		
	DSM	Arusha	Mwanza
Citi Bank	1	-	1
Standard Chrd.	2	1	1
Stanbic	2	1	1
Kenya Commercial	1	-	-
Int. Bank -Malaysia	1	-	-
Truist Bank	1	-	-
Habib African Bnk.	1	-	-

Source: Directorate of Bank Supervision, Bank of Tanzania

Out of the several NGOS and SACCOS that are active in credit operations PRIDE Tanzania and some of the SACCOS appear to have higher loan repayment rates. This is probably explained by the group guarantee mechanism and peer pressure, which is the hall mark of successful Rural Financial Institutions (RFIs) across the World (Bancosol in Bolivia, BRI in Indonesia, Grameen Bank in Bangladesh, and K- Rep in Kenya). Further, with regard to the SACCOS, the user - owned aspect of the loanable funds brings about a strong financial discipline amongst members, especially where leadership is also strong.

Using outreach as one measure of serving customers by a financial institution, Table 3 illustrates how poorly rural Tanzania is served by the institutions, given a population - bank

density of 168,291 people per unit.¹⁰ Purely in terms of numbers, the SACCOS are more widespread with a population SACCOS density of 31,021 people per unit. These facts are not surprising given the national network of 167 bank branches and 906 Savings and Credit Co-operative Societies (by March 1997) which were serving the total population of approximately 30 million of Tanzania Mainland.

Furthermore, with the exception of the SACCOS, the bulk of the bank branches are concentrated in big towns and urban centers, with Dar-Es-salaam alone accounting for 22.2 percent of the national network by that time. The network by mid 1997 indicates that it was densely clustered around some regions such as Kilimanjaro (7.2 percent) and Arusha (6.6 percent).¹¹ These regions also happen to have the highest SACCOS/Bank ratio, as shown in Table 3.

The analysis of credit performance by loan size for all institutions covered in this article is presented in Table 5 and is made on the basis of type of institution. Table 4 below provides a summary of average loan size by type of institution.

Detailed unit level averages are presented in Table 5. As revealed in the table, the average loan size also differs among the branches of CRDB and NBC. The average size also differs among the SACCOS.

Loan sizes among the SACCOS (as detailed in Tables 4 and 5) show that they ranged between a minimum of Tshs 27,400 and a maximum of Tshs 35,300 in 1994 to a minimum of Tshs 17,900 and a maximum of Tshs 55,400 in 1995, and a minimum of Tshs 17,000 and a maximum of Tshs 68000 in 1996. Thus loan sizes per borrower among the SACCOS have averaged Tshs 31,400 in 1994, Tshs 42,300 in 1995 and Tshs 37,600 in 1996. Such loan sizes are in the range of loans normally consumed by rural micro finance borrowers.

Clearly, under the existing institutional arrangements, as portrayed by the data of the institutions covered in the study, the SACCOS and the NGO financial intermediaries are the only institutions presently catering for the rural and micro - enterprise borrowers in Tanzania.

However, the experience of these NGOs in

⁵ Table 2
CRDB (1997) LTD

¹⁰ Outreach refers to the number of customers being served by a financial institution.

¹¹ K-Rep and Bank of Tanzania

Table 3: Regional Distribution of Institutions in 1996

No.	Region	Population	No. SACCOS	No. Bank Branches	SACCOS Bank rate	Population Bank density	Population SACCOS density
1.	Arusha	1,808,305	76	11	6.9	164,394	23,794
2.	DSM	1,965,096	121	34	3.5	57,797	16,240
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.	K' manjaro	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
14.	Mwanza	2,394,578	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	69,091
19.	Tabora	1,260,453	19	4	4.7	315,113	66,340
20.	Tanga	1,511,836	30	9	3.3	167,982	50,394
Total		28,104,676	906	167	5.4	168,291	31,021

Source: Bank of Tanzania, Supervision Directorate (1996) and Ministry of Agriculture and Cooperatives (1995). Estimates of population for 1996 have been computed from the 1988 Population Census data published by the Bureau of statistics: 1988 Population Census National Profile, The Population of Tanzania, The Analytical Report Chapter.

micro finance activities in Tanzania reveal a general problem of ignorance on the target clients which has to a large extent limited the success of these schemes. In addition to that, they (NGOs) have also exhibited weak institutional capacity and lack of effective co-ordination for their activities.¹² This, therefore, is another reflection of the little progress so far made by NGOs in the process of alleviating poverty through the provision of rural and micro-enterprise finance.

Table 4: Average Loan Size per Borrower (Tshs)

Institution	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	50,000,000
NGOs	29,664	31,887	37,832
SACCOS	37,603	42,281	31,888

Source: Table 5

Table 5: Average Loans Size Per Borrower (Tshs)

Institution/ Branch	1996	1995	1994
CRDB Lumumba	6,931,947	6,242,142	3,744,956
CRDB Mbeya	4,542,773	8,618,414	8,329,904
CRDB Mwanza	15,559,500	4,441,105	3,607,358
CRDB Arusha	19,442,400	N.A.	N.A.
NBC Tukuyu	7,897,277	2,697,700	829,048
NBC Monduli	3,176,875	2,791,283	1,683,810
NBC Magu	N.A.	N.A.	N.A.
NBC Korogwe	13,467,250	N.A.	N.A.
NBC Kisarawe	1,028,000	336,404	425,161
NBC Isike	1,296,483	1,123,384	793,201

¹² Bank Of Tanzania (1997)

Table 5: (Continued...)

Institution/ Branch	1996	1995	1994
NBC Chalinze	9,300,303	2,578,777	2,291,730
TPB Consolidated	25,000,000	50,000,000	50,000,000
PRIDE Tanzania	29,664	31,887	37,832
SACCOS Nyanza	N.A.	55,423	35,342
SACCOS Mwongozo	30,316	17,887	N.A.
SACCOS Wino	35,469	53,533	27,434
SACCOS Wetu	67,652	N.A.	N.A.
SACCOS Juhudi	16,997	N.A.	N.A.

Source: Micro finance Survey in Tanzania (Bank of Tanzania and K-Rep)

Note: 1. TPB had only one borrower during the period 1994 - 1996.

INTERNATIONAL EXPERIENCE IN MICRO FINANCE

The international experience of micro finance activities and success stories in this paper is drawn from Bolivia using the famous Bancosol (Solidarity bank) model; Indonesia using the Bank Rakyat Indonesia (BRI) model and Kenya using Kenya Rural Enterprise (K-Rep) approach.

Bank Rakyat Indonesia (BRI) Experience in Micro Finance (Indonesia)

Indonesia is the fourth most populous country in the world, with a population of about 200 million and a per capita income of US \$ 1,012. This country has a diverse economy that grows at about 8 percent annually (Sugianto 1997). A large section of the population is employed by micro - enterprises. These facts, therefore, indicate how micro finance in Indonesia is important in the efforts of assisting the poor.

BRI is a state owned commercial bank, which up to 1996 had a network of 324 branches. Its business is divided into three strategic areas as follows:

a) branch commercial and retail banking;

- b) Unit retail banking; and
c) Corporate and international banking.

The unit retail banking strategic area is the one, which is responsible for micro finance activities, and it involves a number of units. These units offer non - subsidized credit and savings services to their customers, who are mainly low - income households and micro - enterprises. This system (unit retail banking) had by 1996, 3610 unit offices and 382 service posts located throughout Indonesia. Each unit had 4 or 5 capable, well-trained people recruited from the local area. By that time there were more than 2.5 million loans outstanding at the BRI units worth US \$ 2500 million. The average disbursement size of loans was about US \$ 1000. The loan collection level by the units was 98.3 percent of the principal falling due in 1995.

On the savings side the units at that time held more than 16 million deposit accounts aggregating to more than US \$ 2900 million. However the individual accounts were of small amounts with over 70 percent holding balances of less than US \$ 90.

In addition to unit banking, BRI also supervises village credit organizations under the name of Badan Credit Desa (BKD). These are village - owned credit schemes, numbering 5,300 and serving almost 800,000 customers. Their clients are mostly poor or near poor and the majority are women. A typical loan size of the BKD's is in the range of US \$ 50 - 100, and the repayment period is normally weekly. The nature of the BKD's lending makes them not profitable. However, they are self - sustaining and able to fund their lending activities largely from retained earnings.

BRI's efforts in micro finance also include the income-generating program for marginal and landless farmers known as the P4K. This program was developed jointly between BRI and the Indonesian Government and it is based on a group lending system with each group comprising 8 - 16 members. Under this program BRI lends and supervises more than 20,000 such groups. The BRI units' lending and savings mobilization operations are guided by a set of policies, which include:

- a) Credit is available to all creditworthy customers and it is not confined to a particular sector, commodity or target group (this moves in line with the principles of financial liberalization);

- b) Loan approval is based on the decision of BRI management without any external intervention;
- c) Interest rate on the loans covers all costs and a reasonable profit margin;
- d) Savings are mobilized by offering a positive interest rate, security, confidentiality, and granting unlimited withdrawals;
- e) Units are established in commercial centers of the local population. This convenience cuts the customer's transport and travel time.

The key principles of unit operations that have made BRI operations to be successful include: straight forward and standardized credit and savings instruments; enforcement of a simple, standard set of financial rules e.g. each unit is a cost center with its own balance sheet and profit and loss statement; delegation of responsibility and authority for approving loans to the local unit manager; giving performance incentives in order to provide staff motivation; and provision of job specific standardized training based on training materials developed to fit unit products and operation.

Kenya Rural Enterprise (K-REP) Experience in Micro Finance (Kenya)

K-Rep is a specialized micro finance development institution, serving micro and small enterprises in rural and urban areas in Kenya. It is an NGO established in 1984 with a mission of serving as a catalyst for enabling low income people participate in the development process and improve their standard of living through promotion of employment and income generating opportunities. There are two models of lending by the K-Rep namely: the Juhudi model and the Chikola model (Aleke 1997). This NGOS transformed itself into a commercial bank in May 1999.

The Juhudi Model

This model started in 1990 in Kenya's largest slum settlement located in Nairobi. This approach involves forming "watano" groups of 4 to 7 individuals. Between 4 to 7 "watano" groups confederates into a "Kiwa" which is registered as a self help group with the Government of Kenya. The "Kiwa" is the legal entity through which loan transactions to individuals are carried out. With time the Juhudi program showed great potential to reach many clients at relatively low costs.

The Chikola Model

This model was introduced in 1991 to provide credit to individual entrepreneurs through existing rotating savings and credit association (ROSCA). This scheme is rotational whereby it provides one loan to each "chikola," which "retails" the funds to the members. This reduces the transaction costs to K-Rep and yet the group guarantee is maintained.

By 1996, K-Rep was working with 576 chikola groups with a total of 30,222 loans amounting to Kshs 1,010bn or US \$ 19m. With a total of over 17,000 borrowers, K-Rep is the biggest micro finance organization in Kenya and female borrowers account for 60 percent of the credit recipients.

The Bancosol Experience of Micro Finance in Bolivia

Bancosol (also known as solidarity bank) started its activities as an NGO under the name of PRODEM (Promotion and Development of Microenterprises) and later on turned into a full fledged commercial bank although it still retains the NGO wing which caters for the micro finance transactions while the bank caters for the other commercial undertakings (Cuevas 1996). The case of Bancosol has been a successful story because of the approach it has been using in reaching the poor. At the same time Bancosol has managed to keep a low level of loan arrears which in 1996 amounted to only 2.5 percent, with a zero default rate.¹³ Bancosol's success mainly depended on its trust - based lending system vis-à-vis collateral - based - lending, which is commonly in use by commercial banks.

In order to build up the trust, a lot of patience is needed although it should not be entertained in the case of delinquency. Under this approach of lending Bancosol exercised strict monitoring of the borrowers. Until 1996 both the Bancosol and its retained NGO wing were servicing a total of about 100,000 borrowers, had a combined assets position of over 60 million US \$, and employed close to 1000 staff. At that time the average loan was around US \$ 700 in the case of the Bancosol and US \$ 300 in the case of the retained NGO wing (PRODEM).

Up to 1996 the micro finance estimated industry in Bolivia comprised 15 institutions

¹³ Bank of Tanzania (1997)

allowing about 200,000 urban self employed and rural landless to access loans for their businesses.

Lessons and Implications to Micro Finance in Tanzania

There are a number of lessons that can be drawn from the micro finance experiences of the Bancosol (Bolivia), BRI (Indonesia) and K-Rep (Kenya). These lessons certainly are not only useful in the process of designing successful rural financial intermediaries in Tanzania but also in other developing countries as well (Chaves and Gonzalez 1996). The most important lessons from the three countries can be summarized as follows:

- a) Micro finance is an effective tool of poverty alleviation for persons who have identified economic opportunities, which they have the capacity to exploit.
- b) Successful micro finance undertakings rely heavily on trust, and not principally collateral based, which is a requirement normally associated with orthodox commercial banking.
- c) Micro finance is a costly undertaking due to operational costs associated with the need to cover a large number of borrowers (extensive outreach). It is therefore associated with high lending rates that are necessary to offset the high operational costs.
- d) It is not prudent to subsidize micro - credit since experience has shown that small borrowers are more concerned with availability of credit and not the cost. Besides there is evidence of divergence of subsidized credit to untargeted groups.¹⁴
- e) In order for commercial banks to venture into successful micro finance, they need to tailor their programs to suit the requirements of the targeted clients. This implies restraining their staff, from enforcing the generally accepted "know your customer rules," changing operational procedures, including reviewing the requirement for collateral (Yaron; Benjamin; and Piprek 1997).

CONCLUSION

The intention of this article was to review the progress so far made by financial institutions and NGOs in Tanzania in the process of rural and

¹⁴ Yaron, Benjamin and Charitonenko (1998)

micro - enterprise financing in Tanzania. The paper also reviewed the experience of some selected successful international micro finance institutions and drew some lessons from them. So far little progress appears to have been made by banks and NGOs initiatives in micro financing activities in Tanzania. There is still a lot to be done, therefore, if the country is to take advantage of this possible tool of poverty alleviation.

Using the experience drawn from other parts of the world, it can be argued that the poor as an income group are a good credit risk and are, therefore bankable. It can also be argued, from the same experience, that, financial services can be delivered profitably to the poor, provided the targeted beneficiaries are involved.

Another notable aspect from the international micro finance institutions' experience is that, in most cases micro finance develops outside the formal financial system and therefore there is a need to promote linkages between the formal and informal sectors in an integrated manner.

In order to design a successful rural and micro - enterprise finance system in Tanzania the following basic features, in addition to the lessons drawn from the international micro finance institutions, could be useful: a good knowledge of the market; sustainability of micro financing; use of techniques that ensures high repayments; extensive outreach; committed and competent staff; and a change in the credit culture by both customers and bank staff.

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Appendix 1: Tanzania's annual % growth of selected economic variables and sectors, 1987-1996

Year	Per Capita Income growth	Agricultural sector growth	Manufacturing sector growth	Service sector growth	Total* Popln. growth
1987					
1988	1.6	1.1	3.1	8.0	3.2
1989	-0.3	3.9	5.2	14.6	3.1
1990	3.3	6.7	4.1	0.7	3.15
1991	-0.1	4.2	1.9	0.1	3.1
1992	-1.0	0.4	-4.0	4.3	3.1
1993	-2.4	3.0	0.6	6.1	3.06
1994	-1.4	2.4	-0.2	2.4	3.0
1995	0.7	6.6	1.6	-1.4	3.0
1996	1.3	4.5	4.8	-1.7	2.8

Source: World Bank; *African Development Indicators* and Revised National Accounts of the Tanzania Bureau of Statistics and the Parastatal Sector Reform Commission, 1997. Computation of growth rates used GDP at 1992 constant prices.

* Computed using population trend figures as given in appendix II.

AppendixII: Tanzania, population trends: 1987 - 1996

<i>Year</i>	<i>Population trends</i>
1987	23.20
1988	23.95
1989	24.70
1990	25.48
1991	26.28
1992	27.10
1993	27.93
1994	28.78
1995	29.65
1996	30.49