Södertörn University | School of Life Sciences
Bachelor's Thesis 15 ECTS | Spring Semester 2012
Environment and Development Educational Programme

Rural Member-Based Microfinance Institutions

– A field study assessing the impacts of SACCOS and VICOBA in Babati district, Tanzania

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ABSTRACT

Microfinance has spread rapidly since the 1970s and gained a lot of international attention. Advocates mean it is a good way to reduce poverty, but still there is no consensus within the research about the impacts of microfinance and its contribution to poverty reduction.

The aim of this study is to assess the members' perceptions about the impacts of the rural member-based microfinance institutions (MFIs), Savings and Credit Cooperative Societies (SACCOS) and Village Community Bank (VICOBA), on members' socio-economic situation as well as their perceptions about the contribution to poverty reduction and to identify potential obstacles. The study is mainly based on individual semi-structured interviews with members of SACCOS and VICOBA conducted between February and April 2012 in Babati district Tanzania and earlier research and studies within the area of microfinance and poverty reduction make up the theoretical framework.

There is a general agreement among the members interviewed that these MFIs have positive impacts on their socio-economic situation. The results show that it helps to meet consumption needs, pay school fees, run small businesses, increase and diversify the income and the majority also believes that it can be a useful tool for poverty reduction. However, it doesn't lead to poverty reduction automatically, it depends on how the loans are used and this study identifies several obstacles for SACCOS and VICOBA to be more effective and contribute more to poverty reduction. The main obstacles found are low repayment status, lack of capital and lack of education in both entrepreneurship and how these MFIs operate.

Keywords: *community-based microfinance, microcredit, poverty reduction, obstacles, cooperative.*

ACKNOWLEDGEMENTS

First of all I would like to thank all the informants for taking their time to answer my questions so this study could be fulfilled. I also want to send my thankfulness to people in the villages that helped me find and get in contact with these informants, and special thanks to my field assistants whom have not only helped me to translate during the interviews but also been very helpful in planning and organizing the field study.

In particular I would also like to thank my supervisors at Södertörn University, Vesa-Matti Loiske and Clas Lindberg and my contact person in Babati, Calyst Basil Kavishe, for providing necessary information before the field study and contacts in field.

Picture on front page: A VICOBA called Muungano group in Orngadida village collecting their shares on their weekly meeting, on the 17th of March 2012 (photo: author).

LIST OF ACRONYMS

CGAP	- Consultative Group to Assist the Poor
COASCO	- Cooperative Audit and Supervision Corporation
CSA	- Cooperatives Societies Act
DCCO	- District Council Cooperative Officer
GDP	- Gross Domestic Product
MFI	- Microfinance Institution
MSC	- Microcredit Summit Campaign
NGO	- Non Governmental Organization
NMB	- National Microfinance Bank
NMP	- National Microfinance Policy
NSGRP	- National Strategy for Growth and Reduction of Poverty
ROSCAS	- Rotating Savings and Credit Associations
RRA	- Rapid Rural Appraisal
SACAs	- Savings and Credit Associations
SACCOS	- Savings and Credit Cooperative Societies
Sida	- Swedish International Development Cooperation Agency
TCCO	- Town Council Cooperative Officer
TZS	- Tanzanian shillings
VICOBA	-Village Community Bank
UN	- United Nations
UNDP	- United Nations Development Programme
URT	- The United Republic of Tanzania
WB	- World Bank

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1. INTRODUCTION

Poverty reduction or debt trap? Microfinance, financial services for poor people and low-income earners, has received great international attention and there seems to be a general opinion about microfinance services as a useful tool for development and poverty reduction. In 2005 The United Nations announced the International Year of Microcredit (UN 2004) and the following year, 2006, the Bangladeshi professor of economics Muhammed Yunus and his Grameen Bank shared the Nobel Peace Prize for their work with providing small loans without collateral to poor people (Nationalencyklopedin 2012). Banerjee et al. writes that "Microcredit has spread extremely rapidly since its beginnings in the late 1970s" (Banerjee et al. 2010:abstract) and according to the Microcredit Summit Campaign more than 100 million of the worlds poor received a microloan in year 2007 (MSC 2009c). Microfinance is argued to help people to increase their income, start a business and reduce their vulnerability for risks and economic stress and on the website of CGAP[1] it is stated that there is proof showing that microfinance can be helpful in achieving the Millennium Development Goals. It is presented that there are empirical evidence on positive impact of microfinance within the areas of eradicating extreme poverty and hunger, primary education, gender and empowerment of women, reducing child mortality and environmental sustainability (CGAP 2012 a, 2012c).

But microfinance and especially microcredit, referring to the small loans, have also been criticized for making poor people even poorer and stuck in a negative spiral of more and more loans, a debt trap, as well as for taking resources from other projects and fields that might be more successful in reducing poverty (Banerjee et al. 2010). A lot has been written about the impact of microfinance and whether it leads to poverty reduction or not, but it has been difficult to scientifically prove a direct link to poverty reduction and until now there is no consensus about the impacts of microfinance and if it lifts people out of poverty (CGAP 2012a, 2012b).

This thesis is based on a field study in Tanzania, a country that experienced a high economic growth during the first decade of the twenty-first century but according to UNDP Tanzania (2010) this growth was not pro-poor and therefore did not result in poverty reduction

[1] CGAP, Consultative Group to Assist the Poor, is a center for research and policy about financial services to the world's poor and a branch to the World Bank (CGAP 2012d).

equivalent to the economic growth. One of the expectations of the financial sector reforms and liberalization in the beginning of 1990s was an enhanced outreach for financial services in the country, but this development has been slow (Bee 2007, Randhawa & Gallardo 2003) and Bee even argues that the opposite has occurred, that the access to financial services among rural households has decreased (Bee 2007:4). The government of Tanzania believes in microfinance as a tool for poverty reduction and observed this slow development and established a National Microfinance Policy (NMP) to facilitate the development of a sustainable microfinance industry. In the NMP they state the need of microfinance and that those financial services can contribute to poverty reduction as well as improve income distribution (URT 2000). Commercial banks are still mostly located in urban areas, leaving SACCOS (Savings and Credit Cooperative Societies) and informal financial institutions, e.g. VICOBA (Village Community Bank) as the most important microfinance institutions (MFIs) in rural areas (Bee 2007). The Tanzanian cooperatives, which include SACCOS, have a history of problems, partly due to much political interference, resulting in bad management, poor governance and in some cases break downs. These problems resulted in low trust in SACCOS but the government has made an effort to strengthen the SACCOS which has resulted in an increase in popularity (Triodos-Facet 2007).

Difficulties in proving impacts as well as lack of consensus about the general impacts of microfinance and the somehow problematic and relatively new area of microfinance in Tanzania made me interested in assessing the situation of microfinance on a local scale in rural Tanzania and to assess how the members themselves perceive the impacts. Since semi-formal and informal MFIs are argued to be the most important in rural parts of Tanzania, this thesis focus on the member-based MFIs; SACCOS, which is semi-formal, and VICOBA, which is informal.

1.1 Objective and Research Questions

The aim of this study is to assess the members' perceptions about the impacts of rural member-based microfinance institutions, SACCOS and VICOBA, on their socio-economic situation and if these microfinance institutions lead to poverty reduction. In order to fulfil this objective this study tries to answer the following research questions:

- How are SACCOS and VICOBA in Babati district organized and operated?

- What are the members' perceptions about the impact of SACCOS and VICOBA on their socio-economic situation?
- What perception do the members have of the microfinance institutions' contribution to poverty reduction and which are the potential obstacles for leading to poverty reduction?

2. BACKGROUND

In this chapter relevant background information is provided about what microfinance is and its development globally, following the microfinance situation in Tanzania including a short presentation of the country's economic reforms as well as poverty situation. Finally the development, organization and operation of SACCOS and VICOBA are presented.

2.1 What is microfinance?

Microfinance services offer financial services for poor people and low-income earners that usually lack access to conventional financial services, and include small loans, savings and insurance. (CGAP 2012a). Microfinance is a wide concept including several different financial services, but sometimes the term microfinance is used synonymous with microcredit which is only the small loans provided to the poor and low-income earners (Armendáriz & Morduch 2010:15). For example the Microcredit Summit Campaign, which is a campaign that gather different practitioners and stakeholders involved in the microfinance movement writes that "Microcredit is the extension of small loans and other financial services (such as savings accounts) to the very poor" (MSC 2009a) where one can see that they use the term microcredit but referring to the wider concept of microfinance. The definition of a microfinance institution (MFI) is also wide, CGAP defines it as "an organization that provides financial services to the poor" (CGAP 2012e), but furthermore it is also common that MFIs provide non-financial services like social intermediation, for example training and education about finance, cooperatives and group formation (Ledgerwood 1999:1, Bee 2007:153). Ledgerwood means that "Microfinance is not simply banking, it is a development tool" (Ledgerwood 1999:1). Within this wide definition of MFIs a variety of several suppliers are involved, which are organized and operate in different ways, for example banks, NGOs, community-based institutions like self-help groups, cooperatives and insurance companies (CGAP 2012a). These various suppliers also differ in legal structure and can be divided into three groups, formal, semiformal and informal. Both formal and semi-formal institutions are registered and subject to laws but the difference is that semi-formal institutions are usually not subject to banking regulation and supervision, while the informal institutions are not under any law at all and not registered. Formal MFIs are for example private and public banks, finance companies and insurance firms. Among semi-formal MFIs are credit unions and cooperative banks, savings and credit cooperatives, i.e. SACCOS, and sometimes NGOs, while self-help groups, local moneylenders, NGOs and rotating savings and credit associations (ROSCAS) are informal MFIs (Ledgerwood 1999:12-13, CGAP 2012e).

The microfinance movement has received great international attention since this first summit and this increased in 2005-2006 when UN announced the International Year of Microcredit, followed by Grameen Bank and Muhammed Yunus receiving the Nobel Peace Prize (UN 2004, Nationalencyklopedin 2012). This microfinance movement originates from several places, but the story from Bangladesh and Grameen Bank, which started in 1976, is the most known and often referred to as the founder of microfinance. From a few experiments with providing loans to poor people in a village in Bangladesh, Yunus found that the poor borrowers did both make profit and repay on time absent of collateral. The fact that group lending was used, which is also called joint liability and means that the borrowers work as referees for each other instead of collateral, and that they received some funding allowed the Grameen Bank to grow fast. Today similar microfinance models are found in thirty countries. (Armendáriz & Morduch 2010:12-13). There is research pointing out that the concept of microfinance is not a new phenomenon, rather its history is long in many countries today developed as well as some of the developing countries (see for example Seibel 2005) but still one can argue that there is a *new* or *modern* microfinance movement that has been growing fast. When the Microcredit Summit Campaign held their first summit in Washington in 1997 they set up a goal to reach 100 million of the people living in poverty in the world by 2005, and especially the women. In 2005 they were very close in reaching the goal and according to them more than 106 million of the world's poor people were provided a microloan in 2007 (MSC 2009b, 2009c). According to their latest report, *State of the Microcredit Summit Campaign Report 2012*, the number is bigger. The report shows that in the end of 2010 more than 205 million clients were reached, out of these more than 137.5 million were defined to be among the poorest and 82.3% of the poorest were women (Maes & Reed 2012:3).

2.2 Financial sector reforms in Tanzania

Tanzania's political situation is described as stable, but it is a country affected by economic crises and ineffective administration (Landguiden 2011a). The country is still among the poorest in the world and highly dependent on foreign aid even though they have received loans and foreign aid for decades. Foreign aid comes from, among others, the Scandinavian countries and a change in aid targeting has turned away from industry, school and health care towards now focusing on economic reforms and democratic development. In the middle of the

1980s Tanzania faced an economic crisis with decreasing production as well as decreasing agricultural exports, high inflation and problems for the industrial sector. The country needed support by the International Monetary Fund, IMF, and was forced into a structural adjustment program that involved economic reforms and in the 1990s the economic liberalization with privatizations increased (Landguiden 2011b). In 1991 the Tanzanian government decided, as a part of the economic reforms, to allow commercial banking institutions to make the financial system more effective. This decision included for example to allow both local and foreign private banks and to strengthen the Bank of Tanzania's role regarding regulation and supervision for financial institutions (URT 2000). The economic reforms have resulted in a small increase in income for many Tanzanians and the country's GDP (Gross Domestic Product) grew on average 6.5 % between the years 2002 and 2010. Still this economic growth has not resulted in increased income and gains for all the poor due to for example slow bureaucracy, corruption and bad communications (Landguiden 2011b).

2.3 National Strategy for Growth and Reduction of Poverty

According to the 2011 Human Development Report about 1.7 billion people live in multidimensional poverty[2], and the number of people living under the international poverty line US$ 1.25 a day is estimated to be 1.3 billion people (UNDP 2011a). In Tanzania the number of people living under the international poverty line is almost 68%[3]. Tanzania is ranked 152 out of 187 countries in the Human Development Index 2011 and belongs to the countries with Low Human Development (UNDP 2011b). There are a number strategies and policies, both short-term and long-term, within the field of poverty reduction in Tanzania. UNDP Tanzania writes that the National Strategy for Growth and Reduction of Poverty (NSGRP) is "a second generation of Poverty Reduction Strategy" (UNDP Tanzania 2010), and that it compared to earlier strategies and policies focuses more on growth, governance and accountability.

The first National Strategy for Growth and Reduction of Poverty (NSGRP I), running between 2005/2006 – 2009/2010 stated that income poverty was reduced during the 1990s, but more in the urban than the rural areas and that women have been more disadvantaged in the rural areas. One of the actions it mentioned to reduce income poverty in rural areas was:

[2] Multidimensional Poverty Index (MPI) was presented for the first time in the Human Development Report 2010 and involves ten indicators divided in the three dimensions; health, education and living standards, to complement money-based poverty measures (UNDP 2011a).
[3] Data from 2007.

> Increasing access to rural micro-financial services for subsistence farmers, particularly targeting youth and women; promote and sustain community-based savings and credit schemes such as SACCOS and revolving funds (URT 2005:40).

At the moment the second National Strategy for Growth and Reduction of Poverty (NSGRP II) is running in Tanzania. It was published in year 2010 and is to be implemented before 2014/2015. Even though GDP grew about 7% annually during the period of NSGRP I it is stated in NSGRP II that not enough was achieved regarding reduction of income poverty between these years (URT 2010:vii-viii). Compared to the first strategy, this second strategy ”is oriented more towards growth and enhancement of productivity, with greater alignment of the interventions towards wealth creation as a way out of poverty” (URT 2010:ix) and SACCOS and VICOBA are mentioned within the financial sector that needs to be increased in order to create and enhance employment and empowerment, especially for women, youths and disadvantaged (URT 2010:57). The NSGRP II also points out the importance of agriculture in reducing poverty, since many of the poor in rural areas depend on it, and mentions MFIs and SACCOS among the ways to improve the access to agricultural financing (URT 2010:134). The agricultural sector is important and dominated in the country's economy. More than three quarters[4] of the labour force is working within the agricultural sector and its share of the GDP is 28%[5] (WB 2012). According to UNDP Tanzania the slow development of the agricultural sector is a challenge in reaching the first Millennium Development Goal (MDG), to eradicate extreme poverty and hunger. This is because the majority of the poor people in the country live in rural parts and they are mainly dependent on agriculture. One of the actions mentioned in order to increase people's income is to increase the access to microcredit schemes (UNDP Tanzania 2010).

2.4 Microfinance in Tanzania

The microfinance sector in Tanzania is still young, small and, in rural parts of the country very limited. A national survey found that 56% of the population is lacking access to financial services (Marr & Tubaro 2011:1). According to Bee (2007:153-154) the NMP divide the country's microfinance providers into four groups; banks, which include commercial, community and cooperative banks, and non-bank financial institutions; MFIs which specialize

[4] Data from 2006.
[5] Data from 2010.

in providing microfinance; member-based MFIs and finally; NGOs. Further Bee presents that the cooperative financial services are also called member-based services and can be divided into three different groups, namely cooperative banks; SACCOS; as well as VICOBAs and SACAs (Savings and Credit Associations), which he calls pre-cooperative groups (Bee 2007:154).

According to the microfinance institution PRIDE (Promotion of Rural Initiative and Development Enterprises Limited) the MFIs in Tanzania are all together estimated to provide financial services to about 400 000 so called small and micro enterprises, which is estimated to cover about 5% of the countries demand. Most of the institutions are in urban areas. Due to high risks, high cost of operation and bad infrastructure most microfinance institutions are not willing to expand their services to rural areas (PRIDE TZ 2005). According to Bee (2007:195) Babati is one of the disadvantaged districts in Tanzania regarding transport infrastructure and communication, two critical factors for the development of rural financial services.

There are also a few studies and reports saying that the microfinance services in Tanzania are not very successful in reaching the rural parts and the vulnerable poor. Randhawa & Gallardo (2003) state that a majority of the branches among the licensed banks and non-bank financial institutions are situated in Dar es Salaam and their services available for the rural population are limited. Therefore the most important microfinance institutions in the rural parts of Tanzania are SACCOS and foreign NGOs, even though there has been a diversification within the financial sector since the 1990s financial sector reforms (Randhawa & Gallardo 2003). Bee (2007) writes that the liberalization and following privatization of the financial sector in Tanzania has diversified the financial service providers in the country, but this did not improve the rural households' access to formal financial services. In spite of diversification in the financial sector banks are still dominating the sector and most of them are in urban areas. According to Bee "banks perform a limited role in economic growth in rural areas despite the extensive policy and institutional reforms" (Bee 2007:188) and that this has led to informal arrangements by the households and semi-formal member-based financial institutions and NGOs. In a microfinance country scan made by Triodos-Facet (2007) it is also argued that mainly SACCOS have an outreach to the rural parts of the country and in 2006 over 3500 SACCOS were registered in the Ministry of Cooperatives and Marketing, with a total number of members of about 420 000 and about 60% of these classified as rural[6]. Most of the rural SACCOS are very small in size and they tend to face capacity problems such as lack of staff and appropriate technology (Triodos-Facet 2007:12). The history of SACCOS in Tanzania can be argued to have its origin in thrift and credit societies which started as early as 1938 in several areas in the country, but it was in the 1960s that the number of SACCOS started to grow (Bee 2009:75). As mentioned in the introduction they have a history of mismanagement which led to a bad reputation, but the government has promoted SACCOS and in 2006 the government said that 21 billion TZS, which is 1 billion per region and also known as the "JK Billions", should be given in loans to SACCOS, through CRDB bank and NMB (National Microfinance Bank). This can partly explain why there has been an increase of SACCOS (Triodos-Facet 2007:6, 12).

Although SACCOS are argued to be the most important MFIs in rural areas of Tanzania, there are other informal MFIs which have been established more recently and that are also of importance in these areas. One is Village Savings and Loan Associations (VSLA), first introduced by CARE Tanzania in 2001 on Zanzibar, but later spread to the Tanzanian mainland. VICOBA, subject of this field study, is also an informal savings and credit group that has been established in several areas of the country by several promoters (Triodos-Facet 2007). Both VSLA and VICOBA are member-based MFIs and according to Kihongo (2005) as well as the District Council Cooperative Officer (DCCO) in Babati[7] the VICOBA model is based on a model introduced by CARE in Niger. The VICOBA model and the different promoters will be further presented later on in this chapter.

2.4.1 National Microfinance Policy and Cooperative Societies Act

The government of Tanzania believes in microfinance as a meaningful tool for poverty reduction and has established the National Microfinance Policy (NMP) to facilitate the development of a sustainable microfinance industry. The NMP states the need of microfinance and that those financial services can contribute to poverty reduction as well as improve income distribution. It is presented in the NMP that financial services can help households and enterprises to manage resources more effectively and protect against risks. Especially savings services are pointed out as important to be able to handle emergencies, periods with low income and large expenditure such as school fees. Credits are also presented

[6] The numbers can be questioned due to problems with defining what is rural and what is urban in Tanzania.
[7] Interview with DCCO 2012-04-11.

as useful for households, especially in periods of low income such as before harvest, to meet consumption needs and to make investments earlier. It presents that even though 31 financial institutions had been established within the country by March 1999, the development of the microfinance services had been slow and weak and some of the economic reforms had actually had impacts leading to a reduction in low income people's availability to financial services. The fact that the interest rates were not decided by the microfinance organizations or projects themselves, which often resulted in interest rates not covering operational costs, as well as the lack of a common law making it difficult to organize institutions and set standards, are some of the explanations mentioned that contributed to the slow development of microfinance services (URT 2000:1-6). This indicated a need to formulate a national policy to be able to develop a sustainable microfinance industry within the country and the overall objective of the NMP is:

> to establish a basis for the evolution of an efficient and effective micro financial system in the country that serves the low-income segment of the society, and thereby contribute to economic growth and reduction of poverty (URT 2000:7).

The policy includes a vision for a sustainable development of the microfinance industry and states for example that MFIs should decide all the pricing themselves, be based on best practices, use appropriate techniques and products suited for low-income earners, have a sound governance structure, be available for women and men and that the Bank of Tanzania should be responsible for the implementation of the NMP (URT 2000).

Regarding the regulation and supervision by the Bank of Tanzania, all the institutions providing microfinance services are not fully included. As mentioned before the formal institutions are included, while informal MFIs are not, and semi-formal MFIs like SACCOS are registered but not supervised by the Bank of Tanzania (Ledgerwood 1999, Randhawa & Gallardo 2003). Even though SACCOS and NGOs are usually not subject to regulation and supervision by the Bank of Tanzania, large member-based cooperative institutions can be identified and incorporated. A new regulation within this area was established in 2005, called the Financial Cooperative Societies Regulations. According to this regulation SACCOS that accepts savings and deposits above 800 million TZS from their members in total will be supervised by the Bank of Tanzania and licensed as a financial cooperative (Triodos-Facet 2007:8).

SACCOS are regulated in the Cooperatives Societies Act (CSA) from 2003. SACCOS have to follow the legislation and regulations from the NMP and the CSA. These regulations only give the general conditions about for example how to start a SACCOS, conditions for formation, structure and registration such as the minimum amount of members, but the CSA also states that the cooperatives should form their own by-laws. Each SACCOS decide themselves, in their by-laws, the costs for entrance fees, shares and savings needed to become a member and take loans, how big amount of loans one can take, the interest rate, within what time the loans should be repaid, consequences if someone is not paying back or using the money for what was said as well as how to use the profit in the end of the year (URT 2003).

2.4.2 Organization and operation of SACCOS and VICOBA

This section is based on information and findings from the field study 2012, unless nothing else is stated.

Both SACCOS and VICOBA are member-based MFIs, owned and run by the members and for the members. They both provide savings services and loans to the members without any collateral, instead using joint liability and referees within the institution. In some of them though, assessments are made to control the business or farm and it happens that sometimes assets are needed, it seems to differ a little bit between the different SACCOS and VICOBAs. As one can see there are many similarities between them, many of the informants interviewed for this thesis have pointed out that they are very similar and provide the same services and compared to a bank both of these member-based MFIs usually provide smaller loans. But there are also some differences between SACCOS and VICOBA, e.g. in size, formation, costs and usually also how big amounts of loans they provide. While VICOBAs are informal SACCOS are called semi-formal and SACCOS are often seen as the next step in development after VICOBA, between VICOBA and a regular bank. The organization and operation of these two member-based MFIs are described separately below.

SACCOS

CSA defines a savings and credit society as ”a registered society whose principal objects are to encourage thrift among its members and to create a source of credit to its members at a fair and reasonable rate of interest” (URT 2003:10), and since cooperatives are run democratically and owned by the members cooperatives should also provide the members and possible staff and managers with training and education so everyone can take part in developing the cooperative (URT 2003:11). To become a member of a SACCOS one have to pay a membership fee and buy shares, the costs and amount of shares needed differ between different SACCOS and sometimes there are also additional costs such as for books to keep records or for the form that has to be filled in to become a member. Also additional to the shares there is a need to put savings to be able to receive a loan. It is not regulated how often and how much one should save, but members are usually advised to save regularly. The conditions for taking a loan also differs between different SACCOS, but in the three SACCOS included in this study the maximum amount of loan one can be provided is two or three times the savings the member has and two or three referees from the SACCOS are needed instead of collateral. If the member does not succeed in repaying the loan and the savings and shares are not enough to cover the money that is left, the referees' savings and shares are usually used to repay. Some of the SACCOS also assess the farm, if the loan is to be used for agricultural activities or the business if it is a business loan, and in some SACCOS assets such as a house or a piece of land are needed to receive a loan, which can be sold if the loan is not repaid.

To give an example of the costs, in Gallapo Farmers SACCOS one have to pay 5 000 TZS as membership fee, 2 500 TZS for the books needed to keep records of savings and loans and buy one share which is 10 000 TZS, resulting in a total amount of 17 500 TZS. To be able to take a loan one need 5 shares, that is 50 000 TZS, so the total cost to be able to take a loan is 57 500 TZS (about US$ 36,50 and 260 SEK)[8]. These costs and savings from all the members as well as the interest rates are needed to cover operational costs and increase the capital to be able to provide loans to the members. Among the operational costs are office rents, salary to office staff, sitting allowance when they have board meetings and paying for internal and external controls. According to Marr & Tubaro (2011:4) the members' savings should basically be the only source of funding to run the SACCOS, but they argue that this is not always the case and some also take loans from banks and similar financial institutions.

In Babati district there are 50 SACCOS, 23 of them are farmers SACCOS and they are usually on ward level. It is common for SACCOS to be employee based, e.g. teacher's SACCOS, but in this study members from three different farmers SACCOS have been interviewed and all these three SACCOS provide loans for agriculture as well as business

[8] According to www.coinmill.com – The Currency Converter. 2012-05-17.

activities and there are no specific conditions for loan usage, apart from a description about how the loan will be used. The repayment time differs between 6 and 12 months and the annual interest rate is 20-25%. These three SACCOS also provide emergency loans, which are smaller amounts of money, with none or lower interest rate and with a shorter repayment time. The SACCOS have to make a yearly budget and they are controlled every year, both internally by the Cooperative Officer and externally by the Cooperative Audit and Supervision Corporation (COASCO).

VICOBA

During the field study it was found that there are several different Village Community Banks (VICOBAs) in the villages initiated by different organizations but operating in a very similar way. In the villages it is common that they all go under the name VICOBA, even though some projects are called HISA and WEKEZA[9] by the initiator, and some people don't know the difference between them or who initiated their group. Some of the initiators of different groups are Orgut and Sedit, CARE Tanzania, World Vision and Women in Action (WiA). According to the DCCO in Babati these are just different names, they are all savings and credit groups and the functions are all the same, so he calls them all VICOBA[10]. Therefore in this thesis all these different groups will also go under the name VICOBA since they are all a form of Village Community Banks and organized and operated in a very similar way.

In Tanzania VICOBA was first initiated by CARE Tanzania, which started in year 2000 on Zanzibar and later spread to the mainland and to other organizations and institutions. According to Bee (2007:226) VICOBA started in Babati in 2003, initiated by Sida and Orgut through a project called LAMP (Land and Agricultural Management Programme). There are more than 180 VICOBAs in rural Babati and all the villages in rural Babati have more than one VICOBA[11]. There are VICOBAs also in urban Babati, but the Town Council Cooperative Officer (TCCO) does not know how many since they are not registered.

VICOBAs are groups of maximum 30 people that meet regularly, usually once per week, to save shares in the VICOBA and give loans to the members. Among the 30 people there is one chairperson, one secretary and one accountant. The members within the group are divided

[9] Both HISA and WEKEZA are Swahili words and according to The DCCO in Babati HISA means share while the meaning of WEKEZA is saving or investing.
[10] Interview with DCCO 2012-04-11.
[11] Interview with DCCO 2012-04-11.

into sub-groups of five people to work as each others referees when someone wants to take a loan, which together with the savings works as a collateral instead of other assets. VICOBAs are, as mentioned above, informal and not regulated or controlled in any governmental act or policy and the VICOBAs form their own rules and regulations. Therefore the interest rate and repayment time differ between the VICOBAs. In the VICOBA groups subject of this thesis the majority of the groups have an interest rate of 10% per month, even though some groups have lower, 1.5% or 5% per month. The majority of the VICOBAs have three months repayment time, but some have six months. Apart from different rate and repayment time also other things differ between different VICOBAs, such as minimum and maximum amount of savings and loans, and how often they divide the money among the members, but the organization and general operation is more or less the same for all of them.

The VICOBAs decide themselves the minimum and maximum to save, by deciding how much one share should be. Then the members can choose how many shares to save each week, some groups have maximum of three shares per week while some groups have maximum of five shares, but one can be a member and save only one share every week. They keep the money in an iron box usually in someone’s home, but if they have a lot of money they can also open an account in a bank. How big loans one can take depends on the amounts of shares. Usually it is two or three times the savings (also called shares), just like in the SACCOS. There are no criteria or conditions for loan usage but you have to say how you are planning to use the loan.

A difference with SACCOS is that many of the VICOBAs do not provide loans for agricultural activities because the repayment time is too short so people will not have time to harvest and get profit to repay the loan. Similar to SACCOS’ emergency loans VICOBA has a social fund. A small compulsory weekly saving, usually 500 TZS goes to this social fund, which is to support education and health as well as to cover operational costs. From this fund the members can get money when there is an emergency, for example if someone is sick or for paying school fees. It differs between different VICOBAs in this study how this social fund is operating, for example some give small loans without interest fees and shorter repayment time similar to SACCOS, but some groups give the money to members who need it and they don’t have to pay back.

Education and training about business and financial literacy is one of the basic things in the VICOBA model. According to a documentation report about the status of VICOBA one out of four phases in the formation of a VICOBA is an intensive training phase which should cover 3-4 months. It states that it is an important phase divided into two modules:

> In the first module group members are trained on group management and banking operation system while in a second module they are trained on the techniques of selecting appropriate income generating activities (IGAs) for their families, developing business plans and business management techniques (MoFEA/PED 2009:10).

But according to many of the members interviewed for this study training is often provided to the trainers and leaders, not to all the members.

According to Begasha (2011:23) the main difference between the VICOBA model and the well known Grameen model is how they use the interest rate. In Grameen model the interest rate goes to the lender to cover operational costs while in VICOBA the interest rate is to increase the capital to be able to provide bigger loans and at the end of the circle the interest rate is usually divided between the members together with savings and give the members a profit.

3. METHODOLOGY

In this chapter the process of this study and methods used are described, from choosing methodology approach, identifying the study area and informants as well as collection of data. Some alternative methods are presented and choices are motivated and discussed from a critical point of view.

This thesis is based on an eight weeks field study in Babati district, Tanzania between the 17th of February and 13th of April 2012. The first three weeks in field worked as a pilot study to get an overview of the microfinance situation in Babati, identify the member-based MFIs operating in the district and understand the differences between them. Key informants were identified with help from my field assistant and contact person and interviewed to help me get the general understanding about the context and give an introduction to the microfinance activities in the district. The pilot study also gave me an opportunity to test my interview guide and make some improvements. The information gathered within the pilot study helped me to identify suitable SACCOS and VICOBA in the district to continue the field study.

The approach of this study is mainly inductive and seeks to observe and study the reality out of a qualitative case study in Babati and to link the results from this case to the bigger theoretical framework with earlier reports and research for analysis. Since this thesis aims to assess the members' own perceptions about impacts of microfinance institutions a qualitative case study with semi-structured interviews was most suitable since it gives a deeper understanding than a quantitative study and semi-structured interviews allows the informants to talk freely to some extent.

The methodological framework is based on the Rapid Rural Appraisal approach, RRA. This approach involves a lot of different techniques to receive material for analysis quick and in a holistic way to understand the whole complexity of a system (McCracken et al. 1988). Among the different RRA techniques semi-structured interviews, which is the main method used for collecting data in this field study, is presented as "the most powerful of the RRA techniques" (McCracken et al. 1988:20). Other RRA techniques used in this study are secondary data review, portraits and a simple ranking. Some of these techniques are further described in the following data collection section and in the results two portraits of people interviewed in field are presented.

3.1 Data collection

3.1.1 Semi-structured interviews

The main method used to collect data for this thesis was individual semi-structured interviews, mainly with members of SACCOS and VICOBA, but also with these MFIs' chairman or secretary as well as cooperative officers, to understand the organization and operation. Not including the pilot study, 39 members have been interviewed, 35 individual interviews and 2 interviews with two members at the same time. The aim with the interviews with the members was to understand their perceptions about the impacts of SACCOS and VICOBA on their life, both economically and socially, their perception about whether it leads to poverty reduction or not as well as improvements needed and potential obstacles. The interviews with key informants like cooperative officers and chairmen and secretaries of the MFIs have been conducted mainly to understand the organization and operation of SACCOS and VICOBA but also to get their view on impacts, contribution to poverty reduction and especially what they see as obstacles for contribution to poverty reduction.

In the pilot study two group interviews were conducted to receive a lot of information fast and to understand how the MFIs are organized and how they operate. Since this thesis focuses on members' perceptions individual interviews were found more suitable to provide that information, which is why individual interviews were chosen. In Orngadida village though, one group interview was combined with observation on a VICOBA meeting to see how the weekly meetings are held and to understand how that VICOBA group was organized.

The interviews with members were conducted with an interview guide organized in themes with some under-questions instead of pre-formulated questions in a specific order. The under-questions helped if there was a need to guide the informant back to the relevant subject and to make sure all the information needed was answered. The themes used for interviewing the members were:

- Personal information
- Description of the microfinance institutions and reasons for joining
- Savings and loan usage
- Social and economic impacts

- Poverty reduction and potential obstacles
- Agricultural methods

When interviewing chairmen and secretaries of the MFIs as well as the cooperative officers the interview guide was a bit more structured to make sure to get all the needed information and data about how SACCOS and VICOBA are organized and operated.

As a part of the interviews with the members the ambition was to use a simple ranking about what they thought was the most important impacts from being a member of the MFI. By asking them about the most important, second and third most important impact the plan was to put this information in a table to help me analyze what the members see as the most important impacts. It proved a bit difficult for many of the members to rank the impacts like this though so there will not be a table but the ones ranking, as well as the others only mentioning important impacts without any ranking is still useful data for the results and analysis.

Selection of study areas and informants

In the selection of areas and informants strategic choice has been used. The pilot study helped me identify suitable MFIs and areas were chosen with help from my field assistant depending on the presence of farmers SACCOS and then VICOBA members were interviewed in the same areas as the SACCOS. Farmers SACCOS where chosen since I wanted to assess MFIs and contribution to poverty reduction in the rural parts and many people living in rural parts of Tanzania are farmers. Three different farmers SACCOS were chosen; Gallapo Farmers SACCOS, Muungano Mamire SACCOS and Bonga Group SACCOS and in all the areas I started out by interviewing the chairman or secretary in the SACCOS. Members, of both SACCOS and VICOBA, were identified with help from key informants in the villages, like the SACCOS secretary or chairman or the Village chairman. Most of the informants were members of both SACCOS and VICOBA, which made my initial plan to have equal number of members from the two MFIs a bit difficult. Strategic choice using key informants to help me identify informants also affected the study in the way that several of the informants were the ones being active in the MFI in some way, like a board member or vice secretary. Obviously this can be a source of bias and is also discussed shortly in the result and analysis. There were also some complications in some of the places, especially in Mamire, to get people to participate which resulted in not strictly following the initial plan of interviewing as many women as men, members with different wealth and different ages, and instead ended up more or less interviewing the ones who wanted to participate. However, even though the plan was not used as strictly as intended, there is still a spread among the informants and for example the gender distribution among the members interviewed is 17 women and 22 men.

3.1.2 Qualitative literature review

Complementary to the field study in Babati this thesis is based on secondary data, also one of the RRA techniques mentioned above, and this takes form of a qualitative literature review. Prior to the field study relevant information and articles about Tanzania and microfinance was read as an introduction to the study area, to provide a contextual insight, find a suitable topic and for preparation of research questions as well as interview questions. Meanwhile and after the field study the literature review continued focusing on articles, studies and earlier research to gather further knowledge about the research area and to form a theoretical framework to guide me in the analysis.

3.2 The study area location

All of the three SACCOS in this study cover several wards[12] so interviews have been conducted in several villages. All of the villages; Bonga, Mamire, Mwikantsi, Gallapo and Orngadida are located in the south-eastern part of Babati district, which is an area with relatively good agricultural conditions. It is located on an altitude which usually gives sufficient annual precipitation resulting in good soils and all these villages are located in areas with relatively good communications since they are quite close to bigger roads which facilitate transport of production.[13]

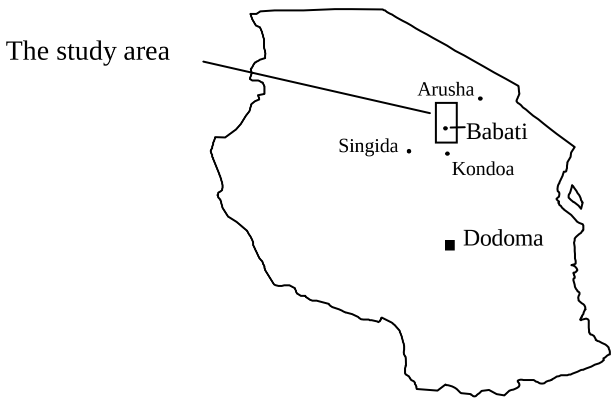

Figure 1: Map showing where Babati district is located in Tanzania. Source: (Lindberg 2000).

[12] Wards are under district and division level and consists of several villages.
[13] Field study 2012.

3.3 Criticism of method

Apart from some complications and criticism of selecting informants presented above, some other alternative methods and criticism of method is presented here. An alternative method to this qualitative case study would have been a quantitative study with more and shorter interviews or even using questionnaires. This would have resulted in more data but since this thesis aims to assess the members own perceptions about the impacts of the MFIs a qualitative case study with semi-structured interviews was considered more suitable, since it gives the respondents opportunities to talk freely about given themes. Also more group interviews as well as workshops could have been conducted complementary to the individual semi-structured interviews in the case study, but due to the limited time period and this theses' focus on the members' perceptions about the impacts of MFIs individual interviews was found more suitable.

Due to shortage of time and the main purpose of this study no wealth ranking has been conducted and wealth identification has only been made with help from my field assistant. I am aware of the fact that this could be a source of bias and that the most vulnerable and marginalized poor may not be presented in this study and might not even be the members of these member-based MFIs. However, since this study does not focus on investigating the outreach to the villagers, but to see the impacts on the members I decided it was not a problem.

All the interviews, apart from the ones with the cooperative officers, have been conducted with an interpreter and translated from Swahili to English. This is a limitation since some information, specific meanings and emotions can be lost in the translation and limit the ability to make follow ups of the answers and understand specific nuances. To reduce this limitation an effort to triangulate data have been made by interviewing several members to see if they give the same information and conducting complementary interviews with chairmen or secretaries as well as cooperative officers. When needed, short talks to the interpreter have also been performed after the interviews to make sure answers were understood correctly. This triangulation increases the reliability of the information from the interviews. Furthermore four interpreters have been used in total in my field study, one of them only in the pilot study, and I have found that the interpreter is important and crucial for making a good introduction and creating a good atmosphere, which also affect the whole interview.

4. THEORETICAL FRAMEWORK

In this chapter some earlier literature and research within the area of microfinance and poverty reduction as well as studies assessing the impacts of different microfinance models are presented, as theoretical framework to guide me in the analysis.

As presented in the introduction there is no consensus about the overall impact of microfinance and its ability to lift people out of poverty. There are many studies presenting successful anecdotes as well as less successful stories about poor people becoming highly indebted, but it has proven difficult to scientifically test the impacts of microfinance due to difficulties in knowing and proving the causes of one group doing better than another when comparing groups with different access to microfinance. In other words it has been difficult to prove that the reason for one group found to do better is really caused by the access to microfinance, because maybe that group would also be better off without microfinance (Armendáriz & Morduch 2010:267-270). Still, according to CGAP (2012b), until recently the majority of the studies showed that microcredit has a positive impact on both the economy and social situation. And yet again, it seems like the amount of reports and studies pointing out shortcomings in the methodology and conclusions in some of these optimistic reports are growing, as well as the research showing that microfinance is not as big miracle as often claimed by advocates.

The challenges in testing microfinance scientifically have led to a growing amount of research using randomized evaluations when assessing the impact of microfinance. However, these reports have until today only managed to study short-term results (CGAP 2012b). One example of a randomized evaluation is a study from India by Banerjee et al. (2010) whom are arguing that neither successful stories nor stories about borrowers who get deeply indebted say anything about the general effects of microfinance. They argue that because microfinance clients can not be compared to non-clients, since they choose themselves to become clients and to take a loan, the causal effects of microfinance can not be identified and “it is likely that those who choose join MFIs would be on different trajectories even absent microfinance” (Banerjee et al. 2010:1). By using randomization and introducing microcredit in one area in India and leaving another area without, they argue that the two different areas only differ in the access to microfinance and can be compared. Their findings show a significant impact on the number of new businesses started as well as on the consumption of durables among the people that already had a business when the study started, but not in average consumption or social outcomes such as women empowerment, education and health. However, they argue that effects on these things might come later. The authors conclude that the impacts of microcredit is heterogeneous and not suitable for all the households, saying for example that people borrowing money for the daily consumption can end up increasing their welfare as well as the opposite if they borrow in an unsustainable way. Furthermore the authors conclude that "Microcredit therefore may not be the 'miracle' that is sometimes claimed on its behalf, but it does allow households to borrow, invest, and create and expand businesses" (Banerjee et al. 2009:31).

Roodman and Morduch (2009) criticize some of the most cited studies about microfinance based on data from the 1990s in Bangladesh. One of them is *Microfinance and poverty: Evidence using panel data from Bangladesh* which is using data from two different household surveys conducted in Bangladesh during the 1990s. This study found that microfinance has positive impacts both for the participants and on the whole local village concluding that:

> Not only does the increase in consumption resulting from borrowing raise the probability that program participants will escape poverty but the microfinance intervention also benefits nonparticipants through growth in local income. [...] Microfinance has a slightly higher impact on extreme poverty than on moderate poverty for everybody (Khandker 2005:285).

But, the methodology and data in Khandker's study, as well as in two other studies, are argued by Roodman & Morduch (2009:40) to be weak and they mean that lack of statistical proof is poor in the literature of microfinance at large, with some exceptions mentioned within the recently growing area of research using randomization. The authors state that "As a result, strikingly, 30 years into the microfinance movement we have little solid evidence that it improves the lives of clients in measurable ways" (Roodman & Morduch 2009:4).

The book *Portfolios of the Poor: How the World's Poor Live on $2 a Day* is based on financial diaries from households in South Africa, India and Bangladesh in order to really see how poor people live their lives and manage their small income to understand how and which financial services are important for them. The authors state that the widespread idea that most microloans are being used for business and microenterprises is not true, instead they found that microfinance services are mostly used to smooth consumption and manage risk. "The poor households in the study seek loans for a multitude of uses besides business investment: to cope with emergencies, acquire household assets, pay schooling and health fees, and, in general, to better manage complicated lives" (Collins et al. 2009:25). Further the authors argue that for poverty reduction more things are needed apart from just financial services, such as jobs, infrastructure and safety nets, but financial services are important for poor people and can help them to improve their lives (Collins et al. 2009).

Holmqvist (2010) argues in her thesis based on interviews with microfinance clients in Peru that for borrowers to be able to increase their income, education is the most important factor. She concludes that "while access to credit is fundamentally important for economic development in Peru, it is seldom sufficient to create sustainable change without support and education from the bank or NGO" (Holmqvist 2010:2).

Moving from the global arena about the overall impacts of microfinance to the situation in Tanzania, what have earlier studies and assessments about microfinance and its impacts in Tanzania found? To my knowledge, the studies about semi-formal and informal microfinance in Tanzania are not numerous, especially not specifically about SACCOS and VICOBA. But some studies have been found which argue that microfinance doesn't reach out to the poorest of the poor and that it can help the rural poor in some ways but does not lift people out of poverty. One study assessing how well the MFIs work in Tanzania regarding its contributions to poverty reduction, as well as a study from Ethiopia, found that microfinance reach the relatively poor but is less successful in reaching the poorest, the marginalized and vulnerable poor (Josefsson & Åberg 2004, Andersson & Wikstrand 2009). Furthermore Josefsson & Åberg (2004:28) conclude microfinance to be a good instrument for poverty reduction even though they don't reach the poorest which are in most need and Andersson & Wikstrand (2009:34) present that the clients believe that their economic situation has improved after receiving a loan.

Another study focusing on the VICOBA model and its contribution to poverty reduction found that VICOBA does not take the members out of poverty but it can "act as a buffer to protect rural poor not to fall under the established poverty line" (Begasha 2011:abstract). The author concludes that the VICOBA model does not result in all the members leaving poverty, but by letting members save and take loans on a regular basis it protects them against deeper poverty and it helps to smooth consumption. Furthermore the author also states that VICOBA has a positive impact on the members' social situation and that this might be important in providing an increased "sense of security" (Begasha 2011:46). In another impact assessment of VICOBA in Tanzania Kihongo (2005) argues that the VICOBA model is an important tool towards poverty reduction since the study found positive impacts for the members in several ways, for example in increase of income and capital, capacity building and women empowerment. But the author also points out, in spite of positive impacts, the fact that VICOBA is informal and therefore not registered or part of a legal framework, arguing that due to this "VICOBA project is not a viable microfinance scheme and is limited to operate big volume of money and hence not sustainable" (Kihongo 2005:76).

5. RESULTS AND ANALYSIS

In this chapter the results are presented on the basis of the research questions and analyzed with help from the theoretical framework.

5.1 Impacts on the members' socio-economic situation

There is a general agreement among the members of SACCOS and VICOBA interviewed for this thesis that these member-based MFIs have positive impacts on members' socio-economic situation and that they can be a useful tool for poverty reduction. However, as will be further presented later in this chapter, many say that it does not lead to poverty reduction automatically, e.g. it depends on how the loans are used and some members mean that there are obstacles in the way and improvements needed for SACCOS and VICOBA to lead to poverty reduction. Before presenting these obstacles and improvements the focus will be on the impacts on the members' socio-economic situation.

Apart from the emergency loans and the social fund loans are given for agriculture and business. As mentioned earlier most VICOBAs do not provide loans for agriculture resulting in mostly business loans while the SACCOS in this study are mainly giving loans for agriculture, even though they provide some loans for business too. When taking a loan for agricultural activities the most common things for loan usage among the members interviewed for this thesis are buying modern seeds, renting a tractor and paying day labourers. But when asking about the most important change since becoming a member the most common answer is paying school fees followed by being able to afford daily expenses, to improve or build a house as well as the ability to improve a business and agriculture. In most cases regular loans are not provided only for school fees since it is not an investment resulting in a profit. The emergency loans, however, are for education and health but some members also say they took a part of the regular loan to pay school fees while some say they used loans to invest in agriculture or business which resulted in a profit that they used for school fees. Regarding the business loans some examples of common small businesses the informants are running are small shops, local restaurants as well as temporary businesses like buying crops or other things and sell them for a higher prize in another village or in Babati town. These small businesses help members to diverse their income, which is important for farmers that are dependent on the weather and can be argued to reduce the farmers' vulnerability.

The majority of the members also experience that they have had an increase in income because loans taken for agriculture and business have lead to more profit which they in turn have been able to use for other things such as daily consumption, e.g. better and more nutritious food and clothes as well as bigger expenses like paying school fees and improving or building their house. The majority of the members say that they can now afford life requirements and basic needs easier as well as being able to take their children to school.

One representative example of positive impacts and income diversion is the case of Aziza Msongo who lives in Bonga. *Aziza has been a member of a VICOBA group initiated by CARE for about three years. She is 26 years old and she is a farmer and is doing some business. She has a local restaurant, which is called mama lishe in Babati, and she has been able to do some temporary business as well as start other small businesses since she became a member of VICOBA. In that way she has diversified her income activities. Since she became a VICOBA member she has taken loans several times per year and has used them, among other things, for doing temporary business like buying and selling things, e.g. kitchenware and women's clothes, as well as to start a small business to make and sell bricks. This diversion of economy has helped her to increase her income. Apart from this she says that she has also afforded to build a house, before she lived in a rented house, and to pay school fees. Aziza also mentions social impacts and says that since she became a member of VICOBA she has experienced an increased relationship with other people and she says that she now knows where to go if she has to get support to solve a problem. Before she had to go to a friend in case of emergency, now it is better when she can go to the VICOBA. Among the obstacles and improvements needed she says that the loans are small and also there is a lack of capital because people are not paying back on time. Even though she has been successful in business and diversified and increased her income, she says that her VICOBA group needs more education about business and entrepreneurship in order to lead to more development for the members.*

Just like Aziza, the majority of the members interviewed say that they have had an increase in income since they joined the SACCOS or VICOBA, even though it is difficult for them to say how much. Several members count their income increase in how much harvest they get. For example one man says that since he became a member of Muungano Mamire SACCOS and has taken agricultural loans he has increased his harvest from 5 bags per acre to 15 bags per acre due to modern seeds, day labour and better cultivation. But there are also some, even though only very few, of the members saying that they have not experienced an income increase. For example one member of Muungano Mamire SACCOS says that the increase of income is only when you receive the loan, when you pay back there is no increase of income left. Even though this member has started a small business since he became a member of SACCOS and in that way diversified his livelihood basis he does not experience an income increase. He says that he has not had any training in business and entrepreneurship and that it will only lead to poverty reduction if they educate people, since many members do not know about the benefits of SACCOS, how it works and do not understand the information. Another villager in Orngadida that is a member of both SACCOS and VICOBA says that she has been able to do some small business thanks to SACCOS, but she also says that it is now the second year that she is unable to cultivate all her land because of too little capital and she has not experienced an income increase because all the profit goes to school fees. She recently joined VICOBA and thinks that it helps her more than SACCOS. According to her Gallapo Farmers SACCOS is too bureaucratic, it takes a long time and is difficult for poor people to get loans and benefit from SACCOS. Further she mentions that it is easier for the members that are active in the SACCOS, e.g. board members or in a committee, to get loans. Just as mentioned in the methodology chapter several members interviewed for this thesis turned out to be active in the SACCOS, which can be a source of bias. If the active members do get loans easier they might for example experience more positive impacts and bigger income increase compared to non-active members. Since several members interviewed have been active the proportion of informants experiencing positive impacts and income increase might be bigger in this study than is the case in the reality. However, overall there is no distinct difference in regards of perceived impacts observed between active and non-active members in this study's findings.

Many of the informants mention that they prefer VICOBA becuase it is easier, more participatory, less bureaucratic and no costs to become a member. Some people can not even join SACCOS due to membership fees and expensive shares and several members say that they know people that want to join SACCOS but they have too little income so they can not afford it. The only people saying that they prefer SACCOS seems to be people with a little more money, not the poorest, and they say that they prefer SACCOS because SACCOS provide bigger loans.

The case of Simon Nade in Mwikantsi village is an example of a member that prefers VICOBA. *Simon has been a member of Muungano Mamire SACCOS since 2005 and a member of VICOBA for almost two years. Simon is a farmer and also runs a small business. He owns a mill to make flour, so people come to him with their crops and pay him to use the machine. He has only taken a loan from SACCOS once due to low capital in the SACCOS so they were not able to provide many loans, but now they have more members so the capital has increased a bit. Simon used that loan for farming activities and for his business and bought for example diesel to the mill. From VICOBA he has taken a loan 2-3 times per year and also he received 50 000 TZS from VICOBA's social fund when his father was sick and needed treatment. In his VICOBA the money from the social fund does not have to be repaid. Simon experiences that he has only had an income increase from VICOBA, not from SACCOS, and he says that more people now see that VICOBA is more beneficial than SACCOS. In SACCOS there are no benefits apart from getting loans and he mentions lack of transparency and lack of information from the SACCOS to the members among the obstacles as well as no training and education to the members. In the VICOBA he says that they are still trying to find ways to come out of problems and he likes that is on village level, more transparency and more information as well as easier to get profit. The main problem in VICOBA is late repayments and from last year three or four people have still not paid back their loans since they broke up the group and divided the profit at the end of the year.*

More about the obstacles that Simon mentions will be presented in next section, but one thing Simon mentions that a lot of the members talk positively about is the emergency loans, which are usually called social fund in VICOBA. Many informants, especially members of VICOBA, say that it is now better because if they have an emergency they do not have to go to friends and relatives anymore, just like in the case of Aziza. Instead they know that they can get help from the MFI in case of emergency. This is in accordance with Begasha (2011) saying that VICOBA can have social effects and give a sense of security for the members. Other social impacts are also mentioned, like increased level of interaction with other people and that they exchange more ideas. One man in Orngadida village who is a member of both VICOBA and SACCOS says that he has increased the relationship with other members, strengthened social ties and shared information, but mainly through VICOBA where the members are closer to each other.

Many of the informants are members of both VICOBA and SACCOS to be able to take two loans at the same time and the majority of the members are planning to take more loans in the future. Even though many mention problems and obstacles, which are presented in next section, they still plan to continue being a member and expect to take more and bigger loans in the future. Even members saying that they have had problems with paying back former loans on time, resulting in extra fees and extra interest rates are planning to take more loans. There seems to be a general agreement that these loans, both regular and emergency loans, help to make investments and improve both business and agriculture as well as to meet daily consumption needs and pay school fees, especially in times when income flow is low, for example during the off season before the harvest time. The fact that members take several loans per year and that the majority interviewed plan to take more loans in the future, can be an indication that these loans help people to make investments and improvements sooner than they would have been able to do if they had to wait for profit from for example the harvest, in accordance with what is presented in the NMP.

In accordance with Collins et al. (2009) the findings about the impacts for members in this study show that poor people do not only take loans for business, but the way the members talk about the importance of the emergency loans and say that they use part of the loans for school fees indicates a need and an importance to be able to take loans for other uses apart from business, like to cope with emergencies, pay school fees and health costs and smooth consumptions. The loans are not only taken to make big investments like expanding a business or staring a new business, but these member-based MFIs are important for these members to be able to plan, control and diversify their economy, and to be less dependent on harvesting times and weather. Many of the members take loans several times every year for small investments in agriculture, school fees or buying crops to store for later when prize is higher. When you are poor and don’t have a buffer to take from, it seems like these institutions can help a lot if the loans are used in a productive way.

5.2 Obstacles

As already briefly mentioned some obstacles came up when talking to members of VICOBA and SACCOS about impacts, further development and contributions to poverty reduction. According to the members interviewed the main obstacles for these MFIs to work effectively are lack of capital, late repayments and lack of knowledge and education about entrepreneurship and how to make productive investments as well as about how these member-based MFIs are organized and operated.

The major obstacle mentioned by almost all of the informants is the low repayment status. Late repayments are probably partly a result of other obstacles also mentioned, like lack of education and like some of the informants mention short repayment time, high interest rate and that the loans are not used in a productive way. Also the fact that many members are farmers and highly dependent on agriculture can make it difficult for them to repay on time, e.g. when the harvest is low due to climate and shortage of rainfall. This is especially if they take a loan for agricultural activities. In turn, the late repayment status also creates other problems such as lack of capital resulting in other members not being able to take loans. During the time period when interviews for this thesis were conducted the Gallapo Farmers SACCOS did not give any emergency loans due to a period with low repayment status.

Lack of knowledge about entrepreneurship and business might be the main reason for an unproductive loan usage, but also the fact that the VICOBAs and SACCOS in this thesis do not make any follow ups to see if members use the loans as they have said they would, as well as emergencies and unexpected expenditure might also be causes contributing to loans being used in unproductive ways. The repayment status might be improved with more education, longer repayment time and lower interest rate. As presented earlier in the background chapter, education is mentioned in the CSA for all members to be involved in the development of the cooperative and an intensive training phase is one of four phases when starting a VICOBA, but many members mention lack of knowledge and training about entrepreneurship as well as about the organization and operation of the MFI as a big obstacle, in accordance with Holmqvist (2010) which found in her study in Peru that education was the most important factor for the MFI to lead to sustainable change for the members. Some members also say that only the leaders and board members have had education.

Regarding short repayment time it is mainly an obstacle in VICOBA, which usually has a repayment time of three months and many say that this is too short and makes it difficult to pay back the loans on time. For example one SACCOS member in Bonga says that he is not a VICOBA member because in VICOBA you have to do activities that give profit often because the repayment time is short and you have to save every week. Since he is a farmer and does not have any other business or source of income this is very difficult for him. In

SACCOS you repay after one year and also put your savings every year after harvest he says. Another VICOBA member in Mamire wants the repayment time to be increased to six months but she says that the majority in her group does not want this change because then members would have to wait even longer to get a loan and there is already a lack of capital so members are waiting for others to pay back their loans in order to receive one. Even Muungano Mamire SACCOS, which have six months repayment time for all the loans, have a similar problem. Some members pointed out that they think six months is too short but according to the secretary of Muungano Mamire SACCOS they can not prolong the repayment time at the moment because then the members have to wait even longer to get loans, since the SACCOS is still young and still have a small capital. This indicates that more capital is needed for an increase in repayment time to be possible, or at least in order to be effective, which can underline the argument that support as well as loans with low interest rates are needed for these MFIs to work more effectively, which is presented below.

Lack of capital like in the SACCOS in Mamire is another frequently mentioned obstacle. In Bonga Group SACCOS low capital is also a problem due to few members. Bonga Group SACCOS only have 75 members even though it started in 2005 and this is due to former problems with leadership. The former leaders could not organize the people and took decisions without consulting the members, something which resulted in a bad reputation for the SACCOS, also there were few benefits for the members and people did not see apparent benefits of joining. Now the leadership has changed and they are planning to take a bank loan to increase the capital and provide more loans so the members can start benefit from the SACCOS. It has been approved that they should be provided a bank loan of 30 million TZS. According to the secretary of Bonga Group SACCOS this is a decision from the government of Tanzania (might be from the JK Billions mentioned in the background chapter) but the loan is given by NMB with an interest rate of 18%. Bonga group have decided that they will add 4 percentage points for operational costs and provide loans to their members with 22% interest rate.

This is a problem according to the DCCO because the SACCOS loose their freedom to set the interest rate on their own and the TCCO says that these high interest rates on the loans provided by the banks benefit the banks more than the SACCOS and he continues to say that because of these high interest rates from banks they try to educate the SACCOS to be more independent. However, lack of capital is a big obstacle in all the SACCOS and VICOBAs in this study and because members are usually poor it takes a long time to create a capital from only their savings to satisfy the members' requests for loans. Even though all the MFIs mention a lack of capital most of them do not take a bank loan because of high interest rates and fear about not being able to pay back due to this as well as late repayments among their members. The secretary in Gallapo Farmers SACCOS says that the bank does not consider the problems their members face since almost all of them are farmers. If the climate is bad and the harvest is low it is very difficult for them to pay back, so because farmers are very vulnerable and dependent on climate the SACCOS can not take any bank loan he says. Gallapo Farmers SACCOS joined together in a union in 2006, from being smaller branches at village level before, in order to get more power and more capital to be able to provide bigger loans to the members. But even though they are now a big SACCOS, with more than 1 200 members there is a lack of capital, which can partly be explained due to low repayment status. Many of the informants think that the government should do something to make sure that these MFIs are given support or loans so they can give more and bigger loans to the members. A few of the informants say that they have heard about a promise that the government will give support to the SACCOS, but they say that they have not seen any implementation of it.

One thing only mentioned by a few members, but which is mentioned by both cooperative officers as a problem and obstacle are the high interest rates. Many VICOBAs have an interest rate of 10% per month, resulting in 30% for the loan which is usually supposed to be repaid within three months. This gives an annual interest rate of 120% which according to the DCCO is too high and the main reason why many members fail to repay the loans. He gives an example saying that if one take a loan of 400 000 TZS, then 40 000 TZS is supposed to be repaid as interest rate after one month, and he asks what kind of business can generate that much profit in one month. Both SACCOS and VICOBA set their interest rates by themselves, but according to the DCCO they are not well directed and there is a lack of understating about what the effects are when the interest rates are this high. According to him many VICOBAs see that it is a good thing that they pay interest rate so there is a division in the end of the year, like a saving that gives them profit later on but they do not see the problems that comes when it is too high. The results are late repayments, resulting in more fees for being late which sometimes make people deeply indebted and also creates other problems like lack of capital. For these institutions to work effectively and really help the members to develop he thinks that the interest rate should be much lower and therefore he emphasises the importance of education about how member-based MFIs like SACCOS and VICOBA work and operate.

Other obstacles mentioned, but not by the majority of the informants, are that there is a lack of transparency and information given to the members in SACCOS and that the board takes decisions without consulting the members. This is not presented by VICOBA members though, but one obstacle a few VICOBA members mention is how they keep the money. The fact that they are kept in a safe in someone's home is not secure when they are increasing their capital. Some groups have an account in a bank but not all of them.

Regarding the late repayments both the SACCOS in Gallapo and Mamire have started to cooperate with a company called MASETO to help them deal with late repayments, and at least Muungano Mamire SACCOS has experienced a remarkable improvement in repayment status since they started to work with MASETO. Maybe this can be a good solution for other SACCOS as well, though the problem might be that it costs a little. One can argue that for these MFIs to really be pro-poor, improving the conditions, such as longer repayment time, lower interest rate and more education could be a better way to contribute to poverty reduction. Instead MASETO put pressure on the members by increasing the costs when people are late with repayments and in that way make people pay back on time because they fear that their properties will be sold if they do not pay. Maybe a mix with both improved conditions and an agreement with MASETO Company would be the best solution and increase the repayment status, and as a result also the capital so more people can be given loans.

5.3 Does it lead to poverty reduction?

"VICOBA is not only a tool for development, also a weapon for poverty".[14]

"I think it will reduce poverty, but not remove poverty". [15]

These two quotes are representative in the results found in this study regarding the question whether SACCOS and VICOBA lead to poverty reduction or not. There is a general agreement that these two member-based MFIs can lead to poverty reduction but many members also point out that it will only lead to poverty reduction if people use the money in a

[14] VICOBA member, Mdori Village, pilot study 2012-02-29.

[15] VICOBA member, Mamire Kati 2012-03-27.

productive way and that more education is needed about entrepreneurship and business. The first quote can mean that it is a weapon in the way that it really lifts people out of poverty or the interpretation can be that it as a weapon against deeper poverty, in accordance with Begasha (2011). In general the findings of this study is in accordance with the latter interpretation of the first quote, as well as with the second quote saying that these MFIs contribute to poverty reduction but do not lift the members out of poverty completely or automatically. This is consistent with Begasha (2011) and Collins et al. (2009) arguing that microfinance does not lead to poverty reduction but helps people to smooth consumption, manage risk and cope with life.

Many of the members of both a SACCOS and VICOBA think that VICOBA leads more to poverty reduction than SACCOS, because VICOBA is easier, less bureaucratic, more transparent, faster to provide loans, there is no membership fee and they divide the profit at the end of the year. However, there are also some informants saying the opposite, namely that SACCOS lead more to poverty reduction because VICOBA deals with so small amounts so it does not change and help much, but in SACCOS members can take bigger loans. This can be seen from two different ways. In one way SACCOS can be argued to contribute more to poverty reduction because members can take bigger loans which help more and can lead to bigger changes, but on the other hand VICOBA can be argued to contribute more to poverty reduction since it is easier and cheaper to join which indicates a bigger outreach to the poorest. What they have in common is that none of them leads to poverty reduction automatically, and in accordance with an earlier study presented, not without education given to the members together with these savings and loan services. Additionally other obstacles presented in the previous section also need to be improved for these to contribute more to poverty reduction, e.g. longer repayment time, especially in VICOBA, lower interest rate, external funding such as bank loans with lower interest rate and so on.

It can be argued that these MFIs lead to poverty reduction indirectly in a long-term perspective in the way that several of the informants can afford to pay school fees and education is important and crucial for development and consequently also an important for poverty reduction. However, it can be difficult to pay back a loan taken for school fees and if that is the case it can be negatively in the short run and give them additional costs for late repayments and they can find it difficult to repay.

As mentioned, the majority of the members interviewed plan to continue taking loans and some say that in the future they think they will have enough money so they will not need to take more loans or they will be able to take a loan from a regular bank. But at the moment, even though many members experience an income increase many are still poor. This study indicates that SACCOS and VICOBA can help poor people to increase their income, to diversify their activities and be less dependent on agriculture as well as to meet basic consumption needs and pay school fees. Being a member of VICOBA or SACCOS can help to reduce poverty, but does not lead directly to poverty reduction and the need of more education and increased capital within the MFIs is highlighted by almost all the members. In agreement with Collins et al (2009) the DCCO in Babati states that "Microfinance is among the tools that can be used in poverty reduction, but we can not have only microfinance. Microfinance is a centre, but we also need schools, hospitals, various industries and so on"[16].

[16] Interview with DCCO 2012-02-29.

6. CONCLUDING DISCUSSION

In this chapter some of the results are discussed in a broader perspective, a few findings beyond the research questions are presented and some conclusions are drawn out of this study's findings. Lastly some suggestions for further research are presented.

There is no consensus about the overall impact of microfinance and whether or not it leads to poverty reduction, but among the members interviewed in this study the majority think that being a member of SACCOS and VICOBA has had positive impacts on their socio-economic situation, e.g. in income increase and being able to pay school fees, and the majority also believes that it can lead to poverty reduction. The results of this study indicate that these member-based MFIs can help people to increase their income, to diversify their activities which decrease the vulnerability, to smooth consumption and afford basic things, pay school fees, manage risk and work as a security in case of emergencies. However, this study also indicates, in accordance with some of the earlier research, that there is no guarantee that microfinance leads to poverty reduction and that microfinance alone does not lead to poverty reduction. There are several obstacles for these MFIs to work effectively and the findings of this study indicates that the biggest obstacles are low repayment status, lack of capital and lack of education in both entrepreneurship and how these MFIs work and operate. Additionally short repayment time and unproductive investments are among the obstacles mentioned. These obstacles can affect each other, for example lack of education might lead to unproductive investments and late repayments, which in turn create a low capital within the MFI.

The objective of this study has not been to investigate the outreach of microfinance, but to see what the members' perceptions are about impacts of SACCOS and VICOBA on their socio-economic situation. Still, it is an important and interesting question whether or not these member-based MFIs really reach the most marginalized and vulnerable poor. As presented in the theoretical framework some studies show that microfinance reaches the relatively poor but not the vulnerable poor and even though this is not the focus of this study some answers indicate that this could be the case. Especially for SACCOS this can be argued to be the case, which has higher membership costs than VICOBA and by some members presented to be difficult and too costly to join. When asking about the differences between the two member-based MFIs several informants answered that it is easier to join VICOBA and as presented some informants said that VICOBA contribute more to poverty reduction. This can be an indication that VICOBA has a better outreach to the poorest than the SACCOS.

Another interesting thing that according to the DCCO in Babati is sometimes a problem in VICOBA is dominance by people that are not considered as poor. The DCCO means that the real target for VICOBA is the poor and the problem is that sometimes people with already existing capital join VICOBA to save but they do not take loans. The poor members take loans and pay back with a monthly interest rate, often of 10%. At the end of the year when the group usually divides the interest rate according to how much savings you have this result in the people with a lot of savings getting more of the interest rate even if they did not take any loans and therefore did not pay any interest rate. In this way money goes from the very poor to the less poor. This was not presented by any of the members interviewed but something important that could be subject of future research. If this really appears to be the case in several of the groups then some changes in operation might be needed. Apart from a need to decrease the interest rate, the division should benefit the members that contributed to it the most. Some other suggestions about further research are presented below.

These MFIs, especially VICOBA, have short repayment times and can be argued to operate and affect the members mainly in a short-term perspective. For these rural member-based MFIs to lead to a sustainable development there might be a need to integrate a more long-term perspective. Recently there is a growing amount of research highlighting the need to link microfinance with environmental issues, natural resource management and sustainable development and the term “green microfinance” has developed (see for example Rouf 2012 and Anderson et al. 2002). Today, when the loans are still relatively small and the microfinance sector is still young, environmental effects might be limited, but when the sector and loans are growing the importance increases of integrating sustainable development. Expected increase of effects from climate change and for example more droughts and floods underline the importance of access to financial services for farmers. Microfinance can be needed and helpful in adapting the agriculture to climate change as well as to decrease their vulnerability by diversifying their income, e.g. by starting a small business. None of the MFIs in this study had any environmental policy or environmental conditions for loan usage and barely any training about the importance of the environment and natural resource management. A few members mentioned that they have had a little training about agriculture methods such as the importance of planting trees and building contours to avoid soil erosion.

Regarding future plans and development of these MFIs some VICOBA members mentioned plans of starting a central bank where they can keep the money. Since VICOBA is still young it will be interesting to see how these groups continue to develop and what will happen when they grow bigger. Many of the groups have already increased the cost for shares, i.e. the weekly savings, so there has already been some progress and development within these groups.

Whether microfinance is the best way to reduce poverty or not is not answered in this thesis, but it concludes that it can be one useful tool, though several things can be improved in many of the SACCOS and VICOBA subject of this thesis in order to work more effectively and contribute to poverty reduction to a larger extent. This study shows a general agreement among the members interviewed that even though it does not lead directly to poverty reduction these member-based MFIs are helpful and this might indicate, in accordance with some of the earlier research, that they are needed to help people not to become more and deeper stuck in poverty. Microfinance is not only positive or negative, for example it depends on how the MFIs are operating, on the knowledge among the members and how investments are made. This study indicates that microfinance is not the only way and can not alone lead to poverty reduction.

6.1 Suggestions for further research

This study is too small to express general conclusions and only indications about the general picture can be drawn. As presented the microfinance sector in Tanzania is still young and there are improvements needed for SACCOS and VICOBA to work effectively and lead to development and poverty reduction for members. Even globally there is a need for more comprehensive studies since there is still no consensus about the impacts of microfinance, not even within the well-studied areas about impact on poverty reduction and women empowerment. Therefore more research within both these areas is needed, but I think there is also a need for more research about the impacts in a long-term perspective and to increase a more holistic view within the field of microfinance, in accordance with the growing field of environmental impacts of microfinance and green microfinance.

There is also a need for more and bigger studies in Tanzania focusing on several different areas, but maybe most important are impact assessments to see how well the MFIs are working as well as to identify obstacles and improvements that are needed for more effective microfinance. More studies similar to the one using financial diaries, to see how poor people really use financial services, are also needed. Maybe the most important thing to study is not whether or not it leads to poverty reduction in general, but to actually study how poor people use financial services and how they should be designed to really be pro-poor and help people to improve their life situation.

Additionally more studies not only focusing on the microcredit or microloans are needed, like studying microfinance in a broader way as well as the importance and effects of savings and insurance. In Babati it would be interesting to assess the SACCOS and VICOBAs again in a few years to see if there have been any progress and development since a lot of things are happening and VICOBA is still young. Additionally, how to improve the legal framework for microfinance as well as if there is a need to include VICOBAs and how this could be done is another area that could be subject for further research.

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