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Micro-finance: Missed Opportunities in Empowerment?

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Articles

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The Performance and Sustainability of Micro Financing Institutions in Tanzania

1. Introduction

1.1 Background Information

Due to the declining role of the public sector, the role of Micro and Small Enterprises (MSEs) in promoting economic growth and development, offering increased employment, and reducing income disparities, has been widely recognized (Bagachwa 1994; Bendera 1997). In Tanzania, MSEs contribute 12% and 34% of the rural and urban employment respectively, as well as up to 32% of the GDP (Wangwe and Semboja 1997; Toroka and Wenga 1997)[1].

The increased participation and contribution of Micro and Small enterprises (MSEs) has lead to an increased need for financial services. One of the tools recognized as a means of promoting MSEs development has been credit (Chijoriga 1997, Chijoriga and Cassimon 1999). Proponents of the credit approach (cf. Yunus 1984) argue that people who live in developing countries might improve their living standards by becoming micro entrepreneurs, and that financial institutions should support their initiative with small loans. According to Grande (1984), loans enable the individual member or enterprise to enjoy both the benefits of economies of scale and those of new high-value technologies.

Despite the wide recognition of the dynamic role of credit, few small business owners or poor in rural Tanzania or other developing countries have access to and have benefited from the available formal financial services. According to the International Finance Corporation (IFC 1994), 60–69% of the population in many African countries have no access to conventional financial institutions. Ziorklui and Senbet (1997) have identified the lack of long-term capital for investment in the private sector as a major constraint to growth and development in Sub-Saharan Africa. Formal Financial Institutions (FFI)[2] regard MSEs as too poor to save, having low borrowings and carrying a high default risk. As a result, many small businesses and rural poor have financed their activities from informal sources which include their own funds, loans from friends money lenders, or relatives, and rotating savings and credit groups, as well as sometimes from donor agencies (Chandavakar 1988; Rutashobya 1991; Ndanshau 1996).

Commercial banks, which have been traditionally considered powerful catalysts of economic development through resource mobilization and the provision of credit to profitable ventures, did not offer credit to the rural poor or small businesses (Kuzilwa and Mushi 1997). This meant that an alternative mechanism or institutional intervention for lending to the poor was needed. The question was, which type of institutional interventions should be introduced in order to be cost effective and not imperil poverty. By the end of the 1980ies some new approaches had been proposed. One of the approaches was the participatory approach, based on the traditional system, including "tontines", money lenders, and funeral societies. The second approach was the modeled approach, which utilizes standard predetermined packages. This includes step-by-step guidelines to micro-business feasibility studies, loan administration, etc. Examples of the two approaches include the various schemes and models currently operational in developing countries, such as the Grameen Bank in Bangladesh (which is based on the modeled approach). Micro Financing Institutions (MFIs) have therefore become alternative sources for financing the MSEs and the rural poor. Many researchers argue that these schemes or MFIs will: (i) reduce poverty through increased income and standards of living; (ii) empower women; (iii) develop the business sector through growth potentials; and (iv) develop a parallel financial sector (Hulme and Mosley 1996, 1998; Buckley 1997; Hashemi et al. 1996).

1.2 Establishment of Micro Financing Institutions in Tanzania

In Tanzania, before the current financial and banking restructuring took place, most of the financial services for the rural, micro and small enterprises were offered by the National Bank of Commerce (NBC) and the Cooperative and Rural Development Bank (CRDB). Before the restructuring, statistics indicate that the informal sector accounted for 80% of non farm employment (Rutashobya 1991; Ndanshau 1996; Malima 1997). Only 0.4% or about 8,000 people obtained their credit from formal banks. Those who obtained credit from Cooperative Societies or Savings and Credit Cooperative Organizations (SACCOS), a common phenomena in working places, accounted for 0.3%. Both the NBC and CRDB have been restructured. A National Microfinance Bank (NMB) which has been given the task of offering financial services to the MSEs and rural poor has been established. Parallel to the reforms of the public banks, new private banks have been established, but most of these new banks are located in cities and are not accessible to MSEs and the rural population. Except for the Akiba Commercial Bank, none of the private banks offer credit to MSEs.

Due to the vacuum left by formal financial institutions, and in recognition of the increasingly important role of the private sector and the dynamic role of MSEs, the need for creating an alternative financing system has arisen. As a result, a good number of Micro Financing Institutions have been established. Commonly mentioned Micro Financing Schemes or models include: solidarity schemes, such as rotating saving and credit schemes (ROSCAs), savings and credit cooperative organizations (SACCOs), and individual schemes. Before the establishment of the current informal schemes, some traditional credit and

saving schemes such as "upatu" had existed, especially among women (Rutashobya 1991; Ndanshau 1996).

There is currently an increasing number of informal micro-finance schemes initiated by individuals, cooperatives, or government and donor agencies. The majority of the schemes are donor or internationally funded and depend on subsidy. Thus, the operational and financial sustainability of such schemes when donor funding stops is very questionable.

Available literature and empirical evidence give conflicting results on the performance and sustainability of MFIs. Both failure and success cases have been reported regardless of the delivery model. For example, Bulow et al. (1995) have shown that the women and youth schemes in Tanzania have not been successful. According to their research, the projects used the top down approach for project design, implementation and evaluation, denying ownership of the credit recipient. Non-participation in the project choice and implementation delimits clients from ownership, affecting performance and sustainability. Schemes surviving because of external patronage fail to fulfill their intended requirements, leading to poor performance. A number of studies have been conducted, but none have evaluated the performance and sustainability of the MFIs.

The government of Tanzania and other institutions are presently in the process of establishing rural or community based banks. The government is not sure which of the various micro credit delivery models or micro financing schemes should be adopted. The government or institutions can only make such decisions if they are aware of which of the existing delivery models is performing well and is sustainable. Although the prime objective of this research was to measure the performance and sustainability of MFIs, the research was also intended to assess which type of scheme can be adopted by the proposed rural or community banks.

1.3 The Research Problems and Objectives

Literature and empirical evidence show that MFIs have been successful in offering a parallel financing system to the MSEs, as well as eliminating market inefficiencies which face formal financial institutions. Micro finance has provided a powerful tool for expanding economic opportunities for the "entrepreneurial poor", and has contributed to a decrease in their vulnerability. Evidence also shows that the demand for MFIs is increasing (UNDP 1999). While findings acknowledge the existence of credit unions, solidarity groups, and village banking in most developing countries, findings show that not all types of MFIs can be applied to any socioeconomic environment, and that specific schemes are more successful in particular geographical and socio-cultures. The differences are also evident between MFIs operating in West Africa and Eastern, Central and Southern Africa.

Available literature also indicates that the majority of the schemes are donor funded or depend on subsidy from government (Bulow and Maro 1995; Mosley and Hulme 1996a, 1996b; Malima 1997; Chijoriga and Cassimon 1997). Donor or subsidy dependence has tended to limit the MFIs future performance and sustainability. At a macro level, the sustainability of the MFIs south of the Sahara is constrained by the low population density, the lack of communication infrastructure, and the low level of monetarization. On an operational and institutional level it is also argued that performance and sustainability depends on the institutional capacity in terms of management vision and competence, reliable management information systems (MIS), and the adoption of the right strategies for achieving operational and financial sustainability. While all the above concentrate more on the institution, the author believes that MFI performance and sustainability also depends on the type and performance of its clients (i.e. MSEs).

MFIs have been operating in Tanzania for at least three to five years. So far there is no comprehensive list of MFIs operating in Tanzania, or the type of service or credit delivery models they use. Many of the existing MFIs are registered as NGOs with multiple missions and objectives, including credit delivery. According to the directory of NGOs based in Tanzania, there were about 813 NGOs (Prime Ministers Office 1995) by end of 1994. 200 were categorized as economic services; 64 environmental, 44 health; 98 professional/education; 106 service/social service; 53 women; 29 youth; 155 regional organizations; and 64 as international. None of the NGOs specifically showed credit offering or financial service as their categorization. As a result, few of the MFIs are known to the regulatory authority or MSE operators. Many have limited outreach, only operating in urban areas. Existing evidence (Malima 1997, Shirima 1998) indicates that many of the known MFIs operate and are located in Dar Es Salaam, Moshi, and Arusha, with few of them operating in the Mwanza, Morogoro, Iringa and Mbeya regions. With the exception of PRIDE and NMB which have branches in almost all regions, few of the MFIs have branches beyond one town or city.

Except for a few selective donor funded evaluations, no independent study has been carried out to assess the overall performance and sustainability of MFIs currently operating in Tanzania. As a result, little is known about the performance and sustainability of these MFIs. Neither is it known which micro financing models are most appropriate for the Tanzanian geographical and socio-cultural setting, nor what constraints they might face in achieving operational and financial sustainability. This research is intended to find the answers to these questions.

This paper presents part of the results of a significant amount of research conducted in 1998–1999. The major objectives of the research were:

- To review and evaluate the performance and sustainability of Micro Financing Institutions (MFIs) currently operating in Tanzania and serving the MSEs. The major focus was to evaluate the performance of MFIs in terms of their overall institutional strength, quality of service and outreach, operational efficiency, and financial performance.
- To review and analyze the performance of MSEs by assessing whether there is a correlation between the performance of MSEs and the success and/or failure of MFIs.

- To analyze to what extent environmental, socio-cultural and gender related factors inhibit or facilitate micro financing.
- To develop policy recommendations relating to micro financing in Tanzania.

This paper presents only the performance and sustainability of MFIs, the impact of environmental and socio-cultural issues on micro financing, and the policy recommendations regarding to MFIs.

1.4 Research Design and Methodology

The research was based on a survey, where both the MFIs and its clients were surveyed and evaluated. Due to the proximity and high concentration of MFIs and MSEs in certain regions, actual regions sampled and included during the survey were Dar Es Salaam, Arusha, Morogoro, Mbeya, and Zanzibar. Research sites represented a plurality of cultural and religious backgrounds in the Tanzanian mainland and Zanzibar.[3] The actual field research was done from April 1998–December 1998. A total of about 28 MFIs were visited and interviewed. Actual MFIs visited and the regions are as follows:- Dar Es Salaam (11), Arusha (4), Morogoro (2), Mbeya (10), Zanzibar (3). To link the MFI performance and sustainability to the performance of MSEs, a total of 194 MSEs were personally visited and evaluated.

In the absence of a law regulating the registration of MFIs, and a lack of comprehensive data on the number of all MFIs operating in Tanzania, a random selection was used to select the MFIs to be evaluated. In addition, a stratified selection based on the funding source, client outreach, years in operation, and the type of delivery model employed was used to categorize MFIs in particular groups. Based on the above, the following MFIs were visited.

Table 1: List of MFI Visited

Client Outreach	FUNDING SOURCE			
	Government and Donor	Donor	SACCOs	Total
Women	CREW, PTF, WEDTF	Pride, Poverty Africa, MEDA, ZFSR, TGATPS, SEDA	7	16
Youth	YDF, TYDF	RYTEP	0	3
Business Enterprises	SIDO	Pride, Juhudi, TAPSE	4	8
Disabled Business Operators	–	ZAD	0	1
Total	**6**	**11**	**11**	**28**

Both secondary and primary data for MFIs and MSEs was collected. Primary data was collected using open ended questionnaires with some structured questions, personal interviews, visits, check lists, and observational analysis. The MFI questionnaire sections were divided into: the general profile of the MFI, the process of screening and loan enforcement, problems they face in loan evaluation and review, the financial statement preparations and finally the past five years of human resource data, loan portfolio analysis, financial performance and their proposed operation of MFIs and other known MFIs.

Secondary data was collected using the available internal institutional records and available literature. Other places visited included donor and funding agencies, ministries, formal banks, and NGOs. Prior to conducting the full research, a pilot study was undertaken.

Most of the MFI performance analysis was based on the Consultative Group to Assist the Poorest (CGAP) guidelines (World Bank 1997). Both operational and financial performance was assessed. MFI data measurement was divided into qualitative and quantitative data. The descriptive data was coded to allow a meaningful interpretation. Major issues measured included:

(i) General Profile, which focused on the mission, objectives, and the effectiveness of the organizational structure and management of the MFIs.
(ii) MFI Loan Delivery Systems, which measured the loan screening, the loan repayment enforcement, the collateral, and the monitoring systems applied. It also took into account how simple the loan processing period was, the time it took to get a loan, and the convenience of getting small loans, as well as the loan sizes offered.
(iii) MFI Services, Client Outreach and the Market: The focus was to measure the type of services offered, including savings mobilization, clientele outreach, and the market coverage of the MFI. The growth of outreach was measured by the increase in the number of clients and improved services, and the opening of branches and other offices in cities, towns and rural areas.(iv) Operational Performance: This was measured in terms of the loan processing period, the loan delivery time, the amount of loans disbursed, outstanding loans and the loan repayment and default rates.
(v) Financial Performance: Much of the financial performance evaluation was done using financial ratios. The basic ratios calculated included: (a) Liquidity ratios, (b) Operational efficiency, (c) Capital adequacy, leverage and structure, and (d) Profitability ratios.

The research also assessed operational and financial sustainability. For model applicability the assessment focused only on the solidarity, credit union, and village banking models. Performance and sustainability analyses also focused on geographical disparities, as well as social and cultural issues.

Quantitative data was analyzed using the SPSS package and arithmetical calculations. Basic relations, statistical averages, dispersions, maximum and minimum levels, and other statistical relations were calculated. Due to incomplete information, poor record keeping and unreliable MIS (Management Information Systems), only three MFIs have been analyzed in detail in terms of financial sustainability and performance. Otherwise, general comments with regard to institutional arrangements have been made for all MFIs visited.

1.5 Definitions

MSEs: Micro and Small Enterprises are defined by number of employees, asset/capital formation, labor vz capital intensive, and sales turnover. They can also be defined by characteristics such as location of business, market, financial system, and legal status. In this research we defined MSEs using the number of employees, location and legal status. We consider it a subsistence sector if the number of employees is 0, micro business at 1–4 employees, small business at 5–9 employees, and medium business at 10–20 employees. In many studies the informal sector refers to the sector not officially registered, which can either be subsistence business or micro business.

FFI: these are registered financial institutions under the Banking and Financial Institutions Act, 1991, which are regulated by the central bank Act of 1965 and 1995.

2. Conceptual Framework and Empirical Evidence

2.1 Micro-Finance Institutions (MFI) Delivery Models

With respect to different types of MFI delivery models, literature distinguishes between six different types: special commercial bank schemes, intermediary projects, government-implemented credit schemes, grassroots savings and credit cooperatives and unions, parallel NGO projects, and poverty-focused development banks (Albee 1994; Mayoux 1995; Chijoriga and Cassimon 1999). Literature also distinguishes the delivery models in terms of solidarity group lending, village banking, transformational lending, government/donor credit guarantee, and cooperative groups (Otero and Ryne 1994; Otero 1993). This research has adopted the second distinction.

Solidarity Group Lending (based on the replication of the Grameen model advocated by Yunus 1984) focuses on established entrepreneurs mainly situated in urban areas with forced savings (which the client is obliged to pay). Groups are usually formed to attract both savings and credit. Three types of groups are formed. The first type of group is based on all group members doing one similar group activity, e.g. tailoring. Each member is like an employee to the group business. The group members use the same business premises. The advantage of this type of group is that group members offer each other expertise and share expertise in order to build their capacities. The disadvantage to group members is less commitment to and ownership of the business.

The second type of group is formed by members undertaking similar businesses but having his/her own work place. They all contribute a share to the business fund. The major disadvantage here is that when a loss of a market or a major problem arises in trade, the whole group is affected. The third type of group is the one in which all group member have different businesses. They only become a group as a force for negotiating and attracting capital, markets, and other support services. The advantage of this type of group to its members is that each business could be an input or a market for the other businesses. They usually enjoy economies of scope. In terms of loan repayment there is more loan repayment enforcement within the first type of group. However, in terms of loan repayment risks there is a lower loan risk for the third group because the businesses are independent.

The first and second type of group is more common for women's groups, and for informal and micro business. The third group is favored by individuals who have bigger businesses and are independent. The choice of group therefore depends on the size of the business, the members' experience and expertise in the businesses, and the business and legal environment, including the support services available.

Village Banking focuses on the poorest with a large focus on women in rural settings. Transformation Lending focuses on those clients who are becoming more stable and no longer qualify for micro-credit, but do not meet the conditions of formal institutions. Government or Donor Credit Guarantee is for those clients who cannot meet the formal financial institutions' requirements but have viable businesses that the donor or government would like to support. Cooperative Groups focus on formal membership, most commonly in working places, and engage in voluntary or fixed community savings. Rotating saving schemes (ROSCAs) focus on voluntary members, common interest, gender, and location (based trust, homogeneity).

The common features of the delivery models is that; (i) All seek to reach the neediest among the economically active population and/or encourage the non-economically active to become so (by offering start-up capital, or limit credit to the economically active). (ii) Credit is not only considered a scarce and needed resource for enhancing family income and improving enterprises, but also an educational tool that can serve as an initial contact with the poor – develop training or skills, and enhancing participation in economic activities. (iii) The programs reach men and women already involved in productive activities, to whom small loans can mean stabilizing, improving or even expanding their business.

The principles of credit delivery are: (a) Agility in loan application and review: quick delivery in consultation with a credit officer or through guarantee by other members. (b) Flexible loan terms: loan amount, duration and repayment schedules are adopted according to productive activity and repayment capacity. (c) Built-in incentives for repayment: no one in the group has access to a new loan until every one has repaid. Second and subsequent loans are immediate and larger if desired. (d) Credit is linked to training and technical assistance: business skills, or technical training is offered.

2.2 Poverty Alleviation and Sustainability

According to literature, schemes are initiated to meet different objectives. The most commonly mentioned objectives include: Poverty Alleviation and Improved Living Standards including offering financing to the poor (Harper et al. 1999, Rahman 1999), Women's Empowerment, the Development of the Business Sector as a Means of Achieving High Standards; Market Failure (see more details of the motives in Chijoriga and Cassimon 1999). Empirical evidence and surveys give mixed results on the performance of MFIs. In some cases debacle stories have been reported. In other cases there have been success stories. In yet other cases the reasons for failure or success have not been well documented.

Recent studies show that linking MFIs with other interventions such as poverty alleviation often complicates the functioning of MFIs by pushing them to areas not considered sustainable. This implies that there is a conflict in measuring financial performance and poverty alleviation. Most of the sustainability indicators focus on the MFI as a profitable institution (loan repayment, profitability, and degree of subsidization). Thus, for an MFI to meet the micro finance best practices, as given by CGAP, and be financially sustainable, it has to regard itself as a business venture. The consequence of this is that, especially in the rural areas, very few people will qualify for a business loan.

From the above there is need to distinguish the performance and sustainability indicators for MFIs which have a developmental focus (poverty alleviation) from those for MFIs that have profit maximization as their ultimate goal. Many MFIs indicate that they advocate poverty alleviation, yet what they do does not benefit the poor, or their operational procedures are already a hindrance to the poor. A good example is PRIDE(T) which has very strict rules that many poor people cannot meet. Many MFIs do not offer start-up loans, assuming that clients should have at least some minimum capital to be able to start a business to qualify for the loan. MFIs nevertheless argue that the loan size ensures that the poor will have access to loans.

In view of the above contradictions, this paper is restricted to assessing financial sustainability.

2.3 Measuring the Financial Performance and Sustainability of a MFI

From empirical evidence (Hulme and Mosley 1996a, 1996b; and Chijoriga and Cassimon 1999) it is clear that providing appropriate financial services to the poor initially means providing them with small size credit loans that are quickly decided and disbursed, as well as with safe and easily accessible deposit facilities for small amounts of savings, with transactions taking place close to the client's premises. Decisions on the appropriate maturity of the loan and repayment schedules have to be tailored to the characteristics of the target group and the main use of the funds. However, in order to remain in business and not run capital down, it is crucial to watch the interrelationship between the borrowing interest rate charged, the administrative transaction costs for the institution, the cost of funding by the MFI, as well as the default rate that shapes much of the financially sustainability of the institution. The implications of delivering these types of services will result in high start-up administrative costs, especially for small-size loans. It also requires an intensive credit delivery mechanism, which is close to the borrower and financially viable.

Secondly, it has to be cost-effective. Furthermore, the MFI will have to develop innovative screening and enforcement devices, in order to keep the default ratio down to acceptable levels. In doing so, some might result in increased administrative costs or other transaction costs. The success of any lending scheme will depend, among other things, on effective screening and enforcement mechanisms.

According to Hulme and Mosley 1996a and 1996b, four innovative mechanisms can help an MFI to screen effectively, namely: (i) applying market borrowing rates for lending; (ii) promoting deposits of voluntary savings; (iii) using character references; and (iv) using self-selected group mechanisms. Voluntary savings deposits can play a significant role since their existence provides the MFI with a powerful signal that the borrower is likely to pay back. Another mechanism is screening by using local power structures so that senior local officials have to approve loan applications or a borrower must have character references from them (so-called character-based lending). The mechanism that is used most widely is the group mechanism, using borrower groups members themselves to screen each other for both character and proposed loan use.

Apart from the screening mechanism, an enforcement mechanism should restrain the borrower from exhibiting morally hazard behavior (Adams and Fittest). For example, the solidarity group model which has been largely inspired by the pioneering initiative of the Grameen Bank of Bangladesh, combines intensive loan collection and peer pressure techniques, such as weekly public meetings in the immediate neighborhood of the borrowers. It also requires close monitoring and supervision, voluntary and compulsory savings deposits, progressive lending through interest rebates, group repayment guarantees, and third party insurance. The transaction costs are also reduced. This model tries to turn repayment into a regular, ritualized and public process of 'disciplining the poor', minimizing the perceived financial cost of repaying, while at the same time maximizing the perceived reputation cost of not repaying.

Moreover, the emphasis on discipline, accountability and openness is maintained at higher levels of the organizational structure of the bank, minimizing the opportunities for mismanagement and corruption by the staff of the organization.

These elements determine the success of the solidarity group more than the 'solidarity element', in terms of joint group repayment responsibility itself. This is because the solidarity element, although promoted in principle, is not always enforced when repayment problems do occur (Jain 1996).

Nonetheless, concern is also growing that the rigid application of the technique might be very successful in enforcing repayment, but does so at large social cost to some of the borrowers including women (Montgomery 1996; Buckley 1997). According to Rahnam (1999) the pressure to repay sometimes creates intense pressure on clients.

In literature, three types of overall financial sustainability indicators are used: profitability, default rate, and an indicator for the degree of subsidization. In the opinion of the author, an indicator of income of the beneficiary is additionally needed in order to control the target group's achievement. Nevertheless, sustainability is usually understood as a process involving two stages. Stage one is the operational sustainability, whereby the MFI covers its administrative costs and loan loss expenses from its client revenues. The second stage is the financial sustainability, whereby an MFI is operationally sustainable and able to cover the costs of funding, including inflation. By borrowing from a commercial bank the equity of MFI is leveraged and the MFI can become a licensed financial institution. Such MFIs can raise resources from their national financial market and are likely to have access to rediscount lines from the central banks.

One way of measuring institutional performance is to calculate the profitability by using the break-even condition, which is measured as income from loan operation plus other income. This should be equal or greater than the cost of borrowing (principal and interest), plus other expenditures. Loan arrears that calculate the loans overdue is another measure of performance. With respect to self-sufficiency, the issue is whether subsidizing an MFI is justified, and for how long. An internationally accepted standard for measuring the subsidy content and self-sufficiency of an MFI is the "Subsidy Dependency Index'"(SDI) as developed by Yaron (1992). An SDI of zero means that the MFI achieves full self-sustainability; an SDI of 100% indicates that a doubling of the average on-lending rate of return on funds is required if subsidies are to be eliminated. A negative SDI indicates that the MFI not only fully achieves self-sustainability, but its annual profits, minus the cost of equity at market rates, exceeds the total annual amount of subsidies. This means that the MFI could not only do without subsidy, but could also lower the on-lending rate of return and still break even.

One has to be careful in interpreting the SDI measures. One of the limits of the indicator is that it calculates the index at the institution's level without taking into account the dynamic nature of a successful MFI that is opening new branches in order to increase outreach. It might take some time, even in a successful institution, for new branches to break even. Successful MFI require a time period of between three (3) to five (5) years. Therefore, interpreting the success of an institution in terms of reducing subsidy dependence should be predominantly done while looking at the 'mature' branches of the institution.

2.4 Empirical Evidence on the Performance of Existing MFIs

Literature has documented quite a good number of schemes in developing countries (Hulme and Mosley 1996; Gurgand 1994; World Bank 1997). Two of the most recent analyses were those done by Hulme and Mosley, and the World Bank (1997). Hulme and Mosley (1996) covered Africa, Asia and South America, their analysis being based on thirteen different schemes in seven countries. The World Bank 1997 study took inventory of the MFIs in East, West Central and South Africa.

From the Wold Bank report, the most commonly used methods of delivery in Africa South of the Sahara were credit unions, solidarity group systems, and village banking. The report shows that there is a difference of performance in MFIs operating in West, Eastern, Central and South Africa. While Credit Unions in West Africa have been growing, the opposite has been true for East Africa. In general, the report concludes that in Sub-Sahara African countries there are certain conditions that may render the financial sustainability objective difficult as compared to other regions. The conditions which hinder sustainability are: scarce communication infrastructure, low population density, high levels of illiteracy, the greater rates of inputs – outputs trading within the rural economy, and the lower level of monetarization. All of these factors have a great impact on the transaction costs at client and institutional levels. This hinders MFI growth and has a negative effect on the ability of the institution to becoming financially sustainable within a relatively short period of time.

At the institutional level, Hulme and Mosley (1996) argue that it is the default rate that most greatly affects the financial viability condition, so effective screening and loan enforcement mechanisms are essential for success. Moreover, there seems to be a significant inverse correlation between the level of administrative costs (and more specifically on costs for loan supervision and insurance) and the default rate, indicating that screening and enforcement devices used can indeed pay off in terms of reducing default rates.

The organization model of providing financial services to poor people through solidarity groups, as being one of frequently-used screening and enforcement devices, can indeed lead to success, but is not a necessary or sufficient condition. Other models such as co-operative groups were also found to be successful, provided they use effective screening and enforcement mechanisms.

Notwithstanding these success stories, the overall performance of group lending, which is often measured by its repayment rate alone, has been very mixed. Both failures and successes have been reported. One of the fundamental difficulties of replicating the Grameen Bank approach is not the solidarity element of group lending, but, more importantly, its being part of the specific socio-political, cultural and religious context of Bangladesh. Replicating the model in another environment will require close monitoring and adaptation to that local context, checking, among other things, whether the solidarity group approach itself indeed fits the context.

The empirical results show that MFIs are to a large extent subsidized, as measured by the subsidy dependency index (SDI), making start-up subsidies by and large a necessary condition for success. This is generally not in terms of subsidizing interest rates charged to the client, but rather by the MFI obtaining funds at concessional rates and/or non-interest rate subsidies received for the use of training, etc. Many successful schemes show that they would have to more than double interest rates in order for the MFI to be able to meet all the costs out of income.

From the studies it becomes evident that the incorporation of a savings scheme together with credit facilities is an important factor for success, not only because it is a major element in a demand-based approach, but also because the promotion of voluntary savings deposit facilities acts as a powerful screening and enforcement device, without any extra direct administrative cost for the lender. Additionally, it can reduce subsidy dependence. As such, it remains largely unexplained that a lot of the schemes do not seem to promote them very actively. Success can also be measured by the degree to which the scheme manages to effectively reach a large part of the target group. Volume building is also necessary to reap economies of scale and economies of scope in administrative costs.

Some MFIs orientation to poor clients has endangered their financial sustainability. To some extent, MFIs try to become successful by diverting from the main target group of poor households and looking into the somewhat richer pastures, i.e. extending loans of a somewhat larger value to clients who are slightly better-off (above the poverty threshold level). But this shift to relatively less-poor clients is by no means sufficient for success.

MFIs are not only limited to the provision of financial services, but also address issues in gender equity, more equitable income distribution, promotion of participation approaches and the critical role of women in income generation activities at a household level, as well as the efficient instruments of their empowerment.

With regard to performance by gender, evidence shows that there are higher levels of repayment by women as compared to men. Indeed, due to these success stories many institutions have been keen on lending to women so as to increase financial viability.

In order to prevent loan portfolio quality degeneration with a rapid build-up of arrears, there is a need for credit schemes to be free from political interference.

Indeed there is evidence that credit schemes for micro-entrepreneurial activities in the service sectors, and especially in trading activities, are easier to manage than those in manufacturing sectors, and especially those in agriculture. One of the reasons might be that trading activities are more apt for intensive loan collection, as the rotation of assets is much higher in this sector, and agricultural output (and hence repayment capacity) is more vulnerable to unforeseen events (e.g. draught). In reality, most households are engaged in more than one enterprising activity including agriculture, hence many MSEs are well protected against risk through diversification.

From the above discussion some important features determining the success of an MFI in terms of sustainability, as well as a set of check parameters, can be established. It is believed that successful micro-finance institutions providing financial services to the poor in a sustainable way can, indeed, be established. Moreover, the MFI as an intermediary to the poor does not need to implement blueprint programs or engineered models of success. Rather, different mixes of carefully designed innovative screening and enforcement mechanisms are possible. For success to be most likely, a specific mix of these innovative mechanisms, most of them adjusted to the specific local context and the target group, will have to be developed. Establishing a sustainable MFI that is targeted to the poor can not constitute a goal in itself. The fact that services are provided to the poor does not automatically translate into positive impact on their situation. Therefore, trade-offs between MFI and client impact need to be balanced. Building a sustainable MFI can be seen as a necessary step, but a clear assessment of its impact on client welfare is needed.

2.5 Existing MFIs in Tanzania

Before this research, the actual number of MFIs was unknown. By 1997, MFIs had an outreach of approximately 18,000 clients (Malima 1997). The majority offer credit to small business entrepreneurs, mainly women and male youths and mainly to those in urban cities, with only a few operating in rural areas. Parallel to these MFIs, traditional schemes like upato continue to exist. According to the policy-makers, credit schemes are seen as a crucial tool in improving MSEs economic activity and giving them greater self reliance. Many of the MFIs are donor funded and have limited outreach. In terms of performance, empirical surveys show that some credit schemes suffer from poor repayment rates, low operational efficiency rates, and high administrative costs (Bulow and Maro 1995). Considering that the service they are offering has to continue, they need to be sustainable, efficient, and cost effective in planning for new demands and to operate according to market forces. To achieve this, MFIs need to have strong institutional organizational structure, quality services and outreach, efficient operations, and good financial performance. The objective of this research was therefore to judge whether MFIs remain within their mission and objectives, and to asses their performance and continued sustainability.

3. Research Findings and Observatios

3.1 The MFI Environment in Tanzania

The MFI environment in Tanzania is not very different from the other MFIs operating in other countries in Africa. Tanzania has vast land with limited population density per square kilometer[4]. The poor infrastructure poses a major challenge in serving the rural poor. Individual households are poor with low per capita income. All these factors limit MFI services. While it is easy to form groups in towns, it is very difficult to form groups in peripheral rural areas. It also costs a lot in terms of transport to reach a particular group or client. The high transaction costs make any economies of scale unachievable. The low income levels have a negative impact on the ability to pay. Because many people are poor, few participate in economic activities, a factor which in turn negatively affects loan repayments.

3.2 Overview of Micro Financing Institutions Operating In Tanzania

During the survey it was discovered that many of the MFIs were registered as NGOs. Many offer credit while requiring some savings mobilization. As previously mentioned, the 1994 list of NGOs as issued by the Prime Ministers Office does not clearly describe all the activities of NGOs. As a result, it was difficult to know the total number of MFIs currently operating in Tanzania. Some of the MFIs operate at locations which are not transparent to interested parties, making it difficult to access them. The absence of a legal framework makes it difficult for regulatory bodies to know which institutions are offering credit or mobilizing savings; where they are operating, what their target groups are, etc. In addition, the total population currently being served by these institutions or schemes is also not known.

From the research we came to the conclusion that there are still many MFIs which are not known to policy makers and practitioners, or demanders of credit. The need to regulate the registration and operations of micro-credit offering institutions will first assist in discovering which MFIs exist at any given time, and secondly in regulating the money supply (especially M1 and M2). It will also assist in proposing clear development policies for helping the poor and small business operators. Many supporters of micro-finance argue that there is not enough credit offered, but from the list one may doubt whether that is true. Perhaps the problem is more one of access to loans than availability of loans.

3.3 Overall Coverage and Client Outreach

From our research findings and literature update, there are a total of about 55 MFI officially registered in Dar Es Salaam (34), Arusha (7), Mwanza (4), Zanzibar (4), Moshi (1), Shinyanga (1) and Mbeya (1) respectively (see appendix 1). SIDO and PRIDE cover almost all regions in Tanzania. Few of these schemes operate in the southern part of Tanzania. Most of the MFIs operate only in the municipalities, cities, and towns in which they are registered, showing high concentration in the urban areas. Few of these schemes reach the rural poor. The gap for rural financing is therefore still there, especially for the agricultural sector and in particular for small farmers. Many of the MFIs serve their clients with special emphasis on women, youth and deprived groups.

3.4 Institutional Establishment, Mission and Objectives, Organizational Structure and Management

Of the 28 MFIs physically visited, only 9 could be assessed on the overall institutional objectives and human resources statistical capacity, client outreach and market, loan portfolio, client analysis, loan screening, enforcement, and collateral mechanism used. However, with regard to financial performance only three (3) MFI had complete financial data.

Research results show that the MFIs were established as earlier as 1985, with the majority of the schemes initiated between 1994 to 1995. As mentioned earlier, most of the schemes are registered as NGOs for privately operated schemes, and those operating as government departments are registered as government NGOs (GONGOs) (see appendix 1). The mission and objectives of the MFIs could be summarized as follows:

- To provide funding through credit to micro and small enterprises and the deprived groups.
- To create an entrepreneurial culture through advisory services, training and counseling.
- To influence socio-cultural, economic and political change through advocacy and lobbying.

None of the MFIs are fully government funded. Of the 28 MFIs (excluding SACCOs), 14 (87,5%) are fully donor funded (see table 1). The survey results showed that most of the MFIs have no clear formal organizational structure. In some cases, especially the government owned schemes, the MFI form part of a section or unit within a government department (e.g. TYDF and ZAD). As far as structure is concerned, all MFIs have an administration section dealing with the general administrative matters. However, most MFIs combine credit and savings sections. The reason given for combining the staff is cost effectiveness. Generally, there is poor staffing in credit and savings sections, with no distinct credit or savings roles. The problem of not separating saving and credit makes it difficult to know what costs relate to the credit delivery or savings generation at any given time, hence affecting the profit determination.

Total employee figures within MFIs show more men being employed as compared to women. The education level and specialization of the employees differ from one MFI to the other, with some having more graduates and more professional employees or seasoned bankers from the reformed banks. Few of the staff have knowledge in credit management and/or business management skills. Other MFIs have volunteers who have just finished secondary school with little or no knowledge of credit, savings or business activities. This leads to a

capacity gap for most MFIs. Some of the skills needed include: credit management, entrepreneurship and business management skills, counseling and advisory skills.

Except for PRIDE and PTF which have good management information systems (MIS), the majority of MFIs have poor or non-existant MIS. Few of the MFIs have produced any financial statements since they have been established. The lack of proper and qualified staff contributes to the problem. The absence of a proper management information system leads to: poor data storage, poor record keeping, poor loan monitoring and follow-up, the inability to evaluate the costs and benefit implications of the services delivered at any particular time, late processing of loans, and a lack of financial statements.

3.5 Micro Financing Institutions Loan Delivery Systems: Loan Screening, Loan Repayment Enforcement, Collateral and Monitoring Mechanisms

The majority of the schemes employ solidarity group loan screening and loan repayment enforcement mechanisms (see appendix 2). As a result, the collateral requirement is based on the group peer pressure, and human guarantee. Depending on the type of delivery model, some MFIs do mobilize forced savings as a condition for getting and graduating to a higher loan. The most common delivery method used by the MFIs is group lending, where clients are forced to form a group of five people before a loan is issued to an individual. The group is used both as a guarantor for the character and credit-worthiness of the client at the screening stage and a pressure group for loan enforcement. While other MFIs' rules and regulations seem to be more relaxed, PRIDE is known for its strict enforcement, punctuality, and unfriendly rules and regulations. For the first loan, for example, the loan applicant has to attend solidarity group meetings continuously and punctually for eight weeks.

Because of the group lending system, few MFIs demand physical collateral, except for SIDO, and Juhudi. WEDTF uses a guarantor, in the case of married women this generally happens to be the husband. Based on the group lending principle, all five group members are guarantors for the loan.

The advantage of group screening is the speed of the process, the fact that it facilitates small sized loans, and the fact that transactions take place close to the people (at a maximum distance of 20 kilometers). It saves the MFI the selection problem, hence minimizing transaction costs. It is obvious that where there is a larger population and people are close to each other the transaction costs are lower.

Operationally, clients do not find it easy to find five members who are trustworthy, especially in urban areas where mobility is high. Many of the clients from PRIDE and PTF complain that it is very difficult to get reliable solidarity group members. Monitoring their behavior after taking the loan also puts pressure on all group members. In the case of non-payment, penalties are enforced against the group. Because of the strict screening rules and loan repayment enforcement mechanisms, the repayment rates in PRIDE are 100%, as compared to other schemes such as TYDF and YDF which have to consider some of their clients as non-performing assets.

3.6 MFI Service, Clientele and Market Outreach

The research revealed that almost all MFIs offer credit, forced savings, training, and consultation. So far no interest has been paid for on the savings. The forced savings act as the loan insurance cover and can only be withdrawn if the client defaults or decides to quit. Training is mostly done in the form of client uptake, i.e. the prospective clients are informed about of the MFI's policies and procedures, the lending requirements, rules and regulations. Pre-loan training ensures that the MFI is getting committed clients and high loan repayment rates (PRIDE rates is 100%). It also helps the MFI to assess client entrepreneurial behavior and attitude for the success of the business and hence the loan repayments.

Only two MFIs, (PTF and Poverty Africa – Arusha), were found to offer courses such as bookkeeping and record-keeping, marketing, pricing and costing. Most MFIs such as PRIDE, CREW(T), MEDA, ZFSR, ZAD, WEDEF and others do only client uptake training which prepares the client on how to repay the loan and other institutions loan procedures. The problem of not offering business and entrepreneurship skills to the loan applicants or clients reflects assumptions on the clients/applicants ability to manage the loan and the business. When the client gets the loan, he/she is faced immediately with the obligation to repay the loan and at the same time the he/she is supposed to run the business in a sound and effective manner. Thus, both fund management and business management become an important issue for the business holder. As pointed out by the MFIs themselves, one of the problems which hinder loan repayment is poor fund management by the clients.

Requested to rank their major clients sector-wise, the results revealed that most clients came from the trade, commerce and service sectors, followed by manufacturing and industries. Based on MSEs characteristics most MFIs are offering loans to the subsistence group (65.5%), followed by the micro business (26.9%), and lastly the small business (7.6%). The problem with mostly offering loans to entrepreneurs in the subsistence sector may hinder the performance and sustainability of MFIs, as there is limited growth in the subsistence sector. Gender-wise, the results demonstrated that more loans were given to women (60%), followed by youth and people with disabilities. One of the reasons why women get more loans is because specific MFIs offer loans only to women e.g. PTF, CREW, and WEDTF.

In terms of market outreach, the results demonstrated that there has been increased service outreach with branches operating in almost all regions of the

Tanzania mainland. By December, 1998 there were more than 49 MFI offices (branches). From the clients outreach survey, most of the clients live either close to the MFI head office or branch or not more than 20 kilometers away. This implies that the clientele and market outreach is restricted to urban areas. MFIs are averse to risk, shying away from remote areas where they cannot monitor the mobility of their clients. As will be shown later, mobility does affect loan repayment. The growth in outreach is also shown by the increased number of staff involved in credit offering. The average staff size has grown from 3 in 1993 to 15 in 1997, and the total staff has increased from 26 in 1993 to 135 in 1997.

3.7 MFIs Operational Performance: Loan Processing, Loan Disbursed, Loans Outstanding and Loan Repayments

In the survey it was revealed that each MFI has its own loan delivery, processing and graduation time. The approved loan sizes also vary within schemes. SIDO loans depend on the applicants' needs. The loan size effects loan repayment. For beginners, large loans can be difficult to manage. Nevertheless, small loans inhibit business expansion and growth. Loan graduation depends on the repayment ability of the individual borrower.

The total number of loans disbursed by all nine MFIs surveyed shows an increasing trend from 330 in 1993 to 37,634 in 1997. The total loan portfolio also indicated a rise of about 300% per year. Overall, it shows that PRIDE offered more loans as compared to other MFIs, but had more loans remaining at the end of the period. The loan balance per client was on the average 40,000/=. In terms of loan repayments, the analysis shows that PTF is more efficient in collecting its loans, although it has similar loan repayment rates as PRIDE (100%). The average loan repayment period is 30 days, meaning that the 35% interest charged is a monthly rate. The loan repayment rates for individual MFIs are as follows PRIDE (100%), Juhudi (0%)[5], Poverty Africa (Arusha) (98%), Poverty Africa Dar Es Salaam (93%), TYDF (15%), PTF (100%) ZAD (57%) and WEDTF (92%). Clientele repayment rates show that informal business operators have high repayment rates. Gender-wise, women have higher repayment rates followed by men and youths. Specific repayment rates are as follows: Individual women (75%), Business women in groups (92%), Rural Women (65%), Women in Informal sector (100%), Women in small business (100%), Individual men (65%); Business men in informal sector (98%); Business Women in Small Business (100%); Individual Youth (75%); Business youth in Informal sector (86%); Business Youth in Small Business (80%). Based on sector the loan repayment rates were: Agriculture (85%), Trade and Commerce (94%), Manufacturing ((96%), and Services (100%).

According to the literature, one of the issues to measure operational efficiency is the MFIs' ability to have minimum interest rates and low transaction costs. The survey shows that MFI interest rates are higher than the formal financial sector lending rates. On average MFIs charge 30% while formal financial institutes charge between 23 to 26%, depending on the bank. Other than interest charges, MFIs incur other monitoring and follow-up costs which are sometimes not computed in the interest rates charged. From the survey we therefore conclude that MFIs are not a cheaper source of financing, because not all costs related to the loan issue and loan monitoring are accounted for. The financial statements show that the MFIs have been making losses. A way of correcting the negative trend is to increase the interest charge (charge commercial interest rates).

Except for PRIDE which has a good management information system, none of the MFIs were able to give the number of clients which exited during the period of operation (i.e. 1993–1998). Total PRIDE client exits by June 1998 were 17,189 and consisted of: 59 due to death, 5,753 voluntary and 11,377 expelled by the various PRIDE rules. The total number of client exits exceeds that of active clients by 1.8%, indicating that more people have exited the program than have remained. Looking at the number of clients expelled, it is obvious that PRIDE rules are too strict, leading to many client exits. Two clients who were leaving the program commented in the following way: One woman said that she was exiting because she had gotten everything she needed through the PRIDE loans, and therefore didn't need any further loan. This shows that the client's satisfaction had a maximum limit or need for achievement. One could argue that the client was not an entrepreneur, as her motivations to grow and expand were governed by normal basic needs and not the business needs which would be the driving force of a prosperous entrepreneur. If an MFI has many of this type of clients, it will find itself out of business. The other client indicated that he was tired of coming to PRIDE offices and that this has affected his business. He thought that the more time he spent at meetings, the less business he made. The client's complaint confirms that PRIDE rules are too strict and need to be looked upon.

3.8 MFI Financial Performance and Efficiency

Financial performance was assessed using the most common liquidity, efficiency, capital structure and profitability ratios. In addition, some dependence ratios to assess self-sustainability and dependence were done. The MFIs liquidity position was good, hence giving them the ability to continue offering loans. In terms of efficiency measures it was poor with high administrative costs, low interest charged and subsidized lending as previously mentioned. Capital structure measures revealed high donor dependence with little or no owner equity investment. The profitability of the MFIs was poor.

3.9 MFI Dependence and Sustainability

The Subsidy dependence index (SDI) for all three MFIs was low, indicating high donor dependence. Nonetheless, all three indicated an improvement over the years. The SDI for PRIDE ranged from 163.9% in 1993 to 32.8% in 1997, while the SDI for WEDTF was 84.2% in 1996 and 35.8% for 1997. For PRIDE, which has been opening so many branches within a short time, the dependence index will be high at initial stages. One way to correct the high SDI is to increase the interest charges. The other alternative is to increase owners equity, increase savings mobilization, etc.

3.10 Social, Cultural, and Gender Related Issues

It is obvious that the solidarity groups work more in areas where people know each other well, and where there is high population density. The survey has shown that many groups were based on ethnic group, friendship, or family relationships, although MFI rules do not allow family members to be members of a group. Urban-operated groups were prone to high mobility. Therefore, MFIs operating in urban social settings with high migration and mobility require very strict delivery models to limit defaults. It was also interesting to note that within the MFIs, the repayment rates differed between a branch which operated in a very densely populated or squatter area as compared to those operating in less densely populated areas. Groups run by women were more stable than those run by men. Nevertheless, mixed groups of men and women were better performers than all men's or women's groups. Group guarantees by husbands (because women do not own property which could be used as collateral) lead to problems because the woman is made more dependent on the husband. In terms of loan use among men and women, many women use loans for household purposes while men use them more for the acquisition of assets (although they should have invested more in business). This is conform with other research observations (Raftus 1998).

In the study, religious settings did not surface as a hindrance to loan delivery models or loan repayment.

With regard to ethnicity, the Chagga seem to be doing more business and getting more loans as compared to other ethnic groups. The results also revealed that business activities in Zanzibar relied on connections within families, leading to low repayment rates within the MFIs.

4. Conclusions

The research has shed light on how many MFIs exist in Tanzania, what their performance and sustainability is, what loan delivery models are used, and what constraints hinder them in becoming sustainable.

From the research there is evidence that there are more than 50 MFIs currently operating in Tanzania, with PRIDE having the largest network and client outreach. The operational performance of the MFIs shows improved results, while the financial performance is poor and their operational and financial sustainability is questionable. It is evident that MFI operations are constrained by low population density, poor infrastructure and low household income levels.

The results have also shown that many of the MFIs have no clear mission and objectives. If the MFIs want to be profitable and sustainable, they will need to clearly redefine their mission and objectives. They should clearly distinguish between poverty alleviation, which is a development focus, and profit-making which is a commercial focus. The results further revealed that the MFIs' staff lack capacity in credit management and business skills. This has limited their ability to be effective in credit delivery, resulted in poor management information systems, and adversely affected advisory and counseling services to MSEs. This has contributed to the MSEs' poor business performance, and poor loan repayments for some schemes.

In terms of the loan delivery system, most MFIs use solidarity group lending. The research results have proven that not all loan delivery models work in all socio-cultural settings. The best performing institution (PRIDE) uses solidarity group lending. The research has shown that solidarity group lending is also the most appropriate lending modality for densely populated areas. The results have further revealed that where there is high mobility solidarity groups do not function well. Thus, the geographical environment, social cultural context, and gender have an impact on solidarity group performance, and there is therefore a need to distinguish delivery modalities for rural areas, urban rural area (like small towns), big towns and cities, and workplaces.

The study has shown that there has been increased credit services delivery, especially in the case of subsistence and micro businesses. More loans have also been issued, with improved loan repayment rates. The clientele outreach has increased, though it is still limited to urban areas. Many MFIs offer credit while hardly engaging in savings mobilization, thus endangering the sustainability of MFIs in the absence of donor funding. The results also revealed that loan delivery is speedy as compared to that of formal financial institutes, and that many of the MFIs are close to the people, but often have poor locations making it difficult for prospective clients to find them.

The overall operational performance was poor with low repayment rates for some MFIs. The majority of the MFIs do poor record keeping, Financial performance was good in terms of liquidity, but poor for capital structure and characterized by high donor dependence, low uneconomic interest rates, loss making, and low internally generated funds. With regard to sustainability measures, there is a high dependence on donor funding, and less equity shareholding. The low savings creation and mobilization affect the future sustainability and self sufficiency of MFIs as lending institutions. The absence of commercial interest rates also leads to the subsidizing of lending services, and can lead to the failure of MFIs.

The type of activities and entrepreneurs financed sheds doubt on the sustainability of MFIs. The majority of MFIs offer more loans to subsistence businesses which have limited growth. In addition, many are not entrepreneurial, or have no or low motivation for business growth and prosperity.

In terms of socio-cultural and gender-related issues, the research has shown that family ties inhibit business growth and repayments, hence negatively affecting the performance and sustainability of MFIs. The results have shown that women have high repayment rates as compared to men. The research has also shown that some urban areas have poor repayment rates when solidarity groups are used.

From the results we conclude that, although the interest rates are high, MFIs do try to solve the problem of market imperfections. This is especially true for MFIs using solidarity delivery models for screening. And yet high transportation costs due to poor infrastructure contribute to high transaction costs. Other constraints faced by MFIs which may hinder operational and financial sustainability include low population density and low client per capita income, which result in low savings generation.

From the study we also conclude that, except for PRIDE (T), none of the MFIs have reached a stage in which they can be transformed into a village or community bank. This implies that, depending on the institutional arrangement and capacities of each MFI, the institutions might take long to become financial intermediaries.

Abstract

In Anerkennung der dynamischen Rolle der Klein- und KleinstunternehmerInnen und vor der Notwendigkeit, Alternativen zum formalen Finanzsystem zu entwickeln wurden in den letzten Jahren über 50 Kleinkreditorganisationen in Tanzania gegründet. Diese Forschung evaluierte die Leistung und finanzielle Nachhaltigkeit eine Teil dieser Institutionen im Hinblick auf die institutionelle und organisationelle Stabilität, die Kundenreichweite und die operationelle und finanzielle Leistung.

Insgesamt wurde die Leistung der Kleinkreditorganisationen für schwach befunden. Dazu gehören unklare definierte institutionelle Zielsetzungen, schwache Organisationsstrukturen, hochgradige Abhängigkeit von externer Finanzierung durch Geber oder Regierung, und niedrige Rückzahlungsraten. Während die Kundenreichweite ständig zunimmt und es bereits in ganz (Festland) Tanzania Zweigstellen gibt, beschränkt sich der Wirkungskreis von Kleinkreditprogrammen auf städtische Zentren.

In recognition of the dynamic role of micro- and small enterprises and the need to find alternatives to the formal financing system, over 50 Micro Financing Institutions (MFIs) have been established in Tanzania in recent years. This research evaluated the performance and financial sustainability of a sample of these micro-finance institutions in terms of the overall institutional and

organizational strength, client outreach, and operational and financial performance.

The overall performance of MFIs has been found to be poor. Few MFIs have clear objectives, or a strong organizational structure. They lack participatory ownership and many are donor driven. Client outreach is increasing, with branches opening in almost all regions of the Tanzanian mainland. Nevertheless, MFI activities remain centered around urban areas. Operational performance demonstrates low loan repayment rates. Capital structure reveals a high dependence on donor or government funding.

Notes

1 The figures are based on studies conducted by the authors and other researchers.
2 Detailed definition of formal financial institutions (FFIs) and informal financial institutions (IFIs) can be found in Chijoriga and Cassimon, 1997 and 1999).
3 The dominant religions of Tanzania are various denominations of Christianity and Islam. While Christianity predominates inland, Islam is a majority religion on most of the coast and Zanzibar.
4 The population density for Tanzania is about 32 people per square kilometer based on the population of 30 million people and area of 945,090 square km.
5 By the time this research was conducted Juhudi had started offering loans for nine months, and none of the loans were due for repayment.

List of abbreviations

CGAP	Consultative Group to Assist the Poorest
CRDB	Cooperative and Rural Development Bank
CREW	Credit Scheme for Productive Activities for Women
FFI	Formal Financial Institutions
GDP	Gross Domestic Product
GONGO	Government-Controlled Non Governmental Organization
MEDA	Mennonite Enterprise Development Associates
MFI	Micro-finance institution
MIS	Management Information Systems
MSE	Micro- and Small-scale enterprises
NBC	National Bank of Commerce
NGO	Non-Government Organization
NMB	National Microfinance Bank
PRIDE	Promotion of Rural Initiatives and Development Initiatives
PTF	Presidential Trust Fund
ROSCA	Rotating Saving Scheme
SACCOS	Savings and Credit Cooperative Organizations
SDI	Subsidy Dependency Index
SEDA	Small Enterprise Development Agency
SIDO	Small Industires Development Organisation
TAPSE	Tanzania Promotion of Self-Employment
TYDF	Tanzania Youth Development Fund
UNDP	United Nations Development Program
WEDTF	Women Entrepreneurship Development Trust Fund
ZAD	Zanzibar Association of the Disabled
ZFSR	Zanzibar Fund for Self Reliance

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Appendix 1

Micro Financing Institutions: General Information and Institutional Profile

Details	PRIDE	JUHUDI	POVERTY-Arusha	POVERTY-D'Salaam	TYDF	PTF	ZAD	WEDTF	MEDA	Overall Average
When Established	1994	1997	1995	1997	1994	1988	1985	1995	1994	-
Area Coverage	all regions except Kigoma	Arusha town	Arusha	Dar-es-Salaam	Dar-es-Salaam	Dar-es-Salaam and Morogoro	Zanzibar	Zanzibar	Dar-es-Salaam and Mbeya	-
Number of Employees	160.00	18.00	7.00	11.00	25.00	20.00	9.00	13.00	45.00	34
Male	93	17	1	6	0	10	7	8	19	59%
Female	67	1	6	5	0	10	2	5	16	41%
In Administration section	0	6	3	2	0	7	7	0	18	33%
Training Section	0	6	1	3	0	7	7	0	6	5.2%
Savings and Credit	0	5	3	6	0	13	2	0	11	13%
Registered as MFI	No	No	No	No	No	No	No	No	No	No
Operating Law	Company	Society Ordinance	Society Ordinance	Society Ordinance	Govt. Dept.	Trustees	Societies Act	Societies Act	Society Ordinance	NGOs
Operating Branches	Yes(15)	No	Yes(3)	No	No	Yes(4)	No	Yes(5)	Yes (2)	Yes ltd.
Major Clients By Sector	Trade & Commerce Service	Trade & Commerce Service	Industry, Trade and Commerce	Agriculture, Trade & Commerce Manufacturing	Agriculture	Industry	Agriculture, Trade & Commerce	Trade & Commerce	Trade and Commerce	Trade, Commerce and Service
Major Target Group	Women	None	Women	None	Youth	Women	Disabled	Women	Women	Women
Type of Financial Services Offered	Savings and Credit	Credit	Savings and Credit	Savings and Credit	credit	Savings and Credit	Savings and Credit	Savings and Credit	Savings and Credit	Savings and Credit
Type of Training Offered	Pre- loan (policies)	Pre-Lending (Business)	Pre-Loan (Business)	Pre-Loan (Business)	0	Pre-lending (Business)	Pre Lending	Book keeping and Business	Pre-Loan (Business)	Pre-Loan (Business)
Average Loan Processing Period	30 days	3 months	One month	1-2 months	6 months	30 days	3 months	3 months	One month	30 days
Average Loan Repayment Period	6-12 months	Just started	2 months	9 months	3-4 moths	8 months	I year	3-24 months	-	-
Savings Mobilization	yes	no	yes	yes	no	yes	no	yes	yes	Yes, forced
MIS Position	Very good	None existing	Poor	Poor	None existing	good	Poor	Average good	poor	Poor
Major Source of Financing	Donor	Donor	Donor	Donor	Donor/Govt.	Donor	Donor	Govt.	Donor	Donor