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# THE IMPACT OF MICROFINANCE INSTITUTIONS ON PERFORMANCE OF MICROENTERPRISES AND HOUSE HOLD WELFARE: A CASE OF MUFINDI COMMUNITY BANK, IRINGA REGION

2005

# THE IMPACT OF MICROFINANCE INSTITUTIONS ON PERFORMANCE OF MICROENTERPRISES AND HOUSE HOLD WELFARE: A CASE OF MUFINDI COMMUNITY BANK, IRINGA REGION



BY

FESTO MODESTUS MHIMBA



A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE IN AGRICULTURAL ECONOMICS OF SOKOINE UNIVERSITY OF AGRICULTURE. MOROGORO, TANZANIA

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## ABSTRACT

Recently, development practitioners have come to realize that the poor of the poorest can indeed make effective use of credit to raise their income and get access to many welfare indicators such as food and other necessities. But knowledge about the achievements of such initiatives, though are of interest to many stakeholders, remains undocumented in many parts of the world. This study, therefore, was an attempt to assess the impact of credits administered by Mufindi Community Bank (MuCoBa) on performance of micro enterprises and improvement of the household welfare. Specific objectives were to: (i) establish micro enterprises profile in the District, (ii) evaluate the impact of credits on micro-enterprises performance and market participation, (iii) assess the impact of credits on household welfare, and (iv) assess factors that would enhance impact of Mufindi Community Bank's credit on beneficiaries. Cross-sectional surveys were conducted to collect primary data from 151 respondents of whom 88 were credit participants, 35 had qualified to get credit but had yet to start and 28 had secured credits for farm activities. Semi-structured and structured questionnaires were used. Secondary data were secured from the bank and government offices. The bank provides credit to support legally existing economic enterprises that should have been in operation more than a year. For easy interpretation of data, descriptive and quantitative analytical techniques were employed. Common types of enterprises identified are petty trade/utility services, agro marketing and manufacturing/artisans. The findings indicate a statistically significant difference ($\rho<0.0001$) between credit participants and non-participants in terms of average annual profit, available working capital and value of selected durables of household assets. It is noteworthy reporting here that start up capital, initial credit, available working capital, family size, type of enterprise and monthly turnover affected positively the performances (profit) of the enterprises. Also, credit beneficiaries were able to employ (40%), access distant markets (18%), acquire high value household assets and improved their diets

(14.4%) comparatively to non-beneficiaries. The differences in enterprise performance observed, suggest that credits are important to improve performance of micro-enterprises and hence household welfare. However, nature of collaterals, high borrowing transaction costs and interest rates suggest that the bank has replaced the commercial ones referring to the objectives of the bank. Hence, its impact on welfare indicators is very marginal, and equally important, the rural poor of the poorest have been excluded from borrowing. It is evident from the findings that flexibility of the bank through revising of their policies would be necessary to reach more farmers and small entrepreneurs by encouraging saving and attracting borrowers. The government should continue to support micro-finance institutions such as Mufindi Community Bank through capitation and maintained rural roads for comprehensive outreach.

**DECLARATION**

I, FESTO MODESTUS MHIMBA, do hereby declare to the Senate of Sokoine University of Agriculture that this dissertation is my own original work and has not been submitted for a degree award in any other University.

Signature ..............................................

Date.....24 | 06 | 2005.....................................

## COPYRIGHT

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## DEDICATION

This work is dedicated to my beloved mother, Elenestina, and my wife, Adelitha for their understanding, support and patience while I was undertaking the study.

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## LIST OF ABBREVIATIONS

| | |
|---|---|
| AAP | Average Annual Profit |
| AIMs | Assessment of Impact of Micro finance Institutions |
| AWC | Available Working Capital |
| CODESRIA | Council for the Development of Social Science in Africa |
| DAEA | Department of Agricultural Economics and Agribusiness |
| LDCs | Least Developed Countries/ Less Developed Countries |
| LICs | Less Income Countries |
| MEs | Micro Enterprises |
| MFIs | Micro Financial Institutions |
| MuCoBa | Mufindi Community Bank |
| NGO | Non Governmental Organisation |
| NMB | National Micro finance Bank |
| NW | Net Worth |
| SACCOS | Savings and Credit Cooperative Society |
| SAP | Structural Adjustment Programme |
| SMEs | Small and Medium Enterprises |
| SPSS | Statistical Package for Social Sciences |
| SSI | Semi-Structured Interview |
| TDHS | Tanzania Demographic and Health Survey |
| Tshs | Tanzanian Shillings |
| URT | United Republic of Tanzania |
| VSDHA | Value of Selected Durable of Household Assets |

# CHAPTER ONE

# INTRODUCTION

## 1.1. Background information

Poor accessibility and low participation in credit markets by African entrepreneurs is believed to have significant negative consequences on various aggregate and household-level outcomes including technology adoption, agricultural productivity, food security and overall household welfare (Temu, 1994; Zeller, 2001; Diagne, 2003, Atieno, 2001). It has long been recognized that without well functioning financial markets there is little prospect for increasing enterprise productivity and improving the living standards of the African rural poor in any significant and sustainable way (Yunus, 1984). Most people believe that the micro finance institutions will reduce poverty through increased income and standards of living, empowering women, developing the business sector through growth potentials and developing a parallel financial sector (Kimuyu, 1999; Seibel and Parnhusip, 1998; Khandker, 2000).



In the past, governments and donors had set up credit programmes aiming at improving rural household access to credit. They were providing credit at subsidized interest rates, but failed to achieve the objectives to serve the rural poor and be sustainable credit institutions due to many reasons (Temu, 1994; Kashuliza *et al.*, 1998; Diagne, 2001). In response to those past failures, and recognizing the fact that traditional commercial banks typically have no interest in lending to the poor rural households because they lack viable collaterals, and because transactions costs associated with small loans are high, innovative credit delivery systems are being promoted as a more efficient way of improving rural households' access to formal credit with no or with minimal government involvement (Kuzilwa and Mushi, 1997; Chijoriga and Cassimon, 1997). That is how Mufindi Community Bank (MuCoBa) came into being. MuCoBa is one of the few banks of its nature in recent times in our country. It was established at the end of 1998 to stimulate investment and economic growth in the District. Its establishment was backed by the big demand for financial services in Mufindi District due to lack of reliable financial institution in most part of the community, especially in the rural areas.

MuCoBa aimed at:

a) Savings mobilisation from the public and use the same savings to lend to the needy public;
b) Provision of financial services for micro and small enterprises, savings and credit society, and registered groups (women, farmers and others); and
c) Promotion of the saving behaviour as a way to build up capital and increase livelihood security.

It is assumed that through the above MuCoBa can support business, which would result into employment generation, develop internal market by means of higher purchasing power, more production and more channels for sales and thus fight against socio economic poverty and contribute to general development of the District and the nation at large. This study, therefore, was an attempt to assess the achievements of the MuCoBa on performance of the micro enterprises and improvement of the household welfare.

**1.2. Problem statement and justification**

For decades, the poor in developing countries, including Tanzania, were essentially shut out of credit and savings services (Temu, 1999; Zeller *et al.*; 2001; Riedinger, 1994; Rogaly, 1996). Because the poor did not meet the traditional criteria for borrowing, financial institutions perceived them as bad and risky creditors. More recently however, development practitioners have come to see that the poor can, indeed, make effective use of credit to raise their income and get access to more food and other necessities. In fact, some quarter of main credit is now seen as the solution to poverty. (Zeller et al.; 2001; Kashuliza *et al*; 1998; Seibel and Parhusip, 1998). Credit alone cannot be guaranteed to raise incomes, increase food security and improve nutrition though it is known that it can be an important tool in the fight against poverty. Many of the world's poor are micro entrepreneurs, farmers, shopkeepers, weavers, food vendors, small commodity producers, petty traders and the like (Zeller *et al.*; 2001, 2001). This is also true of the most Tanzanians and Mufindi residents in particular. Like any business people, they require access to simple instruments for obtaining working capital, maintaining assets or expanding business. Lacking these instruments, they remain trapped in a vicious cycle of low financial returns and low incomes.

As micro finance programmes and institutions have become an important component of strategies to reduce poverty or promote micro and small enterprise development as does MuCoBa, then the spotlight has begun to focus on institutions. But knowledge about the achievements of such initiatives, though of interest to many stakeholders, remains undocumented in some parts of the world of the poor. At one end of the spectrum are studies arguing that micro finance has very beneficial economic and social impacts (Hossain, 1988; Khandker, 1998; Otero & Rhyne, 1994; Schuler *et al.*; 1997; Kayunze and Twamala, 2000). At the other end, however, however, other writers' caution against such optimism and point to the negative impacts that micro finance can have (Adams & von Pischke, 1992; Buckley, 1997; Montgomery, 1996; Rogaly, 1996). In the middle are writers who argue that micro finance does not assist the poorest, as is so often claimed (Hulme & Mosley, 1996; Mosely & Hulme; 1998). Given this state of affairs, the assessment of micro finance programmes remains an important field for researchers, policy makers and development practitioners.

With regard to the above assertions, very little has been documented on the achievements of MuCoBa since its inception more than five years ago. Thus the aforesaid arguments strongly motivated this study. There was a deficiency of information about performance of micro enterprises after credit use and the overall improvement of the beneficiaries' household welfare when compared to those of the like that had not received credit. It was this gap that the research intended to fill, with a view to generate findings on which innovations to reach more of the very poor families with credit and other financial and business services, and helping them improve their household welfare might be based. Generation of quantitative and qualitative empirical knowledge on how respondents are performing with credit were important in order to find policy implications for poverty reduction with credit and other financial services to the poor where else in Tanzania. The study focused on the impact of the credits offered by the Bank on performance of the micro enterprises and improvement of the household welfare. The Bank differs from other credit schemes because it provides support to already existing enterprises and not for starting any enterprises.

### 1.3. General objective

The general objective of this study was to assess the impact of credit on performance of micro enterprises and improvement of the household welfare.

#### 1.3.1. Specific objectives

(i) To establish micro enterprises profile in the district.

(ii) To evaluate the impact of credits on micro-enterprises performance and market participation.

(iii) To assess the impact of credits on household welfare.

(iv) To assess factors that would enhance impact of Mufindi Community Bank's credit on beneficiaries

#### 1.3.2. Hypotheses

(i) There are significant differences on economic performances and market participation between credit beneficiaries and non-credit beneficiaries.

(ii) Participation in credit services given by micro finance institutions leads to increased net worth of the micro enterprises of which results into positive effects on household welfare.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1. An overview of micro-finance

Micro-finance means transactions in small amounts of both credit and savings, involving mainly small–scale and medium-scale businesses and producers. The poor, who cannot run a small business because they lack capital, may also benefit from micro-finance organisations. The poor, especially poor women are the prime targets for micro-finance intervention in many countries, including Bangladesh (Khandker, 2000).

Micro finance arises due to the fact that low-income people have few assets or resources to meet the requirement for traditional collaterals as documented by formal financial institutions. As explained previously, the provision of financial services in consideration of the economic and environment characteristics of the low-income clients would suit the low-income earners who are most often detached from urban centres where financial services are found. Such areas are usually faced by lack of infrastructures like good roads, telephone and newspapers. As if that is not enough, poor people have low formal education and hence little exposure to the outside world.

However, it is clear that what micro-finance can do for the poor depends on their ability to utilise what the micro-finance offers them. In many countries, micro-finance provides a window of opportunity for the poor to access a borrowing and saving facility. In other countries, these facilities also provide organisational help, training, safety nets, empowerment, and financial and other help during crises (Jacob, 1994) argues that, micro-finance can alleviate liquidity constraints, stabilise consumption, and enhance both income and consumption for the poor, thereby augmenting the poor's welfare. Borrowing from a micro-finance institution to run a business is a self-help activity. Moreover, micro-finance satisfies the derived demand for capital in the resource poor households. Success in such a business depends on skill and entrepreneurship, as well as local economic conditions. Many poor participants may lack such skills and may benefit very little from micro-finance. On the other hand, since lack of economic growth is the cause of poverty in many economies, the success of micro-finance borrowers is very much limited by their local economies.

## 2.2. Micro finance and types of credits

Micro finance is a generic name for financial services meant for self-employment and other financial, and business services (including credit, savings, and technical assistance) to very poor persons (Nitsch, 2001). Thus, micro finance provides an alternative source of finance to the poor and women, if without access to the formal banks, have access to informal lenders. There are three main types of micro credit, namely formal, semi-formal, and informal micro credit. Informal credit is that which is provided by informal money lenders, rotating savings and credit associations and part-time sources of money, including relatives, neighbours, friends, traders, and larger scale farmers (Hulme and Mosley, 1996; Kashuliza *et al.;* 1998). Semi-formal credit is that which is provided by organizations and agents whose mission is not basically financial service provision, such as NGOs, government departments, religious organizations and community institutions (Kashuliza *et al.;* 1998). Formal micro credit is the one that is provided by mainstream financial institutions, especially banks (Kashuliza, *et al.*, 1998). As micro finance is relatively cheaper than informal finance, access to micro finance is expected to reduce borrowing from informal sources (Khandker, 2000). It is further argued that micro finance is expected to increase household savings by providing an alternative facility for savings mobilization from the poor.

Micro finance has emerged and is still emerging as a popular mode of finance for the poor and small-scale producers in many developing countries. In Bangladesh for instance, micro finance accounts for more than half of rural financial transactions and reached about 30 per cent of rural households (Kandker, 1998). Micro finance facilitates production and consumption. Small loans from the micro finance institutions generate employment for the poor and women. With an easy access to a micro finance programme, the poor save regularly to build financial base and physical capital.

**2.3. The impact of MFIs on micro- enterprises**

Following savings, which leads to capital accumulation, the institution involves in provision of credits. Literally, credit means money lent with an interest for profit. Credit is further defined as transaction between two parties in which one (the creditor or lender) supplies money, goods, services or securities in return for promised future payment by the other (the debtor or borrower). Such transactions normally include the payment of interest to the lender.

Most of the credit schemes seek to increase income and generate employment through small scale-enterprises that are operated by poor people (Mclead, 1992). Credit plays a vital role in improvement of household welfare through the facilitation of establishment, reactivating expansion and enhancing modernization of micro- enterprises. Loans allow borrowers to purchase large capital items sooner than they would do otherwise. Credit can be effective means of bringing labour, land and management into productive use and intensifying the productivity of those resources already employed. This potential gain in performance or productivity resulting from credit use is the main motivation under tying many governments seeking to provide the credit to Micro – enterprise sector (Adams, 1988). Credit also channels financial resources to most viable and productive enterprises and can be useful for wealth distribution and job creations that ensure income necessary for beneficiaries' welfare. (William, 1998)

However, other scholars such as Mahajan (1998) advises that, in order to make micro credit work better, beneficiaries should be made aware of the fact that micro credit is not fully financially sustainable. Moreover, micro credit programmes should be engineered to target not only the poorest, but also the less poor and some of the non-poor who can operate large enterprises providing wage-employment to the very poor. Mosley and Hulme (1998) argue that in order for the very poor to benefit from loans and repay them promisingly, there has to be a technology of lending to them. Such a technology involves freedom to charge interest rates that are enough to cover costs, provision of savings facilities, and adaptation of financial services to local demand through mobile banking. Moreover, modification of savings, loan collection, and incentive arrangements for borrowers and staff increase credit effectiveness. Using this technology, the Grameen Bank of Bangladesh and BangcoSol of Bolivia have often achieved higher loan recovery rates than those achieved by commercial banks in the same countries in spite of lending to poor, uncollateralized individuals (Mosley and Hulme, 1998).



**2. 4. Savings, credits and development**

To let the institutions become self sufficient, mobilization of savings enables institutions to increase their liquidity, develop a sense of trust and ownership among clients, and creditworthiness among the commercial community of which in turn would raise the repayment rate of loan, attract more loan clients and access more loan capacity and or investment funds from commercial sources

Most development programmes targeting improvement of the household welfare through finance have in the past focused more on the side of credit and much less in the area of savings. Presently, there is a substantial degree of knowledge on effective methodologies for assessing the poor with credit and institutional framework under which such methodologies work best. However, much less is known with regard to the use of saving mobilization among the poor in poverty alleviation. It was not believed by most policy makers that poor people could save. It was only in recent years has there been growing awareness that deposit mobilization must receive priority and be considered as an integral part of a financial institutions building (Adams and vogel 1986). Despite the fact that they are poor, several studies have confirmed that, the majority of household in rural communities (76%), most of times save a portion of their income (Planning Commission, 1991). Saving for poor people is an aspect of forecasting and or determining the well being at a future point of time. The role of saving cannot be less over emphasized for sustainable development of micro-enterprises in developing countries, including Tanzania. Adequate domestic savings rate is essential for the attainment of sustainable economic growth.

### 2.5. Credit use and household welfare improvement

The assumptions or belief that credit can contribute to enterprises` development (farm and non farm) carries some economic rationale. It can be shown, for example, that as long as the marginal returns on the variable inputs employed in production are higher than the rate of interest paid (on loan), the rate of growth of the producer's wealth will increase as access to credit increases (Kashuliza, *et al.*; 1998). Using economic principles it can also be shown that access to credit is a crucial determinant of differences in the growth of resources (wealth) through time, e.g. between credit participants and non participants assuming their initial endowments at the beginning to be about the same. Thus, credit is potentially of value in augmenting the flow of the enterprises resources. Through the aforesaid processes, it is believed that credit could enable the rural poor to move out of "Poverty trap" through investment that improves productivity and tap into economic opportunities. As earlier mentioned, what should not be overlooked, however, is that credit alone stands little chance of being used effectively to promote enterprise productivity and entrepreneurs' incomes if an enabling financial and economic environment is lacking, for instance, market for the products, political stability, etc.

## 2.6. Financial services access and participation

Access to formal credit is often confused with participation in formal credit programmes. Indeed the two concepts are used interchangeably in many studies. However, to analyse satisfactorily the socio economic determinants of both access to credit and participation in formal credit programmes and to assess their respective impacts on household welfare outcomes, one needs to make the distinction between access to credit (formal or informal), participation in formal credit programmes or in the informal credit market, and being credit constrained. A household has access to particular source of credit if it is able to borrow from that source, although for a variety of reasons it may choose not to. The extent of access to credit is measured by the maximum amount a household can borrow (its credit limit). If this amount is positive, then it is said to have access. A household is said to be participating if it is borrowing from a source of credit. A household is credit constrained when it lacks access to credit or it cannot borrow as much as it wants (Diagne and Zeller, 2001). These distinctions are particularly important because, as discussed previously, a household living in a risky environment may benefit from mere access to credit even if it is not actually borrowing.

Furthermore, access to financial services by small holders is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases access problem, especially among formal financial institutions, is created by institutions mainly through their lending policies (Atieno, 2001). This is displayed in the form of prescribed minimum loan amounts, complicated applications procedures and restrictions on specific purposes (Schimidt and Kropp, (1987), cited by Atieno, 2001). For small-scale enterprises, reliable access to short term and small amounts of credit is more valuable, and emphasizing it may be more appropriate in credit programmes aimed at such enterprises. Schmidt and Kropp further argue that the type of financial institution and its policy will often determine the access problem. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.



**2.7. Economic importance of micro enterprises**

Micro enterprises are informal income generating activities of which the total population engaged in them is growing over time. These have been recognized as a major source of employment and income in many least developed countries (Mead, 1994). The argument has gone further that micro enterprises are not only important in LDCs but also in the Developed Countries where 8 of 10 new jobs in recent times have come from micro enterprises (Daniels and Mead, 1994).

Employment in the micro enterprises expands as a result of establishment of new ones and or through expansion of the existing ones. Thus, the contribution of job opportunities of the informal sector is very important, because unemployment has been and is still a social vice in developing countries as well as developed world to date. This has been due to the growth of labour force that results from population and improved technology that suppresses the number of job opportunities in traditional employment. Also, Structural Adjustment Programme (SAP) has part to blame for restriction of employment in public sector in many developing countries (Mead, 1994).

Some development enthusiastic suggestions are that expansion of the micro enterprise sector is a sign of economic failure because the mainstream financial institutions have failed to curb the ever-emerging unemployment. Therefore, the enterprise activities are undertaken as copping strategies against unemployment (Pyke and Sengenberger, 1992). Others are of the opinion that micro enterprises have equal role in contributing to the income and welfare of societies as that of the traditional employment even in richer countries such as Germany.

### 2.7.1. Factors limiting development of micro enterprises

Many countries in LDCs, Tanzania with no exception have waged their efforts in promotion of entrepreneurship as one of the many alternatives to combat poverty. However, smooth and faster development of enterprises has been facing a number of limiting factors. Some of them are discussed hereunder:

- Initial/ own start-up capital

To secure credit from some schemes, an applicant should have viable legal economic activity. This has been difficult due to lack of sufficient capital to start an enterprise. Sometimes insufficient capital leads to the establishment of insignificant projects that yields low profits hence low saving or no savings at all. (Mandara, 1998). Lack of capital has been ranked the highest among the limiting factors in the establishment and or expansion of the existing micro enterprises in many parts of the world of poor (Kuzilwa and Mushi, (1997); Buckley, 1997). Other researchers such as Minga, (1998), Chiduo, (2000) and Selejio (2002) reported that capital was the prime factor facing entrepreneurs during the studies carried out in Dar es Salaam and Morogoro respectively.

- Improper business location

Scholars such as O'Riordan et, al.; (1997) found that entrepreneurs were using undefined premises for undertaking their businesses. The premises they were using varied from permanent to temporary and some times in open spaces. This had effects in locating customers and performance of the enterprises in general. Mead and Liedhom (1998) further report that micro enterprises operating in a commercial or even alongside the roads expanded more than those operating at homes. And those in rural areas were likely to grow less fast than urban counterparts.

- Difficulties in accessing credit from formal sources

As explain in the previous section, micro entrepreneurs lack support to access conventional credit sources because they lack securities stipulated by the sources. Most often, some were scared by the borrowing interest rate coupled with transaction costs.

- Poor infrastructures

Infrastructure in this context refers to the business related fixed structures (stores etc), rural roads etc. Availability of good infrastructures would enhance better performance of the business, for instance good rural roads would lower the variable costs through low fare and transport costs of the goods, hence improving the profit margin. Good looking and well-established stores would not only attract customers, but also would discourage thieves and other hazards like fire breakouts. Thus, to exploit the economies of scale (Themba, et, al.; 1999) suggest that improvement of infrastructures should get upper priority.

- Market

This factor is equal or less the same as capital in the exploitation of the economies of scale, because goods without customers are as good as wasted capital and energy spent.

Stiff competition in the business today and the continued lack of purchasing power of the respective residents has made market to be one of the limiting factor for the growth of the enterprises.

- Entrepreneurship

To generate potential business ideas requires a great deal of awareness about one's environment. The ability to understand and anticipate the needs and wants of the customers is necessary so as to come up with ideas for the products/ services that can satisfy them. The aforesaid ability is correlated with the level of education and knowledge (Themba et, al.; (1999). It is further argued that education and training earns direct and indirect economic benefits to individuals and societies by increasing productivity, incomes and occupational mobility. Moreover, Minga (1998) found that entrepreneurs with formal education for instance up to secondary level, were likely to expand more of their micro enterprise in Tanzania and Kenya respectively. In spite of importance of education as described above, entrepreneurs in most of the LDCs have no or unsatisfactory formal education (Minga, 1998).



- Technical skills as well as training

Regardless of the enabling environment being created by the government, intended beneficiaries have continued to achieve little on micro enterprise due to lack of technical know how. Most poor people targeted by credit schemes for poverty reduction have absolutely no perfect skills in the areas of business coupled with low capital as well as loan ethics.

Moreover, Minde and Turuka (1997) found that entrepreneurs had only short experience in running the enterprise because they have just emerged recently. In addition, Hajabakiga (1994) reports that the key constraint to women's access to credit was related to their lack of relevant business skills and managerial competencies. Also, it has been noted that the business and technical institution available in Tanzania are expensive for the micro enterprise operators to afford enrolment for business skills (URT, 1998a).

- Gender

While men entrepreneurs also face some of the difficulties in their business endeavour, women have additional gender specific constraints. Some of the constraints as noted by ILO, (2000) are social and cultural based, for instance, negative attitudes towards women in business, the fact that women are supposed to fulfil other roles, lack of family support and lack of mobility. Mead and Liedholm (1998) put it that male-headed micro enterprises are likely to expand more rapidly than those operated by their counterparts. That is because women have due domestic and reproduction responsibilities and or differences in the business objectives of female and their male counterparts. Women could also be risk averse than males an indication of more responsibilities in the maintenance of welfare and possibly even the survival of household. Thus, business diversification and expansion of the existing one get restricted because funds are spent on family matters.

**2.8.0. Impact assessment and its rationale**

Impact assessment is a management mechanism aimed at measuring the effects of projects on the intended beneficiaries. The rationale is to ascertain whether the resources invested produce the expected level of output and benefits as well as contribute to the mission of the organisation that makes the investments. Indeed, micro-finance institutions (MFIs) impact assessment is important in enabling them remain true to their mission of "working with the poor people in their struggle against all evils of poverty.

Moreover, MFIs have become increasingly involved in providing financial services to SMEs focused on poverty reduction and the economic survival of the poorest of the poor. There is continuing and rapid improvement in understanding on how financial services for the poor can best be provided. As part of this learning process, micro finance practitioners, donors and governments have been interested in knowing to what extent these credit interventions impact on the beneficiaries. Consequently, a number of impact assessment studies have been undertaken in recent years, with varying and revealing results (Afrane, 1998), cited by Afrane, (2001)

### 2.8.1. Difficulties of impact assessment

The measurement of micro finance impact is obviously fraught with a number of methodological problems. One such problem is the difficulty of estimating the counterfactual situation in order to compare with factual conditions of the target group. In such a case, impact assessment methodologies are being improved through the application of methods like "with" and "without'' approaches and baseline studies (Moser & Kalton, 1971), cited by Afrane, 2001). Other problems are due to lack of written records, recall difficulties, fungibilty of money, seasonality of the income generating activities, fluctuation problems, the sensitivity of the information and the problem of analysis and valuation (the rate of depreciation of the fixed assets, self supplied inputs, family, labour, etc. (Schäfer, 2001). This study has combined the "with" and "without" as well as using baseline data established by the micro finance prior to the provision of the credits.

### 2.8.2. Credit impact studies

As mentioned above many researchers have attempted to assess the impact of credits onfarm and non-farm activities through different analytical techniques. Multivariate regression analysis, production functions and reduced form model have been in the lead

(Hulme *et al.*; 1996; Kashuliza *et al.;* 1998, Mwachang'a, 2000; Selejio; 2001; Bokosi and Edris, 2003, Tchale and Edris, 2003; Diagne, 2003).

# CHAPTER THREE

# METHODOLOGY OF THE STUDY

## 3.1. Theoretical framework of the study

The study conceptual framework assumes that the impact occurs at different levels of the household, and is related to the client's decision about uses of their loan or savings. The impact of the intervention at each analytical level involves either direct or indirect, short term or long term, intended or unintended processes of change that take the transformation stages of clients into account. While impact usually focuses on four levels, this study has focused on only two, household level and enterprise level leaving out community and individual level due to time and financial implications (Schäfer, 2001).

### 3.1.1. Household level: Production and consumption unit

At household level, loans invested in income generating activities contribute to the net increase in household income, assets accumulation, and labour productivity. Social and economic security increases through income that is invested in assets such as savings, stocks and education, which makes it possible to meet basic needs when income flow is interrupted.

### 3.1.2. Enterprise level (Non agricultural and agricultural activities)

Changes in income, assets, employment and management strategies and volume of production contribute to the viability, stability and growth of the non-agricultural and agricultural income generating activities.

## 3.2. Conceptual frame work

Figure 1 indicates how micro-finance that is subject to the influence of national policies avails credits to the needy rural poor. The access to credits is determined by social factors of the borrowers as well as stipulated terms and conditions of the lending entity. The credits are invested in either farm activities or non-farm activities. Credits act as input (capital) and does enhance the use of improved farming technology, improved agronomical practices and expanded farm size on one hand and creation of employment, improved entrepreneurial skills (Business education), more capital goods and turn over sales on the other hand. The former in turn improves farm productivity while the latter improves the enterprise's net worth. Improved farm productivity would result into food security, income and market participation. In this scenario, therefore, employment, improved net worth and improved farm productivity result into improved household welfare, *ceteris paribus*.

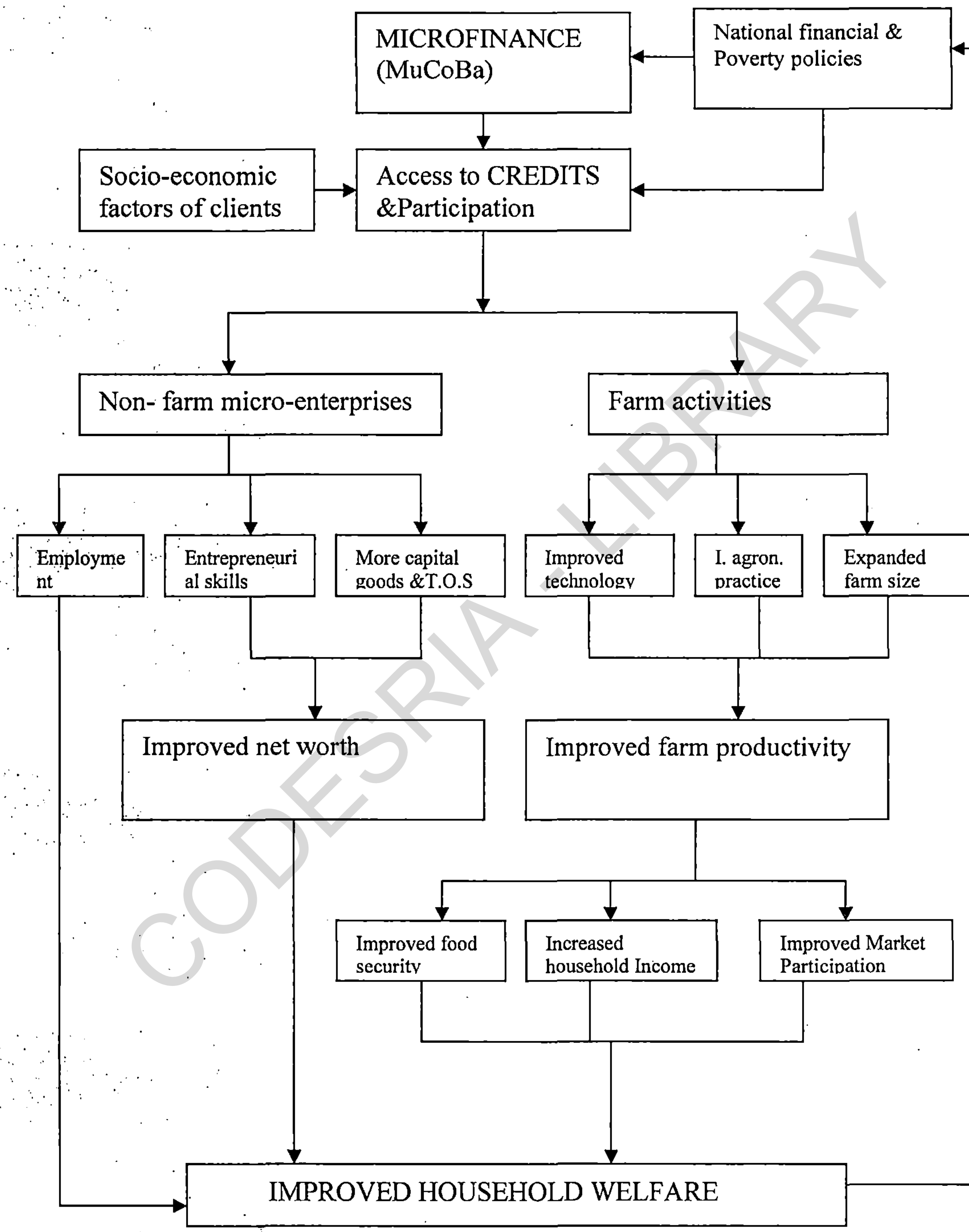


**Figure 1: Conceptual framework**

### 3.3. Description of the study area

The study was carried out in Mufindi District, Iringa Region. The study area was chosen due to the existence of MuCoBa that has been operating for more than six years. The Bank was established purposely to assume the functions of formal financial institutions that had lost interest in credit provision to the small-scale entrepreneurs.

Mufindi has five divisions; Ifwagi, Sadani, Kibengu, Kasanga and Malangali. According to the 2002 census, the population of the District was 283,071 (133,150 males and 149,921 females) with a growth rate of 1.5% per annum and an income per capital of Tshs.170, 756/-. Main cash crops of the area are tea, pyrethrum, coffee while food crops are sunflower, maize, beans, wheat, sweet and irish potatoes and peas.

Agriculture is the main economic activity in the District. Agriculture employs more than 90% of the population and provides more than 85% of the people's income. The other economic activities of great importance are livestock keeping and forest products. Both farming and livestock rearing are undertaken traditionally with low productivity levels. However, there are few large-scale agricultural based industries of varied sizes, including the pyrethrum extraction plant and tea companies such as Unilever Ltd, which are engaged in tea leaves processing. These contribute greatly to the GDP. A number of wood-related industries have also sprung up in Mufindi. The most important is the Southern Paper Mills Ltd at Mgololo. Other economic activities include bee keeping and fisheries.

### 3.4. Types and sources of data

Cross-sectional surveys were conducted to collect data for the study. Both primary and secondary data were collected and used. Secondary data were extracted from reports and other documents from the Bank (MuCoBa) and other government and non-governmental institutions. Two instruments, a checklist for semi-structured interviews (SSI) and a structured questionnaire for structured interviews, were used. Semi-structured interviews were held with credit officials to get more information, including background on the provision of credit, their lending objectives, services they offer, achievements and problems. Structured interviews were held with credit recipients and non-recipients to tap information on basic information of their household such as family size, age, education, and years in the business. More information on enterprises of the households, yearly costs and returns, sources of credit, conditions of accessibility, amounts obtained and usage were asked as well as sources of capital before getting loan. They were also asked about percentage contribution from the credit-supported enterprise to the selected assets they possessed during the research period.

### 3.5. Sampling techniques

A purposive sampling technique was used to get the two Divisions out of 5 (Ifwagi and Sadani) from the District. Those divisions had higher numbers of credit beneficiaries compared to the remaining ones ever since the inception of the Bank. To get the final respondents, simple random sampling technique was applied to one Division that had numerous bank beneficiaries (Ifwagi), while those from the second Division were all involved in the survey because they were not many. Household survey and most of time business premises were included in the data collection. A total of 151 households were involved in the household/business premises surveys, of which 88 were credit participants, 35 were those who had qualified to participate but had not yet started and 28 were those involved in farm activities. The mid group was acting as the control group for the first one. Their businesses` Average Annual Profit (AAP) was compared with that among credit participants. A significant difference between the averages was assumed to be an influence of credit since the control group had similar status in the business endeavour with exception of the use of credit. Also assumption being that the selection criteria used to get the earlier participants had not changed.

### 3.6. Data analysis

Data analysis was conducted using the Statistical Package for Social Sciences (SPSS). Much of the analysis was based on descriptive statistics to summarize survey results. However, mean difference T-test was employed to examine the equality of means of selected variables between credit participants against non- participants. Also regression analysis was conducted to ascertain factors affecting the Average Annual Profit (AAP) generated by the micro enterprises.

#### 3.6.1. Descriptive analysis

Descriptive statistics was used in the exploratory analysis of the survey data. They included estimation of means, range, standard deviation and correlation coefficients of some variables.



#### 3.6.2. Quantitative analysis

##### 3.6.2.1. Mean difference t-test

This analysis was used to determine the differences between credit beneficiaries and none beneficiaries in terms of monthly profit, value of selected household assets and available working capital (see Annex$_{2)}$

##### 3.6.2.2. Regression analysis -Variables affecting profit

In addition to descriptive statistics and t-test, regression analysis was conducted to estimate the main factors that influence average annual profit (AAP) of the enterprises.

The average annual Profit (AAP) was hypothesized to be determined by initial own capital (STACAP), initial loan/credit (CREDIT1) family size (FSIZE), type of enterprise (TYPENT), monthly turnover (MOTOV) and available working capital /Business Value (AWC). The regression analysis was conducted to ascertain the significance of the start up capital, credit and other factors on the performance of the enterprises in terms of annual average profit.

**3.6.2.2a. Expected variables coefficients (a priori expectation)**

**SATACAP:** Start up capital

Performance of the enterprises increases with the amount of start up capital. Micro enterprise started by little capital would have poor performance while the one started by lager amount of initial capital would have better performance and would therefore convince the evaluation committee to offer considerable loans. Hence a positive sign is expected.

**$CREDIT_1$:** First loan/ First credit

Credit is expected to expand capital base, improve sales and hence profit only if the whole loan is injected in the business and properly managed. A positive sign is thus expected.

**TYPENT:** Type of enterprise

Though it was difficult to assess enterprise-by-enterprise, most were dealing with consumable goods. The category deals with daily human necessities as a means of winning a sure market. In this case it would affect the performance of the enterprises positively. Thus, a positive sign was expected.

**AWC:** Available working capital

This refers to the value of the enterprise at any particular time. The larger the value of the enterprise the attractive it would look and as much customers it would attract. In this case it would lead into higher sales thus good performance. A positive sign is thus expected.

**MOTOV:** Monthly turnover

If not used for family for family needs and or starting another project, the higher the monthly turnover the better the performance of the micro enterprise. Re-injection into the project would lead to further expansion of the enterprises. In this case a positive sign is expected

**FSIZE:** Family size

This refers to number of persons in a given household running an enterprise. This has two views; First, the bigger the number the more the money needed for the family needs. It follows that more money could be taken from the business, monies that could be reinvested for improvement of the micro enterprise. In here a negative sign would be obvious. Secondly, the bigger the family would mean saving cost for hired labour for the enterprise by using family labour. Hence a positive sign would be expected.

**3.6.2.2b. Model specification**

The functional model and or equation function of the model with AAP a dependent variable was specified as;

AAP= $f$(STACAP, $\text{CREDIT}_1$, FSIZE, TYPENT, MOTOV, AWC)

Following introduction of the natural logarithm so as to easy the use of ordinary least square the equation were specified further as;

$LnMG = K_0 + K_1 lnSTACAP + K_2 lnCREDIT_1 + K_3 lnFSIZE + K_4 lnTYPENT + K_5 lnMOTOV + K_6 AWC + \mu$

**3.6.2.2c Handling multi-collinearity problem**

The issue of multi-collinearity was handed by conducting stepwise regression. This method involves gradual addition of variables to the initial regression and its effect being observed on the overall $R^2$ (Gujarati, 1998). In this study the dependent variable (AAP) was regressed on the explanatory variables. The result of each regression was then examined in the overall $R^2$ and the signs of the coefficients. That is;

$AAP = lnSTACAP + \mu$ $R^2 = .18$

$AAP = lnSTACAP + lnCREDIT_1 + \mu$ $R^2 = .21$

$AAP = lnSTACAP + lnCREDIT_1 + lnTYPENT + \mu$ $R^2 = .48$

$AAP = lnSTACAP + lnCREDIT_1 + lnTYPENT + lnAWC + \mu$ $R^2 = .52$

$AAP = lnSTACAP + ln\ CREDIT_1 + lnTYPENT + lnAWC + lnMOTVO + \mu$ $R^2 = .54$

$AAP = lnSTACAP + lnCREDIT_1 + lnTYPENT + lnAWC + lnMOTVO + lnFSIZE + \mu$

$R^2 = 58$

**Table 1: List of independent variables used in the regression analysis**

| Variable estimated | Description |
|---|---|
| STACAP | Credit participant's own initial capital (Tshs) |
| $CREDIT_1$ | Amount of the first loan (Tshs) |
| TYPENT | Type of the enterprise run by the respondents |
| AWC | Available working capital (Tshs) |
| MOTVO | Monthly business turnover (Tshs) |
| FSIZE | The number of family members |

# CHAPTER FOUR

# RESULTS AND DISCUSSION

## 4.1. Some demographic and socio-economic characteristics of the respondents

### 4.1.1. Respondents by location, sex, education and marital status

Table 2 shows that 69% of respondents were from Ifwagi Division as compared to 31% from Sadani Division. This was due to proximity to the credit facility that has implications in transaction costs (ie transport cost and other related expenses for the follow up and repayment of the credit). Sadani is also less potential with regard to market for various goods because neither cash crops nor industries are found there, hence low per capita income of its people. Contrary to Sadani, Ifwagi division is in Mafinga township where its people do business as their best alternative in search for livelihood as opposed to rural dwellers that engage in farm activities and carry out non-farm activities as part time ones. That is, the micro enterprises are the best alternative for self-employment for the poor in urban areas. Also, good markets for the goods/products and or services are easily found in urban areas because of high population (customers) who are assumed to earn higher income than the rural people.

The study indicates that among the credit participants, 78% were males and 22% females. Though it has been noted that ownership is of the household, yet, this implies that most men are the ones who own valuable assets that are compulsory collaterals for getting credit from MuCoBa. The assets included bankable houses and accounts in the banks.

**Table 2: Respondents by location, sex, education and marital status**

| Variable | Distribution | Frequency | Percentage |
|---|---|---|---|
| Division | Sadani | 38 | 30.9 |
| | Ifwagi | 85 | 69.1 |
| **Total** | | **123** | **100** |
| Sex | Female | 27 | 22 |
| | Male | 96 | 78 |
| **Total** | | **123** | **100** |
| Marital status | Married | 114 | 92.7 |
| | Separated | 2 | 1.6 |
| | Widow | 3 | 2.4 |
| | Single | 4 | 3.3 |
| **Total** | | **123** | **100** |
| Education | Formal | 122 | 99.2 |
| | Informal | 01 | 0.8 |
| **Total** | | **123** | **100** |

As indicated in Table 2, the respondents were adequately educated for the purpose of the small businesses they were undertaking since only 0.8% had no formal education. Those who had post-secondary education were 25%. Those who had post secondary education and were all employees of the government or NGOs. However, such education has very little to do with total and effective entrepreneurial skills.

It has been learned that because of the relatively low wages paid to the majority of the Tanzania's civil servants as compared to the international standards; micro enterprises were started to supplement the household incomes (35%) on one hand and on the other hand they were started as a source of employment (65%). As such, businesses were for making wives and or husbands participate in daily breadwinning.

Other studies (Atieno, 2002) further suggest that, lack of formal employment in both public and private sector and low income from other sources such as seasonal farming, force many rural and urban poor to engage in ME activities as an alternative source of employment and income generation. Supporting the above, Mead and Daniels, (1998) found that ME has become a major source of livelihood and employment in many Less Income Countries (LICs) due to employment in the public sector being restricted as a result of Structural Adjustment Programmes (SAP) and limited absorptive capacity of agricultural sector as a result of low capital.

### 4.1.2. Age, family size, start up capital and the first credit

As given in Figure 2, the mean age of the whole sample lies in the age group of 36-50 years that is 39 years. This is an economically active age in most parts of the world. Moreover, this falls even within the recognised productive age in Tanzania (TDHS, 1997). Thus, the credit fell in the proper segment of the population, though is not always the case.

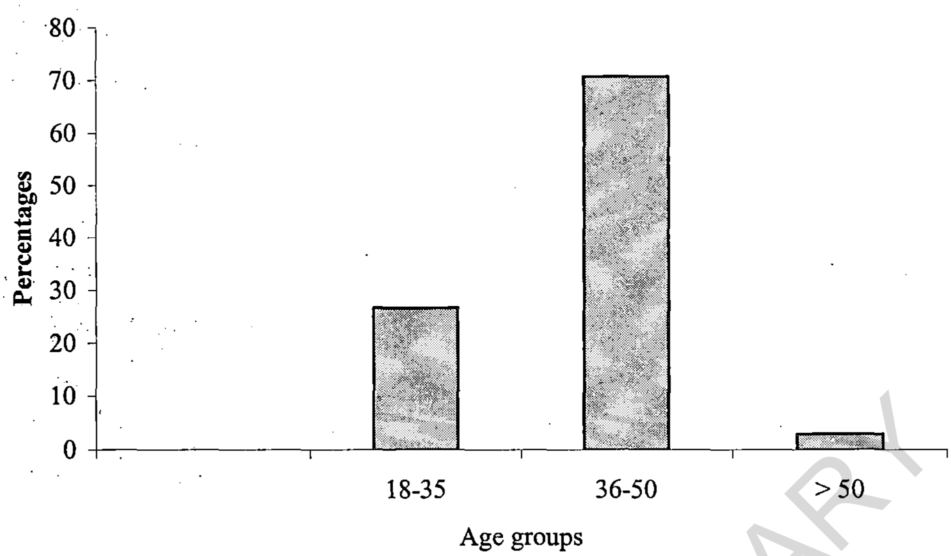


**Figure 2: Respondents` age groups**

The respondents` average family size was 5.1. This is equal to the national rural average household size (TDHS, 1997). There are two views when family sizes are looked at. While others suggest that a bigger family sizes worsens household welfare in Tanzania (URT, 1998), some studies such as Kayunze (2000) and Kamuzora (2001) have found that larger households are better off than small ones with regard to improvement of household welfare. This happens where almost all of the households' members take part in productive activities/provision of services. Thus, household size has both negative and positive effects on household welfare status. However, this study has found that there is positive relationship but not statistically significant between family size and Average Annual Profit (AAP) in the study area. Normally, the bigger the family size the more the money needed for house hold expenditure. Therefore, more money could be taken from the business for family needs instead of being reinvested for improvement of the micro enterprises.

As depicted in Figure 3, the study has found that the majority (65.9%) of the entrepreneurs had started their enterprises with an initial start up capital between Tshs.100,000/- and

450,000/-, with an average of Tshs.198, 959/-. In view of today's situation and the fact that the majority were dealing with kiosk and or shop, this amount (Tshs 198, 959/-) seems too small to have a significant business. This is an indication that the credit facility has been so timely for the purpose of improving the capital base and businesses, which will result into a significant profit for households' welfare improvement.

Moreover, it has been learned that the majority (78.4%) had received initial credit of less than Tshs.400, 000/-followed by those who had received credits between Tshs. 400,000/- and 600,000/- with an average of Tshs.256, 436-. Such an amount is still too small and even worse to invest in agricultural enterprises. Probably that is what made those who applied credit for farm activities to invest in other ventures that required smaller amount of capital and quick rewarding ventures instead of the intended purpose. Results from a correlation statistic test indicate that there is a significant relationship ($\rho<0.01$) between the initial capital and the first loan. This implies that the bigger the start up capital the bigger the credit one is likely to secure from the bank. It has further been learned that only 10% of the applicants got the amounts applied for. Though it has been so due to appraisal reports of the projects run by applicants, it has been noted to discourage the entrepreneurs for it couldn't suffice the requirement of the intended materials to be traded in. On top of that, to secure credit from MuCoBa married applicants had higher chances (93%) than singles, separated and widows since in some instances one of the couple members was used as guarantor of the credit.

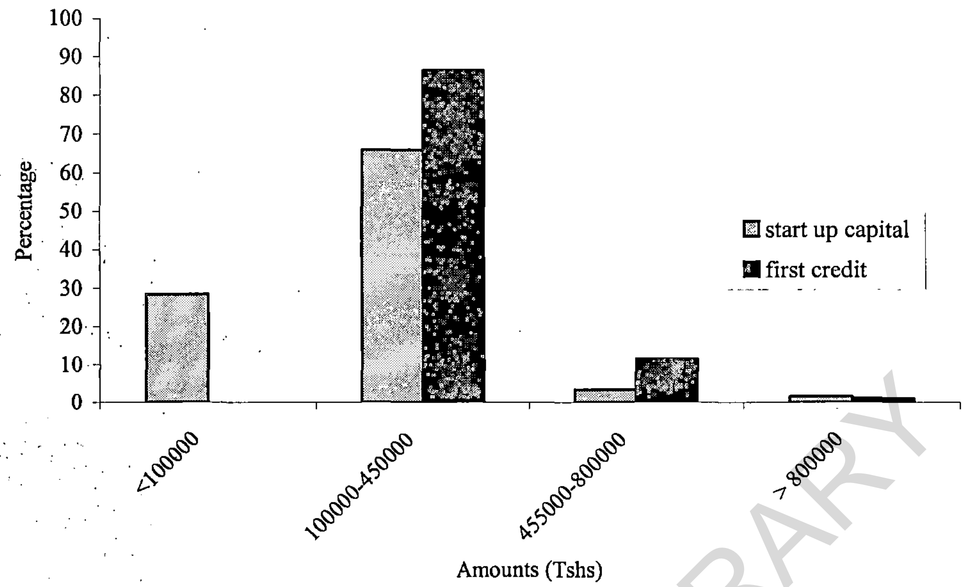


**Figure 3: Start-up capital and the first loan**



### 4.2. Sources of start up capital

It was found that there were many sources of start up capital in the study area. Salaries (33.3%), Crop sales (30.9%), small business (13.0%) and labourer (8.9%) were the dominant ones. It can be seen that the main source of start-up capital was salaries. This is because the majority of the entrepreneurs were civil servants and NGOs employees (38.2%). Most of them leave in Ifwagi Division in which the MuCoBa is located. This indicates traces of exclusion of the poorest of the poor because neither the assets nor the enterprises possessed by the rural people and poorest of the poor are comparable with those of employees.

**Table 3: List of sources of start up capital (n=122)**

| Sources | Frequency | Percent |
|---|---|---|
| Crop sales | 38 | 31.1 |
| Salaries | 43 | 35.2 |
| Small business | 16 | 13.1 |
| Spouse | 01 | 0.8 |
| Labourer | 11 | 9.0 |
| Terminal benefits | 03 | 2.5 |
| Parents | 03 | 2.5 |
| Masonry | 02 | 1.6 |
| Relatives | 01 | 0.8 |
| Credit from friends | 02 | 1.6 |
| Credit from SACCOSS | 02 | 1.6 |
| **Total** | **122** | **100.0** |



## 4.3. Types of enterprises and ownership

### 4.3.1. Types of enterprises found in the study area

Figure 4 shows that the major groups of the enterprises run by the entrepreneurs were three, namely petty trade/utility services, agro-marketing and manufacturing/Artisans. Petty trade (kiosks, grocery etc) dominated, possibly this has something to do with high demand for the services and the amount of the start up capital required for their establishment and low level of entrepreneurial skills that would have necessitated an appraisal before the investment. Also, grace period was too short to invest in other businesses, which needed relatively longer period to bring returns.

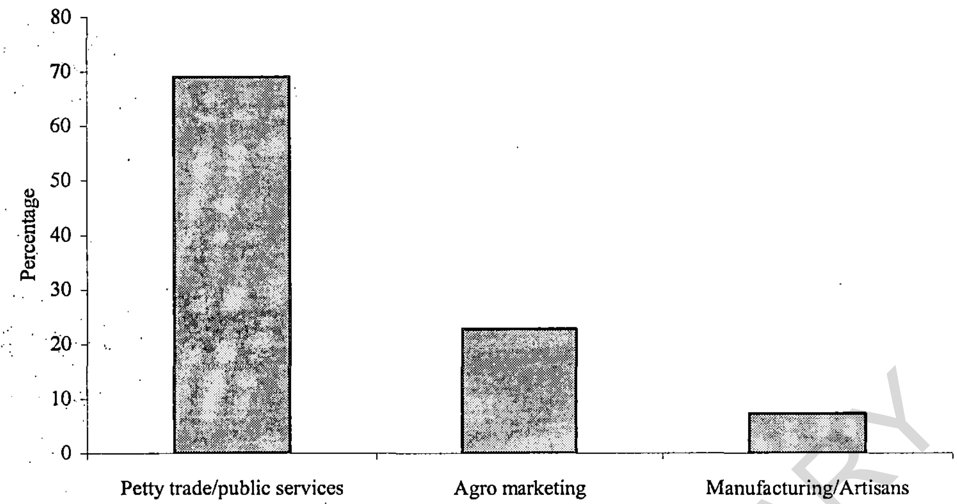


**Figure 4: Major groups of enterprises**



### 4.3.2. Ownership of the enterprises

Most enterprises were organised as sole proprietorship (96.7%) and as group ownership with only 1.6%. Although micro finance institutions (MFI) and other credit schemes encourage groups formation in securing credits and where possible in running of the business so as to cut down transaction costs for both creditors and credit facilities, it seems entrepreneurs are not in favour of that. This might be due to lack of trustfulness among the would be group members, which is also a problem in both private and public sectors in Tanzania as well as in most low income countries. TISS (1991) and Ghani (1995) cited by Selejio, (2001) also found that many small and micro enterprises in Tanzania and Sub Saharan Africa respectively, are solely or individually managed. The tendency reduces both success and access to financial institutions.

## 4.4. Years in business and management practices

### 4.4.1. Years in business

The study revealed that the entrepreneurs had been in business on average for 5.4 years, with the minimum of 1 year and the maximum of 15 years. However, most of them were found to have been in business for 3 yrs (22%), 4 yrs (10.6%), 5 yrs (21.1%) and 6 yrs (16%). This indicates that most of the entrepreneurs had started their enterprises to qualify for credit accessibility and or participation, as it is one of the compulsory requirements to credit accessibility. To better undertake the enterprises smoothly would have necessitated the training for the purpose of imparting business skills.

### 4.4.2. Management practices

With regard to business skills, it was observed that 89% of the entrepreneurs were keeping records of their respective businesses and that they had the skills before applying for and acquiring credit from MuCoBa. However, those records were not kept for longer time and rarely were they used for evaluation of their projects. While 74.2% of the respondents had separate budget from that of the enterprise for household expenditure, 81% had a fixed location for the businesses.

## 4.5. Access to and participation in credit services

To participate and or access credit from MuCoBa one should have a legally viable enterprise that has existed for more than a year and collaterals- preferably an immovable item such as a permanent house and a savings account with the same bank. Alternatively, one should have valuable assets that are bankable. This is an automatically excludes of the poorest of the poor.

## 4.6. Lending procedures and transaction costs

An applicant has to open an account at the Bank to qualify as a potential applicant. The applicant is issued with the loan forms for Tshs. 2,000/-, followed by an appraisal of the enterprise s/he is running by the credit officer. There after, the appraisal report is presented before the credit committee for screening. Those selected and intend to use collateral/securities which are not officially registered and or houses located in none surveyed areas by the relevant authority have to go to the village government, Ward Executive officer (WEO) and then to the court, with the forms bearing signatures of guarantors and indicating the collaterals to be used. Finally, the applicant has to pay 2% of the value of the loan applied for as administration fees before receiving the credit.

The total amount used in due course varies depending on the amount of the credit some one has applied for and approved to be given, leaving alone the fare and other related costs of travel to the Bank at the minimum number of three times. However, the transaction costs seem higher when compared to the mushrooming Savings and Credit Cooperative Society (SACCOS) and even the National Micro finance Bank (NMB). These affects customers residing at Igomaa, Ikweha villages, Malangali Division, parts of Kasanga and Kibengu Divisions as well as other villages far away from MuCoBa. The costs are due to transport cost and administrative fees.



## 4.7. Available working capital and form of savings

### 4.7.1. Available working capital

The available working capital for the credit-supported enterprises had grown from Tshs. 261,892/- to Tshs. 561,892/-. Because of this increase of capital, there was an increase of net income in the last year for 57% of the respondents (n=88). While 9.8% reported to have their income remaining the same, 1.6% reported a decrease in income. The increase could be the effect of credit on turnover that leads to an increase of profit. The increase in income resulted from accrued profit of an average of Tshs 62,327/- per month and Tshs.694, 520/-per year. This is slightly above government minimum wages. Thus, credit-supported enterprises could be a good source of employment. Those who reported a decline in income were among those who finally defaulted, because they cheated at the appraisal moment by borrowing materials from neighbours' for their respective businesses. Also vendors (*Machinga*) and monthly open markets are reported to have negative effects on the turnover of credit recipients because they are everywhere nowadays and are offering goods at cheaper prises. They do so because they do not pay tax whatsoever and costs such as rent and security.



**4.7.2. Savings and form of savings**

As it has been reported else where in the world of the poor that poor people have cultivated a culture of saving in many different ways, so do the Mufindi residents. It was found that the respondents had an average of Tshs. 184, 452/- savings in the bank with a minimum of Tshs. 5,000/-. This is a good start, though the majority were somehow forced to do so in order to access credit from the bank. This is the popular mode of saving in the study area.

**4.8.0. Impact of credit on MEs performance and market participation**

**4.8.1a. Impact of credit on micro enterprises performance**

As discussed earlier in the methodology (Data analysis), impact of credit use was investigated through the means significance difference T-tests of some of the hypothesised variables between credit participants and non-credit participants. The variables hypothesised to be relevant for this analysis were Average Annual Profit (AAP), Available Working Capital (AWC) and Value of the selected durable household assets (VSDHHA).

The results of the mean significance T- tests indicate that significant differences (ρ<0.0001) exist between credit participants and non-participants in relation to all hypothesized variables mentioned on previous section above. Credit participants had consistently higher values for the above, hence the significant differences. The fact that credit participants got significantly higher AAP (income) than non-credit participants implies that the use of credit was playing a positive role in improving indirectly the household welfare. However, these measures should not be over emphasized, it could be location based. As stated in the literature review, accessible credits enable the participants to make up their enterprises' working capital that improves turnover, which would otherwise be difficult, or impossible to achieve. Furthermore, improved turnover implies some improvement in profit (income) that has implications for food security and other welfare outcomes in comparison with non-credit participants.

**Table 4: T-tests results**

| Variable | Means of credit participants | Means of non-credit participants | t-value | ρ-value |
|---|---|---|---|---|
| AAP (Year) | 856630 | 305453 | 4.789 | 0.000* |
| Working Capital | 561892 | 126457 | 2.672 | 0.000* |
| VSDHHA | 788152 | 364421 | 1.612 | 0.009** |

*Significant at 0.1% ** significant at 1%

### 4.8.1b Enterprise budgets

The above results are the reflection of the following enterprise budgets.

**Table 5: Enterprise budget for credit beneficiaries and non-beneficiaries**

| Variables | Beneficiaries | Non beneficiaries |
|---|---|---|
| Mean monthly sales | 256,265.43 | 94,525.71 |
| Mean monthly purchases cost (a) | 130,718. | 46961.71 |
| Mean monthly running cost (b) | 51,834.20 | 15,628.57 |
| Total cost (a + b) | 182,552 | 62590.28 |
| Mean monthly profits | 73,713.05 | 31,935.43 |
| Business value | 498,546.05 | 126,457.14 |

More specifically the typical budget for one of the popular enterprise is as shown on the table 5b.The specification of the distance is because the profit differs by type of enterprise, distance from the Bank etc.

**Table 6 Typical budget enterprise for beneficiaries and non-beneficiaries**

It is located 45 kilometres from MuCoBa. (Kiosk)

| | Credit Participants | Non credit participant |
|---|---|---|
| Expenses type | Monthly total expenses(Tshs) | Monthly total expenses(Tshs) |
| Transport | 5,000 | 5,000 |
| Casual labour | 2,000 | 1,500 |
| Rental | 1,200 | 1,000 |
| Hired labour | 24,000 | - |
| Taxes | 500 | 500 |
| Food | 32,034 | 10,628 |
| **Total operational cost** | 63,734 | 18,628 |
| **Purchases** | 148,000 | 50,200 |
| **Total sales** | 268,740 | 106,500 |
| **Net profit** | 57,007 | 37,672 |



### 4.8.2. Regression analysis

The dependent variable, Average Annual Profit (AAP) was regressed on six independent variables of respondents own startup capital (STACAP), credit and or first loan ($CREDIT_1$), Type of enterprise (TYENT), family size (FSIZE), monthly turnover (MOTOV) and available working capital (AWC).

### 4.8.2. Results of regression analysis

The multiple coefficient of determination ($R^2$) obtained was 0.58.This suggests that the above independent variables accounted for 58% of the variation in the dependent variable; the other portion, that is 42%, was explained by independent variables, which were not included in the regression model, incorrect model formulation and errors in the research.

All the variables had positive effects on the accumulation of the Annual average Profit (AAP) of the enterprises. Among those, type of enterprise (TYENT), monthly turnover (MOTOV) and available working capital (AWC) were statistically significant at 5%. The initial loan ($CREDIT_1$) had a positive relation with the AP though was not statistically significant. This could be because part of the credit was used for fixed capital improvement such as business premises, and all the same it was not big enough to explicitly result into a significant effect. Referring to the eaelier explanation that on the family size matters, (Section 4.1.2) this has taken the positive side of the credit though not significant. That is, it has been improving the enterprises' AAP.

**Table 7: Regression results -Factors affecting Profit (n=88)**

| Variable | β | T | Significance |
|---|---|---|---|
| CONSTANT | 4.842 | 4.557 | 0.000*** |
| STACAP | 0.036 | 0.49 | 0.626 ns |
| CREDIT1 | 0.032 | 0.34 | 0.735 ns |
| TYPENT | 0.29 | 2.015 | 0.048* |
| AWC | 0.097 | 1.751 | 0.034* |
| MOTOV | 0.515 | 6.302 | 0.000*** |
| FSIZE | 0.29 | 2.015 | 0.379 ns |

R =0.76, R square=0.58, F-Value=16.2, n=88, ***=Sign at 1% ,* = sign at 5%

### 4.8.3. Market participation

With regard to marketing of goods, while non-credit participants could not make use of distant markets for their goods, credit participants reported to have accessed market away from their respective places (18.8%). These included dealers with cattle, charcoal, motorcycle spare parts, cereals and timber. This was possible because the credit expanded their capital bases, hence had to exploit the economies of scale.

### 4.9.0. The impact of credit on household welfare

It was observed that on average the contribution of the accrued profits to the household welfare is little or marginal. However, the above sub section (4.9.2) has covered much on this subsection indirectly.

### 4.9.1. Selected durables of the household assets

The study has found that the profits obtained were used to buy items such as radios, easy chairs and sofa sets, bicycles, television sets and cars. On average the profit contributed up to 20% of the total cost of an item for those who spent profit to purchase these items. Some of the credit participants used the whole amount of credit they had obtained to purchase the named items at once and repaid the credit through other means. However, the amount in this category varied depending on the size of the credit as well as that of the item in question. They did so because it had been very difficult for them to secure such amounts at once. Likewise, some used the credit to pay school fees, build houses and some spent it on medical care.

### 4.9.2. Employment

As reported in the Section 4.1.1, micro enterprises were established as a source of employment (65%) for family and non-family members. Those who hired non-family members were 40%, n=88. Though not high, but is something to do with unemployment in the study area. There was no one from the non-credit participants who reported to having hired a labourer to work in his/her micro enterprise. This indicates that those with credit had augmented their capital base so much that they could to hire labourers to assist them, compared to the non- beneficiaries.

### 4.9.3. Food security

Micro finance, most often does not reach the poorest of the poor, but rather, those just above and below the poverty line, so does MuCoBa. In this case an entrepreneur of this status does not experience food insecurity, other factors remaining fixed. In the study area, about 98% of the respondents reported to have not experienced food problems. While 14.8% of all the respondents reported to have their food status improved, 85.2% had their food status remaining the same. This could be because the accrued profit was directed to other uses. They had an average of Tshs.24 123/- as daily food expenditure, which is equivalent to U$2.9 per person if a family size of 5.08 person is put into consideration. Most interesting, entrepreneurs in Tanzania and Mufindi in particular differ much from others elsewhere in the world because land is not a problem at all. Thus, food couldn't be a problem *ceteris paribus*.

Generally the results are in agreement with the stated hypotheses in section 1.3.2 that were stated as follows; i.There are significant differences on economic performances and market participation between credit beneficiaries and non-credit beneficiaries and ii. Participation in credit services given by micro finance institutions leads to increased net worth of the micro enterprises of which results into positive effects on household welfare



### 4.10.0. The use of the last loan and repayment

Table (6) shows the use of the last applied credits for the entrepreneurs. Fifty five(55%) percent used the credits as applied for while 9% opened a new business and 35% used otherwise. This implies that there is discipline in the use of credits and hence other things kept fixed defaulting could be minimised. Even those who used credits differently from the intended goal reported to have no difficulties in repayment since a good number of them (38.2%) were employees and undertook the business to support household expenditure due to low salaries paid by their respective employers. As a result of low pay, they were forced to go for a loan when their children started schooling or resumed studies altogether.

**Table 8: The distribution of the use of last loan (n=88)**

| Expenditure | Percentage |
|---|---|
| Built house | 5.6 |
| Bought household assets | 6.5 |
| Health care | 10.2 |
| School fees | 13.0 |
| New businesses | 9.0 |
| Intended business | 55.7 |

Though defaulting is not significant at MuCoBa, only 45% clients reported to have repaid the loan from profit accrued from the enterprises. While 8% percent sold their assets/cattle, 3.4% got credit from other sources, 18% from salaries and 22.7% repaid from both profit from enterprises and crop sales. With regard to decisions on what to do with the credits, 88% had personal decision while 3.4% got advice from their spouses and friends.



### 4.11.0. Factors that would enhance impact of the bank to the beneficiaries

The following outlined factors were revealed during an interview with the MuCoBa`s management, credit participants and own observation during the survey period.

### 4.11.1. Commitment and discipline for both staff and clientele

In order for the bank to achieve all its objectives smoothly (Chap. 1.subsec.1.1) it is suggested that proper and honest evaluation of the projects run by the entrepreneurs be given a first hand so as to avoid cheating, which would lead to default and hence further reduction of the bank's capital. It was noted during the survey that some applicants showed neighbours /friends enterprises for evaluation to qualify as potential applicants.

**4.11.2. Business education to the clientele**

Business training for the entrepreneurs is of paramount importance for imparting a sense of feeling and knowledge on how to search for markets, handle customers and record keeping. The information could be used for evaluation of their enterprises when a need arises. This is not necessarily to be carried out by the bank. The bank could forward this to a government agent and or commission for poverty reduction in Tanzania.

**4.11.3. Improved expertise to the bank's staff**

Trainings to staff could also make them good bankers who would have good command over the business strategies. This could enhance the staff to handle customers properly. This should be an ongoing activity since the world does keep on changing together with the things on it.

**4.11.4. Improved bank's capital**

Improved bank's capital would enable it to offer considerable amount to the applicants' and purchase up-to-date adequate facilities for data base establishment. Moreover it could be able to purchase adequate transport facilities for movements of the staff to the applicants 's business premises for evaluation and monitoring of the enterprises done using credit.

**4.11.5. Flexibility and becoming a listening bank**

Reduced fine for delayed repayment, reduced lending interest rate, and improved savings interest as well as grace period especially that of agricultural undertakings would add value to the stakeholders. Conditions could be made negotiable to some situation to attract variety of customers for borrowing and saving.

4.12.6 Maintained and up to date infrastructures

Improved rural roads could cut down the transaction costs since poor rural roads affect transactions costs (hiked fares) to both financial institution and the customers during follow up of the loan and going for evaluation of the enterprises sought for support. On top of that if the roads are not constantly maintained no wonder the bank becomes a bank '*Tarafa*' (Divisional) because those who are residing far away won't manage to work with the bank due to too much costs.

**4.12.0. Credit and farm activities**

As indicated in the previous section 3.2, credits also were sought for farm activities such as maize, tea, coffee and tomatoes production and or expansion of the farm sizes. Though a good number of respondents indicated that they had gone for such credits, only a few actually invested in the farm activities due to too short grace period set by the credit facility. However, during the survey period, the grace period was not the same for the on-farm and non-farm activities that is one month after receiving the credit for non-farm and variable for farm activities depending on the nature of the crop in question.

Some of the farmers used credit on production of green maize (*Gobo*) in the valleys and irrigated areas. Others who invested on farm established the coffee farms and bought inputs as well as expansion of tea farms. During the survey it was found that the latter had not yet realised harvest. Those who invested on Gobo (green maize) had the following performance;

**Table 9: Farm budget (green maize/ Gobo)**

| Variables | Amount (Tsh) per acre |
|---|---|
| Mean total revenue | 291,351.82 |
| Mean total cost of production | 104,433.23 |
| Net worth | 187,182.23 |

**4.13.0. Borrowing interest rate**

While the lending interest rate was 2.0% per month for individual business loans, which is 24% per annum, that of group loans is 2.5%, which is 30% per annum. Fine for delayed repayment of the credit was 2% of the amount delayed per day. This did not only discourage the credit beneficiaries, but also scared them from borrowing, especially those from far away to the institutions. The remoteness was costly to both the bank and the borrowers.



Furthermore, MuCoBa interest rate did not differ from that of any commercial banks in fact it was even higher than other rates offered by commercial banks, CRDB [1996]-22%, NBC [1997] Ltd-22%, Stanbic bank Ltd-20%, Trust Bank (T) Ltd-28%, etc) hence reflecting that this is a commercial entity as well. This scenario excludes the poorest of the poor from participation in the credit services. During the survey, it was also reported that, the Bank was a good tool for imparting the creditors with money handling discipline and nothing else. However, such education to a client is an achievement to the Bank because without which it would be difficult to develop good discipline in money handling.

**4.14.0. Problems encountered by the clients in search for credit**

The respondents reported that there was too much bureaucracy to allow borrowers get credit thus reported some elements of corruption in the due course. They said there was no need for the loan application form to bear the signature of the Ward Executive Officer (WEO) and that there was no confidentiality in the loaning process. But according to the MuCoBa management this was a necessary stage because some of the applicants had yet to officially register their collateral and or securities. Furthermore, it was reported that the collaterals used were of high value compared to the credits issued as noted previous that very few had ever received what they had applied for.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1. Overview

The main motive of the study was to evaluate the impact of credits on the performance of micro enterprise and the improvement of household welfare. The following concluding remarks are derived from the findings of the study. It is hoped

that the information knowledge provided by this study will add value in due course of policy making in relation to the credit and Tanzanians' welfare improvement.

The focus was on the credits offered by the Mufindi Community Bank (MuCoBa) located in Mufindi District-Iringa Region. The study has come up with view of supplementing knowledge on how much credit affected the performance of the enterprises, which in turn affected household welfare.



## 5.2. Summary and conclusion

### 5.2.1. Micro enterprise profile in the District

Twenty types of micro enterprises were found and studied during the survey period in the District. They were grouped into three major categories for easy assessment, namely; petty trade/utility services (kiosk, etc.), Agro- marketing (maize, beans sales, etc) and manufacturing/artisans (carpentry, etc). Of the three petty trade/utility services dominated the others. Therefore to upkeep its market, other investment ventures should be thought of to avoid flooding the market and or grace period should be flexible to let investment in other categories

### 5.2.2. Impact of credit on MEs performance and market participation

The T-test results indicated an existence of differences in average annual profit (AAP), available working capital (AWC), and value of some selected durable household assets (VSDHHA) between credit participants and their counterparts.

Moreover, those with credit managed to access a distant market for their goods as compared to those who had not yet received credit. This confirms tentatively that credit had a positive effect on thee performance of the micro enterprises, other things held fixed. Thus, injection of credit in micro enterprises is appealing for the well being of the community. On top of that, regression analysis results have revealed that average annual profits of the enterprises (AAP) was positively related to the Initial capital, Initial credit, Type of enterprise, Family size, Monthly turnover, and Available working capital. However, only the last three were statistically significant.

- A positive relationship between AAP and initial start-up capital indicates that an increase in capital may lead to increase of AP, other factors taken into care.
- Initial credit has the same effects as above, but being not statistically significant is because part of the capital was spent on the improvement of the fixed capital/ business premises and all the same as complained by the recipients it was too little to have significant effects. Thus, provision of entrepreneurial skills would make the entrepreneurs stand good chance on handling credit for profit (income) and that increased amount of credit would further improve productivity of the enterprises.
- Family size also had a positive relation with AAP. This implies that family members were involved in the running of the kiosks and other enterprises without direct pay and thus could save the cost of hired labour. The situation encourages the proper use of the family labour at any one time for those with bigger family sizes like that of the sample, which was 5.08.

- Annual average Profit depended on the type of the enterprise. Some had higher effect than the others. This suggests that a proper identification of the investment venture should be carefully assessed before committing the meagre resources at disposal.
- Annual Average profit that has implications for the performance of the enterprises increases with amount of the available working capital. This amount embodied even the subsequent credits in it. Thus continued investment leads to more effects, *ceteris paribus*.
- The higher the turn over, the higher the profit. Care should be taken to up keep and influence turnover through proper business management as well as proper treatment of the customers so that they do not shy away from your business, bearing in mind that loosing one customer through mistreatment is the same as loosing as many as ten.

### 5.2.3. Impact of the credits on household welfare

The study examined only employment; food security and household assets among many welfare indicators due to time and financial implications. The study relied on the mere comparison between the credit participants and non-participants.

- **Employment**

It was observed that only those who had secured credit offered employment opportunity, suggesting that more credit to more entrepreneurs would lead to more employment opportunities of employment in the District, in Tanzania and where else in Low Income Countries.

- **Food security**

Respondents who had acquired credit had their respective household diet improved. However, is not necessarily that the improvement was directly a result of the credit, but indirectly through covering other family requirements using profit accrued from credit-supported enterprise. Thus, access to credit is of much use though not directly.

- **Household assets**

Though the total contribution from the credit supported enterprises to the household assets was marginal, but there were statistically significant differences of the value of some selected household durable assets between credit participants and their counterparts. This further maintains that credit is of much use in the study area.

Bearing in mind the difficulties of impact assessment (see section, 2.8.1), it can be concluded that the study, which is in agreement with those mentioned in section 2.8.2, tentatively indicate that credit augments available enterprise resources, improves productivity and incomes thereby contributing to household welfare improvement.

### 5.2.4 Factors that would enhance the impact on MuCoBa`s beneficiaries

The following factors were identified and or synthesized while interviewing clients, Bank management and own observations.

i. Discipline and commitment to both clients and staff. This would enhance proper evaluation of the enterprises as well as proper use of the credit, which would avoid defaulters.

ii) Provision of business education to the clients before credits are in their hands. This would enable the clients to define the investment venture before committing the resources.

iii). Bank's flexibility

The bank could be flexible on other rules and regulations to attract many and of different status clients' i.e. it should be a listening bank.

iv). Maintained infrastructure

This focuses more on rural roads and could be executed by the central government and or local government to enable provision of the banking services to as far as 100km where some district residents reside at reasonable costs.

**5.3. Recommendations**

**5.3.1.** To have significant impact and improved household welfare, deficiencies in the credit provision, especially little amount of credit, high interest rate and too short grace period has to be addressed by the credit providers. If these are not addressed they may worsen the welfare, for example through repayment of unreasonable debt accruing from high interest rate and fines imposed for delayed repayments. Hence, credit providers are argued to keep on reviewing their policies on provision of credit with focus on amounts of credit provided, interest rate and grace period fixed for different types of enterprises as well as geographical location.

**5.3.2.** As observed that the major constraints to the credit supported enterprises, such as market for products and services, inputs availability and transport are solved, the essence of credit shall continue being marginal (for example coffee production in Mufindi).

**5.3.3.** To have systematic and effective operations; the Bank should strive to improve its capital base. The liquid capital would enhance purchase of facilities for data base establishment, purchase adequate transport facilities and staffing as well as provision of refresher courses to the staff as an incentive for proper and up-to-date performance.

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# APPENDICES

## Appendex 1: Questionnaire non-farm activities

A]. PRELIMINARY INFORMATION:

- (Requirement for the interviewer: Tick /Circle and or write down properly the responses)

Division________________________Village____________________________________

Name of interviwer_________________________Date of interview_____________

Name of respondent________________________________

B] SOCIO DEMOGRAPHIC INFORMATION

1.Household information

| Age | Sex | Marital status | Educ.level | Main ocupation | Family size |
|---|---|---|---|---|---|
| | | | | | |

Sex; 1=Female, 2= Male

Marital status; 1=Married, 2= Separated/divorced, 3=Widow, 4=Single

Education level; 1=Primary, 2=Secondary, 3=others, 4=none

Main occupation; 1=Civil servant/govnt employee, 2= Non governmental employee; 3=self employed in non farm, 4= self employed in farm activities

2. Type of enterprise __________________________Years in the business______

3. Start up capital____________________

4. What were the main sources of your start up capital?

1=Crop sales, 2=Salaries, 3=labourer, 4=Parents, 5=Relatives, 6=Iformal credits, 7=Spouse, 8=Friends, 9=Pension, 10=Retirement benefits.

C]. ACCESS AND PARTICIPATION TO CREDIT SERVICES.

5. Do you participate in credit services offered by MuCoBa? 1=Yes 2=No

5.1. How did you learn about the availability of credit from MuCoBa__________

5.2. Amount of first loan____________Amount of current loan______________

5.3. How did you work out the amount of credit /loan needed?______________

5.4. What is the status of the loans in 5.2 above?

Codes: 1=repaid, 2=defaulted, 3=Outstanding

D] ENTERPRISE LEVEL

6.0 Information on business operations (non-agricultural operations)

6.1. During the last 12 months, did you operate one or several of your enterprises other than farming?1=yes, 2= no

6.2. In the last twelve months did you work for some one else on salaried basis?

1= yes,  2 = no

6.3. Is this enterprise/Are these enterprises?

1=primarily yours , 2=Household activity , 3=A business partnership with other persons than household members

6.4. Reported net income: Did your net income during the past 12 months....

1=increase remarkably  2=increase 3=stay the same 4=decrease

6.5. Sales trend; Use the following code to indicate monthly trends:

1=high 2=average 3= low 4=activity was shut down

| Activity | J | F | M | A | M | J | J | A | S | O | N | D |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | |
| 2 | | | | | | | | | | | | |

6.6. For the same product cycle, what were your sales (cash and credit)?

| | Sales per week | Sales per two weeks | Sales per month | Total sales during the total period (calculated over 12 moths) |
|---|---|---|---|---|
| Cash | | | | |
| Credit | | | | |

6.6.1 What was the total value of the products sold above____ Unit price_______

6.7.How much and what were your costs for the last product cycle?

| Expenses type | Cost per week | Cost per 2 weeks | Cost for the month | Total expenses during total time period (calculated over 12months) |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Fare | | | | |
| Casual labour | | | | |
| Rental | | | | |
| Hired labour | | | | |
| Taxes | | | | |
| Food | | | | |
| Others | | | | |

6.8. For the same product cycle what were your profits (In cash and in kind)(after enterprise expenses and before spending on your family)

| | Profit per week | Profit per 2 weeks | Profit per month | Total profit in time period (calculated over 12 months) |
|---|---|---|---|---|
| Cash | | | | |
| In kind | | | | |
| Calculated profit | | | | |
| | Sales – expenses/per week (profit) | Sales –expenses per 2 weeks | Profit per month | Calculated profit over 12 months |
| | | | | |



7.0 What is the amount of your current available working capital (Raw materials, products, liabilities of clients, etc) for each activity?

| **Working capital** | **Amount (Units)** | **Value** |
|---|---|---|
| Raw materials | | |
| Finished products | | |
| Stock | | |
| Liabilities | | |
| Business premises (owned) | | |
| Other | | |
| Total | | |

8.0. In the last 12 months, did you make any of these changes?

| **Type of changes/investments..** | **1=yes** | **2=no** | **%contribution from credit supported business.** |
|---|---|---|---|
| 1. Added new products | | | |
| 2. Hired more workers | | | |
| 3. Improved product quality | | | |
| 4. Developed a new enterprise | | | |
| 5. Purchased small tools/accessories | | | |
| 6. Purchased major equipment and machinery | | | |
| 7. Purchased transport facilities | | | |
| 8. Invested (major) in enterprise site | | | |

| | | | |
|---|---|---|---|
| (building, storage room etc) | | | |
| 9. Invested (minor) in enterprise site (chair, sales counter, etc) | | | |

9.0. Business inventory of machinery equipment since acquired credit:

| **Description** | **Condition** | **Age** | **Amount owned (qnty)** | **Value** |
|---|---|---|---|---|
| Activity: | | | | |
| | | | | |
| | | | | |

10.0. Business management practices:

| **In managing your enterprises** | **1=yes** | **2=no** | **Did before entering programme** | **Have since entering programme** |
|---|---|---|---|---|
| 1. Do you keep records | | | | |
| 2. Do you have a separate budget for enterprise activities and household expenses? | | | | |
| 4. Do you have a fixed location for producing/selling your products? | | | | |

11. Do you currently hold personal cash savings in case of emergence or because you plan to make a major business investment or purchase? 1=yes 2=no

11.1. If yes, in what form is your savings:

| Saving category | Form of savings | Value in monetary terms |
|---|---|---|
| | | |

12.Do you have additional income? 1= yes 2=no

12.1 If yes, from what sources?

| **Sources** | **Monthly amount** |
|---|---|
| 1.Rental | |
| 2.Remittances | |
| 3.Pension | |
| 4.Salary | |
| 5.Farming | |
| 6.Labourer | |
| 7.Others (Specify) | |

E].HOUSING CONDITIONS

13.Is this house yours? 1=yes 2=no 3=family house

13.1. What are the building materials for your main house? (do not ask just observe)

| Wall | | Roof | | Floor | |
|---|---|---|---|---|---|
| Cement block<br>Burned bricks<br>Mud, sticks/woods<br>Galvanized iron<br>Other (specify) | 1<br>2<br>3<br>4<br>5 | Galvanized iron<br>Grass<br>Mud<br>Other | 1<br>2<br>3<br>4 | Earth<br>Cement/concrete<br>Other (specify) | 1<br>2<br>3 |
| | | | | | |

F] HOUSEHOLD WELFARE: ASSETS

14. Do you have any of these consumer assets?

| Item | How many of this item do you own? | Was this items acquired after credit use? | %Contribution in buying from credit supported enterprises | What value would you ascribe(if you were to sale) in Tshs |
|---|---|---|---|---|
| | | 1=yes 2= no | | |
| Radio | | | | |
| Important household utensils, specify | | | | |
| Bicycle | | | | |
| Television | | | | |
| Stove | | | | |
| Refrigerat or | | | | |
| Mtorcycle | | | | |
| Car | | | | |
| Tractor | | | | |
| Other: specify | | | | |

15.0. During the last 12 months, were any major improvements, repairs or additions made to your housing? 1=yes 2=no

14.2. If yes, indicate which ones?

| Type | | %Cost contribution from enterprises |
|---|---|---|
| | 1=yes 2=no | |
| 1.Housing repairs or improvements (such as fixed of improved roof, walls, floors, etc) | | |
| 2.Housing expansion (such as built an extra room, stock room, shed, etc) | | |
| 3.Improved water system (tape water) | | |
| 4.Built a house | | |
| 5.Bought house building materials (collogated iron sheets) | | |

| | | |
|---|---|---|
| 6.Others specify | | |

G] HOUSEHOLD LEVEL: COPING WITH DIFFICULT TIMES

15.What is the average weekly food expenditure in Tshs for your household?___

15.1.What are the sources of the money spent for food?

1________________2_______________3 _______________4__________

15.2. During the last 12 months, has your basic household diet:1=improved 2=stayed the same 3=worsened 4= don't know

15.3.During the last 12months, was there ever a period when you couldn't undertake your business activities? 1=yes 2=no 3= don't know

If yes:

15.4 How long did this period last?________months

15.5. why so, for 15.3? 1=sickness 2=Theft 3=Seasonality 4= Bankruptcy

H.] LOAN USE STRATEGIES (Clients only)

16. How did you spend your last loan? (Multiple answers are allowed)

| Loan use strategies | Loan<br>1=Yes<br>2=No | Estimation in %total loan amount |
|---|---|---|
| 1.Business activity (off farm) | | |
| 2.New business activity | | |
| 3.Agricultural production | | |
| 4.Purchase of livestock | | |
| 5.Purchase of food | | |
| 6.Payment of school fees | | |
| 7.Health care expenses | | |
| 8.purchase of clothes | | |
| 9.Purchase of household items | | |
| 10.Cash for emergence | | |
| 11.Repayment of another loan | | |
| 12.To assist somebody else | | |

16.1. Why did you use loan in this way?.................................................

16.2.Who decided to use loan for this/these purpose(s)

1=you, yourself 2=my spouse 3=another family member

4=other: specify

16.3..Did you have difficulties in repayment? List up to three causes.

17. Indicate up to four things you like most about MuCoBa

18. Indicate up to four things you dislike about MuCoBa

19. What are your suggestions for improvement of service from MuCoBa?

THANK YOU FOR YOUR GOOD COOPERATION.

## Appendex 2: Farm activities

A]. PRELIMINARY INFORMATION:

- (Requirement for the interviewer: Tick /Circle and or write down properly the responses)

Division____________________Village______________________________

Name of interviwer____________________Date of interview____________

Name of repondent__________________________

B].SOCIO DEMOGRAPHIC INFORMATION

1.Household information

| Age | Sex | Marital status | Educ.Level | Main ocupation | Family size |
|---|---|---|---|---|---|
| | | | | | |

Sex ; 1=Female, 2= Male

Marital status; 1=Married 2= Separated/divorced, 3=Widow, 4=Single

Education level; 1=Primary, 2=Secondary, 3=others, 4=none

Main occupation; 1=Civil servant/govnt employee, 2= Non governmental employee;3=self employed in non farm, 4= self employed in farm activities 5= None

2. Type of farming/Crop _______________________Years in the farming______

3. Start up capital (Cash)___________________

4. What were the main sources of your start up capital?

| Sources | Amount per loan | Monthly interest rate | Mode of payment (Cash/ In kind) |
|---|---|---|---|
| | | | |

C] ACCESS AND PARTICIPATION TO CREDIT SERVICES.

5.0 Do you participate in credit services offered by MuCoBa? 1=Yes 2=No

5.1.How did you learn about the availability of credit from MuCoBa?..............

6.0. Amount of first loan............Amount of current loan.......................

6.1.How did you work out the amount of credit /loan needed?.....................

6.2.What was the status of the loan in the following years?

| Year | Amount loan | Interest rate | Repaid | Defaulted | Outstanding |
|---|---|---|---|---|---|
| | | | 1=yes 2=no | 1=yes 2=no | 1=yes 2=no |
| 2002 | | | | | |
| 2001 | | | | | |
| 2000 | | | | | |

D]. FARM LEVEL

7.Farm budgets and revenues for the credit supported crops for 2001 production season..

1)

| A]Varibles | Crop type and years of production | | | |
|---|---|---|---|---|
| | Maize | | Tea/Coffee | |
| Farm size(Planted area in acres) | | | | |
| Production Kgs/Cobs | | | | |
| Yields Kgs/Cobs/Ha | | | | |
| Quantity sold Kgs/Cobs | | | | |
| Producer price per Kg/Cob | | | | |
| Cash Revenue | | | | |
| Total value of production | | | | |
| | | | | |
| B] Labour charges | | | | |
| Costs per acre | Labour category | | Labour category | |
| | Family | Hired | Family | Hired |
| Land preparation | | | | |
| Cultivation | | | | |
| Hallowing | | | | |
| Planting | | | | |
| Weeding | | | | |
| Fertilizer application | | | | |
| Harvesting/Picking | | | | |
| Threshing | | | | |
| Transporting | | | | |
| Storage | | | | |
| Marketing | | | | |
| Others | | | | |
| Sub total | | | | |
| | | | | |

Farm budgets continue

| C] Inputs/Materials per week | Quanity | Cost | Quanity | Cost |
|---|---|---|---|---|
| Fertizers | | | | |
| Seeds/Seedling/Bulbs | | | | |
| Transport | | | | |
| Herbicides | | | | |
| Insecticides | | | | |
| Bags | | | | |
| Basckets | | | | |
| Others (Specify) | | | | |
| SUB TOTAL | | | | |

| | | | | |
|---|---|---|---|---|
| | | | | |
| D] Cost of land if hired | | | | |
| | | | | |
| E]NET WORTH/PROFIT | | | | |
| | | | | |

8.0. During the last 12 months, did you make any of these changes?

| **Type of change/Investment** | **1=yes** | **2=no** |
|---|---|---|
| 1.Cultivated additional subsistence crop | | |
| 2.Cultivated additional cash crops | | |
| 3.Hired more workers | | |
| 4.Improved crop quality | | |
| 5.Purchased small tools | | |
| 6.Purchased major machinery and equipment | | |
| 7.Purchased transport facilities | | |
| 8.Invested (Major) in farm site (farm building, storage room etc) | | |
| 9. Invested in (minor) in farm site (tools etc.) | | |



9.0. During the last agricultural season, did you pawn part of your standing crop?

1= yes 2=no

9.1.If Yes: why? ..........................................................................................

9.2.What was the amount/value.........

10. If you own your farmland, during the past agricultural season, did you sell part of it?

1=yes 2=no

10.1.If yes: How many ha?......., What was the amount/Value received?..........

10.2.What was the money accrued for.........................................

11. Farm inventory of machinery and equipment (check five important ones)

| Description: | Condition | Age | Value | Amount Owned | %Buying cost from credit |
|---|---|---|---|---|---|
| | | | | | |
| TOTAL | | | | | |

12 Livestock breeding: What animals and how many species do you own?

| Animal/species | How many animals/do you/ did you own (Number) | | Use/distribution | | Total expenses (fodder, medical treatment, herdsmen, etc) |
|---|---|---|---|---|---|
| | Past season | Currently | Number sold | Sales revenue | |
| Cattle stock | | | | | |
| Bulls | | | | | |
| Cow | | | | | |
| Calf | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Pig stock | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Sheep stock | | | | | |
| | | | | | |
| | | | | | |
| Goat stock | | | | | |
| | | | | | |
| | | | | | |
| Poultry | | | | | |
| | | | | | |
| | | | | | |
| Other | | | | | |
| | | | | | |

13. Did you have additional income from secondary animal production? 1= Yes, 2=no

13.1.If yes, what and how much was your revenue during the last month?

| Type | Sales revenue (gross) | | Expenses (additional to above indicated items) | | Calculated profit in the survey period |
|---|---|---|---|---|---|
| | Weekly | Monthly | Weekly | Monthly | 12 monthly |
| Milk | | | | | |
| Cheese | | | | | |
| Sale of skins | | | | | |
| Other | | | | | |

14. Do you have additional income apart from section D above? 1= yes, 2=no

14.1. If yes, from what sources?

| **Sources** | **1=yes 2=no** | **Monthly amount** |
|---|---|---|
| Rental | | |
| Remittances | | |
| Pension | | |
| Other (Specify) | | |

E]. HOUSING CONDITIONS

15.0.Is this house yours? 1=yes 2=no 3=family house

15.1. What are the building materials for your Main house?(Don't ask, just observe it)

| Wall | | Roof | | Floor | |
|---|---|---|---|---|---|
| Cement block | 1 | Galvanized iron | 1 | Earth | 1 |
| Burned bricks | 2 | Grass | 2 | Cement/concrete | 2 |
| Mud, sticks/woods | 3 | Mud | 3 | Other (specify) | 3 |
| Galvanized iron | 4 | Other | 4 | | |
| Other (specify) | 5 | | | | |
| | | | | | |

F] HOUSEHOLD WELFARE: ASSETS

16.0. Do you have any of these consumer assets?

| Item | How many of this item do you own? | Was this items acquired after credit use? | %Cost Contribution in buying from credit supported enterprises | What value would you ascribe( if you were to sale) |
|---|---|---|---|---|
| | | 1=yes 2= no | | |
| Radio | | | | |
| Important household utensils, specify | | | | |
| Bicycle | | | | |
| Stove | | | | |
| Refrigerator | | | | |
| Motorcycle | | | | |
| Car | | | | |
| Tractor | | | | |
| Other: specify | | | | |
| | | | | |

17. During the last 12 months, were any major improvements, repairs or additions made to your housing? 1=yes 2=no

17.0. If yes, indicate which ones?

| Type | Choices | Were you a member of MuCoBa when this took pace? | | % Costs from credit supported enterprises |
|---|---|---|---|---|
| | 1=yes 2=no | 1=yes | 2=no | |
| 1.Housing repairs or improvements (such as fixed of improved roof, walls, floors, etc) | | | | |
| 2.Housing expansion (such as built an extra room, stock room, shed, etc) | | | | |
| 3.Improved water system (tape water) | | | | |
| 4. Others specify | | | | |

18.0. Do you currently hold personal cash savings in case of emergence or because you plan to make a major business investment or purchase? 1=yes 2=no

18.1. If yes, in what form is your savings?

| Saving category | Form of savings | Value in monetary terms |
|---|---|---|
| | | |

G] HOUSEHOLD LEVEL: COPING WITH DIFFICULT TIMES

19.Indicate on average the daily expenditure on the following.

| Service | Quantity | Price if sold | Weekly cost |
|---|---|---|---|
| Break fast | | | |
| Milk | | | |
| Lunch | | | |
| Dinner | | | |
| Others | | | |

19.1. During the last 12 months, has you basic household diet

1=improved 2=stayed the same 3=worsened 4= don't know

19.2 If improved:

19.3. How has it improved :( Quality –quantity), describe:

1=the average quantity increased 2=we had no problem during the hungry season

3=able to buy more basic food stuffs 4=able to buy more vegetables

5=able to buy more dairy products e.g. eggs, milk 6= able to buy more meat, fish…

7=able to buy more continence food

19.4. During the last 12 months, was there a period when you and your family didn't have a proper diet, either because of lack of food or a lack of money to buy foodstuffs?

1=yes 2=no

If yes:

19.5. How long did this period last?_________months

19.6. What did you/your house do to overcome the difficult time(s)?

1=Migration of you/family member(s) to seek employment 2=you or family members got local employment 3=borrowed money at no cost 4=borrowed money at cost 5=borrowed food at no cost 6=borrowed food at cost 7=sold productive business equipment 8=sold real estate 9= other

19.7. During the last 12months, was there ever a period when you couldn't undertake your business activities? 1=yes 2=no

If yes:

19.8. How long did this period last?________months

20. How much do you spend per week on average for food?_______________

H] LOAN USE STRATEGIES (Clients only)

21. How did you spend your last loan? (Multiple answers are allowed)

| Loan use strategies | Loan 1=yes 2=no | Estimation in %total loan amount |
|---|---|---|
| 1.Business activity (off farm) | | |
| 2.New business activity | | |
| 3.Agricultural production | | |
| 4.Purchase of livestock | | |
| 5.Purchase of food | | |
| 6.Payment of school fees | | |
| 7.Health care expenses | | |
| 8.purchase of clothes | | |
| 9.Purchase of household items | | |
| 10.Cash for emergence | | |
| 11.Pocket money | | |
| 12.Repayment of another loan | | |
| 13.To assist somebody else | | |
| 14.Gave it to spouse | | |
| 15.Other: specify | | |

21.1. Why did you use loan in this way?(Check if used out of the intended goal)

21.2. Who decided to use loan for this/these purpose(s) 1=you, yourself 2=myspouse3=another family member 4=other: specify

21.3. Did you have difficulties in repayment? List up to three causes....................

22. Indicate up to four things you like most about MuCoBa...............................

23. Indicate up to four things you dislike about MuCoBa..................................

24. What are your suggestions for improvement of service from MuCoBa?

THANK YOU FOR YOUR GOOD COOPERATION.

**Appendex 3:** Questionnaire for MuCoBa managemant

1. What is your position(s) in this institution?

2. When was this facility established?

3. Were you one of the founding members?

4. How was the facility established?

5.Where did you get the idea of establishing this credit and savings facility?

6.What was your target population?

7.Why? (ref qn 6)

8.Did you carry out any need assessment before starting the facility?

9.What were the objectives of the facility?

10.Would you say you have achieved the objectives satisfactorily?

11 If yes how can you rate the achievements?

12 If not what corrections are necessary to ensure that the interventions have positive impact on credit borrowers?

13.What other services if any do you offer to your clients before and after getting credit?

14.Do the services provided meet the clients needs?

15.What are the criteria one should posses to be allowed to access and or participate in credit services from MuCoBa?

16.Do you make routinely monitoring of the clients activities?

17. Would you say credits are used as applied for?

18. If not what actions do you take against those found using it differently?

19.What are the specific problems mostly facing the clients?

20. What do you do against them?

21. And how have they affected the repayment rate of the credits?

22.What can you say in brief about the sustainability of the facility?

23.What are the problem facing the facility in general and what efforts are there to solve them?

THANK YOU VERY MUCH FOR YOUR COOPERATION.

Annex1

| Enterprises | Frequency | Percentage |
|---|---|---|
| Local brew bars [a] | 4 | 3.3 |
| Grocery [a] | 4 | 3.3 |
| Tea rooms/cafes [a] | 4 | 3.3 |
| Cold medical store [a] | 1 | .8 |
| Shop [a] | 17 | 13.8 |
| Kiosk [a] | 34 | 27.6 |
| Butcher [b] | 11 | 8.9 |
| Milling Machine [c] | 4 | 3.3 |
| Cereal Marketing [b] | 10 | 8.1 |
| Cosmetics [a] | 2 | 1.6 |
| Carpentry [c] | 1 | .8 |
| Bicycle [a] | 2 | 1.6 |
| Tailoring [c] | 1 | .8 |
| Bites making [a] | 1 | .8 |
| Motorcycle spare parts dealer [a] | 2 | 1.6 |
| Fish selling [b] | 5 | 4.1 |
| Charcoal store [b] | 6 | 4.9 |
| Timber store [b] | 5 | 4.1 |
| Chips making [a] | 1 | .8 |
| Mama lishe/food venting [a] | 6 | 4.9 |
| House construction [c] | 1 | .8 |
| Live cattle sales [b] | 1 | .8 |
| Total | 123 | 100.0 |

Note: a –Petty trade/public services

b-Agro marketing

c-Manufacturing/Artisan

Annex 2

The means difference test is specified as follows

$$T = \frac{X_1 - X_2}{\sqrt{S_1{}^2 / N_1 + S^2{}_2 / N_2}}$$

Where: $X_1$ and $X_2$ are sample means of the alternative groups. (Credit participants and non- participants)

$S_1$ and $S_2$ are variances for the groups

$N_1$ and $N_2$ are sample sizes for the two groups.