IMPACT ANALYSIS OF CREDIT TO BORROWERS IN TANZANIA:
THE CASE OF MBEYA MUNICIPALITY

BY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT
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ABSTRACT

Micro-credit funding for income generating activities is one of the current anti-poverty measures that are adopted by many developing countries to alleviate poverty amongst the poor. The study was conducted in Mbeya Municipality to assess the overall impact of credit to borrowers. Both questionnaire and personal observation methods were used to collect data amongst borrowers in Mbeya Municipality. A total of 100 respondents were interviewed, and collected data were analyzed using Statistical Package for Social Sciences (SPSS) computer programme. The results show that, loans for income generating activities have overall positive effect on the borrowers. The performance among borrowers was analyzed by using the proper evaluation of the difference before and after changes resulting from the credit. The results indicate that the major sources of credit agencies are from PRIDE and NMB. 64% of the respondents generate income beyond the poverty line because borrowers have earned substantial amount of income. 70% of respondents’ have high and modern standard of houses assets, kitchen facilities, media and communication items and transportation facilities. Furthermore, 58% of respondents project the life span of their business to be more than 8 years. This implies that the performance of income generating activities was effective. Factors that contributed to this positive impact include suitable credit procedures and conditions of some of financial institutions that are flexible and affordable by the poor people at the grassroots. These features are reflected by the size of the loans taken, the type of projects for the targeted population and the modes of loan repayments. Basing on the on the finding of this study it is recommended that, in order to support the poor people at the grassroots level loans agencies should review their credit procedure so as to meet the demand of borrowers.
DECLARATION

I, CHIDI KIDIRU, do hereby declare to the Senate of Sokoine University of Agriculture that this dissertation is my own original work, and has not been nor concurrently being submitted for a higher degree in any other University.

___________________________                          __________________________
Chidi Kidiru                                           Date
(M.A Candidate)

The above declaration is confirmed

___________________________                          __________________________
Professor Senkondo E.M                                  Date
(Supervisor)
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<td>Micro Financial Institution</td>
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<td>WEO</td>
<td>Ward Executive Officer</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background information

Business credit has long been identified as a major input in the development of the business sector. According to Shepherd (1979), credit determines access to all resources on which businessmen depend. Consequently, provision of macroeconomic policies and enabling institutional institutions for business development have been directed to the provision of infrastructure capable of facilitating business development with a view to enhancing the contribution of the sector in the generation of employment and income (Olomola, 1997).

Over the last decade the performance of the business sector to the economy of Tanzania has shown a declining trend. One of the reasons for the decline in the contribution of the business sector to the economy has been lack of a formal national credit policy and rarity of credit institutions, which could assist business persons. Credit or loanable fund is viewed as more than just another resource such as labour, equipment and raw materials (Rahji, 2000).

Therefore, by injecting capital into business, it is possible to increase the rate of business development since credit has frequently been considered as one of the main factors in overcoming business stagnation (Olagunju, 2000). Koutsoyiannis, (1992) affirmed that credit facilities as well as the use of business capital and labour resources accelerate adoption process and expansion of the scale of income generation. With introduction of credit, the business individual would be able to make possible a better combination of resources that can be employed to facilitate an
increase in income generation. Therefore an increase in the income would lead to an improvement in the welfare of the business and consequently alleviation of poverty.

Given economic circumstances, it is suggested that the likely promising option to poor people at the grassroots is in micro-projects. Heyzer and Sen (1994) considered credit funding for self-employment as the proper entry point in income generation programmes designed to benefit the poor. They attribute that, in order to reach the poorest people effectively in urban and rural areas – more innovative approaches responsive to their situation are required. Most of the initiatives for poverty alleviation in Tanzania take various forms of interventions. Such interventions are mainly engaged in supporting specific Income Generating Activities (IGAs) (Matatifikasi and Mabele, 1999). To date the most comprehensive schemes for generating such forms of income are National Income Generation Programmes designed to strengthen Non Governmental Organizations (NGOs), National Strategy for Growth and Reduction of Poverty (NSGRP), Saving and Credit Cooperative Societies (SACCOS), the private sector, and individuals in the fight against poverty. Most studies on the problems of credit have indicated high interest rate and lack of education to the borrowers as the main causes of poor performance in credit system.

This study is based on impact analysis of credit users in Mbeya Municipality in Tanzania. Income generation refers to the abilities businessmen to put their resources into best use that will increase yield that will in turn boost returns. Hence the study examines the problems other than education and interest rate among the business persons and also evaluates the resource use efficiency between them.
1.2 Problem statement and justification

1.2.1 Problem statement

Several attempts have been made by financial institutions and other agencies aimed at alleviating poverty at grassroot level in Tanzania. The measures include favorable access to credit in order to increase income at grassroot level. For example, the period of active economic adjustment in the country saw a number of programmes that were launched to alleviate poverty amongst the poor individuals at the grassroots in the country. In Mbeya Municipality the anti-poverty measures are largely adopted by a number of credit institutions that furnished beneficiaries with credit loans – in terms of funds and tools, or some technical skills for starting or running income generating projects. Despite these enormous attempts by financial institutions and other agencies to alleviate the situation, poverty is still rampant and is even more persistent amongst the same beneficiaries at the grassroot level. Existing credit schemes in particular have not been successful in improving beneficiaries’ income on sustainable basis. Most of the IGAs feature income failure as a persistent core problem in loan repayments. Serious problems in the past were inaccessibility to credit, the land problem of using land as collateral and few financial institutions (Maghimbi, 2004). Other prevailing problems are those concerning with loan recipients. However, available literatures do not fully address the problems on poor performance of credit schemes failing to bring positive impact on the welfare to people at grassroot level in Tanzania. The purpose of this study therefore is to assess the performance of credit schemes with main focus on the causes leading to income failure and to recommend better ways that could be adopted to overcome existing problems to income generating activities by borrowers.
1.2.2 Justification of the study

A number of authors have cited various causes for poor performance of projects dealing with for poverty alleviation operated by loan recipients. But most of the claimed reasons do not amount to common consensus for all recipients who access credit from different credit institutions. For example, some of them indicated high interest rate of credit as the main obstacle. This is subject to criticism since high interest rates for credit or capital is not a single factor hindering profitability to loan beneficiaries.

Others attribute to the idea that some of credit schemes are designed like social welfare programmes, and therefore perpetuate a irresponsible attitude in their financial management (Dondo, 1997). Many authors share the view that lack of education and expertise on how to run economic ventures contribute to failures.

This study seeks to establish the involved casual factor(s) contributing to both failure and poor performance of some borrowers’ projects as part of IGAs. Primarily, it is focused on the following key points: it is useful for researchers and donors for similar credit in the country to assist Mbeya Municipal to offer another form of solution to problem existing elsewhere. For example, donors and policy makers may be convinced to review overall credit design in assigning future credit scheme. The findings will also generate useful information for the borrowers to realize their business performance and potential contribution to the national economy. These will help to provide useful information for the improvement of business.
1.3 **Objectives of the study**

1.3.1 **General objective**

The general objective for this study is to assess the overall impact of credit to borrowers from various income generating activities.

1.3.2 **Specific objectives**

(i) To identify the existing sources of credit in the study area.

(ii) To assess the impact of credit on income generating activities.

(iii) To identify causes leading to income failure amongst borrower operating income generating activities in study area.

(iv) To recommend better ways that can be used to overcome existing problems facing borrowers in study area.

1.4 **Research questions**

(i) What are the sources/source of credit in the study area?

(ii) What is the performance of credit on income generating activities?

(iii) What are the causes leading to income failure (if any) amongst borrower operating income generating activities in study area?

(iv) What are alternative ways that can be used to overcome existing income generating problems facing borrowers in study area?
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Overview

Literally, credit means money lent with an interest for profit. Seibel (2002) define credit as a transaction between two parties in which one party supplies money, good, service or securities in return for promised future payment. Such transaction normally includes payment of interest to the lender. According to Berthold (1996), interest rate on money that has been borrowed will be paid as some sort of rent use or price of borrowing moneys. The credit impact under NGO perspective is generally perceived as a supply of money input by donor institution to the project executing agencies or NGO. Then the latter may pass some of it to the target group in the form of loans, enabling them to finance development activities over a set of time and repay the loan with interest. Usually the lender must judge each loan he/she makes on the basis of character of the borrower, capacity to repay and collateral.

Montgomery et al. (2001) pointed out that credit as development strategy has gained particular prominence in Bangladesh because of long-running concern with difficulties of providing formal finance to people, and dominance of informal credit markets. They conclude by pointing out that micro credit finance for the poor in Bangladesh is strategy strongly supported by both donors and the government. The Grameen Bank in particular, has provided inputs to the spread of aid-financed micro credit schemes across the developing world.
2.1.1 Change in livelihood

According to Morduch (1998), the household survey in India sought information about longer-term changes in livelihood. All heads of households were asked about their perception of change in their livelihood during the previous seven years. The interviewer was trained not to mention the issue of programme participation when asking these questions so as to minimize respondent bias as much as possible. The responses of the participating households, 50 percent reported a positive change in their livelihood, while 44 percent perceived a negative change. The corresponding figures for eligible no participants and participants in contrast, are 39 and 56 percent respective. The observed differences between participants and eligible no participants are statistically significant, suggesting that participation in the group-based financial institution improved the livelihood of the members compared with non-members. It is interesting to see that no participants owning more than 0.5 acres of land reported negative change more frequently than did participating households (49 percent compared with 43 percent for participants).

The general question about the change in livelihood was followed by detailed questions on various aspects of livelihood; the total households reporting positive change, about 90 percent of participating and 85 percent of non-participating households reported improvements in their food consumption in terms of quantity as well as quality. Very stark and statistically significant differences are found for positive changes related to the health status of family members (52 percent for participants against 34 percent for eligible no participants) and even more so for the education of children (50 percent against 26 percent). These qualitative results are consistent with other impact studies in India (Morduch, 1998).
2.1.2 Importance of education to borrowers

In reviewing the importance of education to the development of borrowers in rural and urban Tanzania, Malua (1998) while researching on enterprises revealed that most of borrowers lack access to education, consultancy and vocational training, and consequently their business choice are severely limited. Malua argued that societal and cultural values exclude other borrowers from waged labour and relate them to certain limited activities within the medium-scale enterprises sector, and further exclude them from certain production and processing methods.

Education is increasingly important, and not just for investors. It is becoming essential for the average family trying to decide how to balance their budget, fund the children’s education and ensure an income when the parents retire. In case of borrowers, they will not be able to choose the right investments for them, and may be at risk of undertaking the businesses which are not generate income as a result fail to return the capital from bank, if they are not literate. But if borrowers become educated, they will be more likely to invest in good business and to challenge financial service providers to develop products that truly respond to their needs, and that should have positive effects on both investment levels and economic growth (Kuzilwa, 1997).

According to Hisrich and Brush (1999), who conducted a research among entrepreneurs in North America. It was revealed that the existence of a pattern of managerial behaviors that deviates in many ways, from what is commonly observed elsewhere. This specific pattern implies the adoption of a different approach to
managerial functions as planning, decision making, organizing, directing and controlling. Many entrepreneurs were found, for example to limit their planning horizon to other activities rather than the generating income activities. This was also found to impose visible limits on the growth objectives.

2.2 Constraints facing borrowers

2.2.1 Moral hazard to borrowers

Karlan (2003) did a research in moral hazards on high interest rate repayment between two borrowers in South Africa to know the difference of credit repayment between two borrowers of the same interest rate. Started by the question which said borrowers default more at higher interest rates because high rates create a repayment burden that makes it difficult to make their payments (moral hazard), or because only riskier clients are willing to borrow at high rates (adverse selection)? Disentangled these effects by offering some clients a surprise lower rate only after they had accepted the offer at the higher rate. Then compared the repayment rates of two individuals who have identical contracts, but one agreed to borrow at a high rate and the other at a low rate.

The difference in repayment between these two individuals was not due to selection, since both "selected" at the same interest rate. A moral hazard component of the repayment burden identified by giving some randomly selected clients an extra incentive to repay - offering them a lower interest rate for all loans for a year, so long as they remained in good standing. To the extent repayment increased based on this incentive was determined that, default was within clients' control and not based on unwieldy monthly payments.
2.3 Barriers to credit access

Barriers to credit access are many. These are often classified into two broad groups. The first comprises interest related factors - entailing the overall cost of credit - and the second, non-interest related factors - comprising, notably, government reserve requirements. Information as a barrier is a component of the first category. Information costs generally add onto the overall cost of credit or loan. It comes under the generic term of transaction costs (Kavanamur, 2000).

Kavanamur (op. cit) defined transaction costs as those costs other than price which are incurred in trading goods and services. Kavanamur (op. cit) further enlightens on the essence and significance of transaction costs. Transaction costs are admission tickets to financial markets; they govern access to financial services. They must be paid by all parties: depositors, borrowers, intermediaries, guarantors, insurers and others offering or using financial relationships. They include information gathering, security arrangements to protect cash, documents and other data, recording systems for transaction processing, and queuing and decision-making.

For both the borrower and the lender, the transaction cost has two components: the explicit costs (fees charged for application forms, telephone costs, fees charged for information about a credit facility, transport costs for additional trips to the lending institution, fees for documentation and valuation of assets often to the bank, cost of professional services and quote; gifts quote; to bank officials, and so on) and the opportunity costs (lost income incurred while in pursuit of a loan). Transaction costs, in fact, form a major component of the overall cost of credit and, as a result, financial relationships between small firm borrowers and lenders are contingent upon them.
The ability of borrowers to provide adequate financial statements and the establishment of credible credit bureaus and financial data bases are essential to encourage the expansion of credit, promote competition in the banking systems, and thereby reduce the cost of credit to borrowers. In many countries, banks are reluctant to extend credit to small and medium enterprises (SME) because of the inability of the borrower to produce formal financial statements and audited accounts. Strengthening accounting and auditing is therefore a key requirement for widening access to banks by SMEs. In many countries, however, the accounting profession is not well regulated, and the qualities of accounts vary widely, hampering transparency. Acknowledging the importance to improve the quality of accounting, initiatives are under way in many countries. Thus, in the member countries of the Western African Economic and Monetary Union (WAEMU), a uniform accounting system was adopted in 2001 (Système Comptable Ouest Africain-SYSCOA), which should contribute to strengthen the overall accounting standards in the region. In Tanzania, the regulation of company accounting and auditing practices was modernized through the 2002 Company Act. Improvements in accounting standards have been introduced in Uganda and Zambia. Despite these improvements, reliable information on borrowers remains often elusive, and is not shared among lenders (Emilio, 2005).

The case of collaterals to be pledged, this was seen as the most crucial problem. Carter and Walter (2004) reported that most commercial banks are risk sensitive when it comes to lending. Most people in developing countries are using land as collateral for obtaining credit. In case of the land ownership in Tanzania’s rural areas, land is not formalized for credit access to majority of rural people. The rural farmers
have no title deeds for their farms hence becoming unbankable. Land Act NO 5 (1999) and its regulation 2001 represent a new experience for Tanzania and there is limited international experience to draw upon. To date in Mbozi District the boundaries of all 175 villages have been surveyed and 158 have been issued with certificate of village land (CVL). So far this extended to Iringa 40 villages, Handeni 6 villages; Ngorongoro 1 villages have been issued with CVL. It also reported that in some parts of Dar-es-salaam, SACCOs providing credit to their member using residential licences, but the valuation of the pledged collateral requires it to be marketable, a characteristic that is lacking in most rural lands. The farms that are expected to be put as collateral are underdeveloped and there no fixed assets within the farms (Mressa, F. personal communication, 2006).

According to Rweyemamu et al. (2003) a few borrowers (farmers) who acknowledged non-repayment of loans presented several reasons that led them not to pay. The major reason given in Mbozi was poor yields (56%) while in Ukerewe it was low produce prices (58%). The survey results also show that 51% and 39% of the respondents in Mbozi failed to repay their loans because of low produce prices and untimely acquisition of loans respectively, while in Ukerewe, 48% and 35% failed to repay because of poor yields and untimely acquisition respectively.

Transportation expenses tend to be high due to the fact that many borrowers are located at long distances from the loan offices. When the opportunity cost of labour
in-terms of the work time lost is considered in the total borrower transaction cost computations, the loans tend to be very expensive to the borrowers as the total transaction costs amount to a substantial part of the loan received. This also poses a challenge to the providers of financial services as they find themselves spending considerable time visiting areas that are sometimes remotely located (Emilio, 2005).

Governments and donors subsidized credit programmes in order to keep interest rates low, which explains the term "soft loans" and "cheap credit". It was believed that commercial interest rates would be too high for the poor customers to repay. Hence, cheap credit would result in better repayment rates. Cheap credit also became a strategic tool of many governments to satisfy the customers and create loyal "clients". However, it became clear that loan recovery was very poor, because customers perceived credit as a free gift, and loans of the wrong size were provided at the wrong moment to the wrong customers. Hence cheap credit undermined development rather than enhancing it (Hanna, 2002).

Adams and Von Pischke (2002) pointed out that, "Debt is not an effective tool for helping most poor people enhance their economic condition". The experience with credit for small farmers, handled by formal financial institutions, proved to be in direct contradiction to the economists’ argument that financial intermediation by banks ensures a better reallocation of resources in the economy.

Health factors constraining productivity, frequent health problems within the person of developing countries and poor primary health care services, negatively affect person’s health and energy, and therefore their ability to run a business or perform
income generating activities (Kisyombe, 1996).

Lack of capital is related to personal access to credit facilities and compels person to start economic project with very meager funds (Akoro, 1994). Most persons depend on their own saving which necessitates longer period before one accumulates enough capital to start business or one forced to start business with low capital. Besides the above mentioned constraints, person also lack technical know how. Often assistance to personal project is not accompanied with technical assistance package (Tovo, 1991). There is lack of monitoring and evaluation of person’s economic endeavors by the government or non-governmental organizations once started, person’s projects are left to operate on their own without guidance. Person’s groups are not guided and supported about ways to improve their activities and on how to evaluate their projects in relation to their objectives.

Limited Access to Information and to Markets, limited mobility because of household duties, and health issues gives limited access to information and markets (Kisyombe, 1996). Furthermore, major information channels including technical and market advice, agricultural extension, cooperatives, small scale enterprises organizations are mostly less accessible to techniques for improving their productivity.
CHAPTER THREE

3.0 METHODOLOGY

3.1 Description of study area

3.1.1 Location

The study was conducted in Mbeya Municipality in Mbeya Region which is located in the Southern Highlands of Tanzania. The region lies between Latitudes $7^\circ$ and $9^\circ$ 31' south of the Equator and between longitudes $32^\circ$ and $35^\circ$ East of Greenwich. Mbeya Region has an altitude of 475 meters above sea level with high peaks of 2981 meters above sea level in Rungwe District (United Republic of Tanzania, 2003). Mbeya borders with Zambia and Malawi to the immediate south and Rukwa region to the west. It borders Tabora and Singida regions to the North and Iringa region to the East. Administratively the region has eight districts namely Chunya, Ileje, Kyela, Mbeya Rural, Mbarali, Mbozi, Rungwe and Mbeya Urban. The study area was selected because there is little information on contribution of Credit to poverty reduction in the region.
3.1.2 Demography

According to 2002 census, the regions population size was 2,070,046 people equal to 6% of the total population of Tanzania which was 34,671,453 people. Population growth rate is estimated to be 2.4% (URT, 2002). There were 206,615 people in Chunya, 110,194 people in Ileje, 174,470 people in Kyela, 254,897 people in Mbeya Rural, 234,908 people in Mbarali, 515,270 people in Mbozi, 307,270 people in Rungwe and 266,422 people in Mbeya Urban (URT, 2003).

Figure 1: Study area location in Tanzania
3.1.3 Regional economy

The economy of the Region has no exception. Like other regions in Tanzania, more than 90% of its population depends on agriculture for their livelihood which contributes 40% of the regions GDP. Livestock keeping and fishing are also undertaken. Other economic activities include mining and small and medium industries. Other important sectors for the regional economy are forestry and wildlife. The Region recorded gross domestic product of Tshs 366,241 in 2005 (URT, 2003).

3.2 Research design

This study used a cross-sectional research design. The reason for choosing this design is that, it is easier and economical to conduct especially where resource constraints like time and money dictate results.

3.3 Sampling procedures

3.3.1 Sampling unit

The target population for the study involved grassroots person who operate IGAs through loans obtained from various credit institutions. From the list of the sample frame (who are the sampling unit) - kept by the credit agencies random number was assigned to select the required number of beneficiaries for the interview.

3.3.2 Sample size

According to Boyd et al. (1981) a random sample should at least constitute 5% of the total population to be representative of the population. The sample size was 100 respondents which is equal to 5.5% of the population. This study is also consistent
with Bailey (1994) who argued that regardless of the population size, a sample or sub
sample of 30 is the bare minimum for studies in which statistical data analysis is to
be drawn.

3.3.3 Sampling methods

Two sampling methods were used to get the required sample size. These include
purposive sampling and simple random sampling (SRS) methods. Purposive
sampling was used to consult the appropriate credit officials from various financial
institutions while Simple random sampling method was used to obtain
beneficiaries/borrowers from the sampled area assisted by borrowers’ registers of
particular financial institutions. This technique adopted because it is appropriate
approach when the sample elements are to fulfill a certain criterion or posses certain
characteristics under the study (Mbilinyi, 1992). The method is also based on the
argument advanced by Krathwohl (1993). The author maintains that such sampling
when done properly is sharp test of finding because it sees individual whose actions
might contradict the conclusions, and that in so doing, it strengthens the logic of the
used method in the sampling.

3.4 Data collection procedures

Both primary and secondary data were collected. To collect primary data, structured
and unstructured questionnaires were administered to respondents who borrowed
from financial institutions.
3.4.1 Primary data
As pointed out in section 3.4 structured questionnaire was the main tool/instrument that was employed in primary data collection. The questionnaire was designed and pre-tested to the target group for data collection. Pre-testing of instrument for formal survey was done where 15 borrowers were randomly selected from two wards. These borrowers were not included in the actual study survey. The aim of conducting pre-test was to check for any vagueness and inconsistence in the wording of items to ensure meaningfulness, comprehensiveness and clarity. Furthermore, the exercise was useful in discovering reactions of respondents towards some sensitive questions and making some corrections that the instrument could be effective and efficient in data collection.

3.4.2 Secondary data
Secondary data were obtained by consulting different publications relevant to the study area, libraries and the internet.

3.5 Data processing and analysis
3.5.1 Data processing
Data collected from the primary sources were cleaned, entered and coded in Statistical Package for Social Sciences (SPSS) 11.5 version.

3.5.2 Data analysis
By using SPSS computer programme, frequencies, percentages, means of different variables were described. David and Meyer (1990) argued that a proper evaluation requires the estimate of the differential of “before and after” changes for credit
recipients versus comparable non recipients. However, Von Pischke and Adams (1990) declared that this measure surmounts the empirical obstacle of “Fungibility” to obtain a well-defined estimate of “additionally” due to credit scheme. But, for the reasons of cost, convenience and lack of comparable control group, many evaluations will rely on “before-and-after” information-with “before” based on “recall”. (Rao, 1980). The above stated reasons are the factors that led to adopting “before-and-after” methodology for the data analysis. The t statistical test, X² – statistics, Cross tabulations were used.

3.6 Variables and conceptual framework

3.6.1 Variables

Variables studied included education, occupation, age, credit, environment, training, cash flow/project record, infrastructures, interest rate, investment/income generating activities and income. (Appendix 1)
3.6.2 Conceptual framework

Impact analysis of credit to borrower a conceptual framework

<table>
<thead>
<tr>
<th>CONCEPTUAL FRAME WORK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

3.7. Limitations of the study

Much of primary information for the study was collected through interview. Error resulting from respondents is one of the limiting factors relying on the respondents to recall household income statements (household income and expenditure) and saving thus it was difficult to obtain the exact quality of data. However the strength and weakness of data were balanced by conducting focus group discussion. Therefore researcher believes that the findings presented in Chapter Four provide a true picture and recommendations made thereafter important to policy makers, planners, managers and relevant stakeholders in financial sector progress.
CHAPTER FOUR

4.0 RESULTS AND DISCUSSION

4.1 Social-economic characteristics of the respondents

The general social-economic characteristics of the respondents help to provide the surveyed sample’s profile and hence, serves as a prelude to analysis in subsequent sections. The profile helps understand of sex, occupation, marital status and age structure of the respondents surveyed. It also provides information on education level of respondents and income generating activities.

Table 1: Social-economic characteristic of the respondents (N=100)

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Borrowers</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Sex of respondent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>84</td>
<td>84</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>16</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Number of years in school</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-4</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>5-8</td>
<td>55</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>9-12</td>
<td>30</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>&gt;12</td>
<td>13</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Occupation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal employed</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Farming/livestock keepers</td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>74</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>
### Marital status

<table>
<thead>
<tr>
<th></th>
<th>3</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Married</td>
<td>84</td>
<td>84</td>
</tr>
<tr>
<td>Widowed</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Divorced</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

### Age of respondents

<table>
<thead>
<tr>
<th></th>
<th>20</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-33</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>34-49</td>
<td>59</td>
<td>59</td>
</tr>
<tr>
<td>50-65</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>66-81</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

#### 4.1.1 Sex of respondent

Male predominantly dominate the population under study. There was also Female composition in the business area but men dominated by 84% of the population (Table 4.1). The situation explaining this is because in many Tanzanian societies, men are considered breadwinners while women are considered guardians of children at home and cook for their husbands (Rono, 1998). However, the situation in Tanzania indicates that with increase in economic hardships and the surge of privatization, many women have formulated several productive endeavors mostly in form of small and medium scale enterprises. The gender characteristic of the population under study is tabulated in Table 4.1.

#### 4.1.2 Respondents’ Educational Level

Data that was obtained in the surveyed area show that all people who were interviewed had the formal education. Out of 100 respondents, 55% had primary education and 30% of respondents had secondary education (Table 4.1). Education status of the business people is an important factor in adoption of improved various techniques in generating more income but secondary education stimulates entrepreneurial capacity whilst primary education enhances work force

![Diagram of policies and financial institution]

POLICIES
- National Micro finance Policy
- National Trade Policy

Financial Institution
- Environment
- Training
- Cash flow/project record
- Infrastructures
- Interest rate

Credit
- Investment/Income
- Generating activities
- Age
- Occupation
- Education

Income
- Generating activities
- Age
- Occupation
- Education

POLICIES
- National Micro finance Policy
- National Trade Policy

Financial Institution
- Environment
- Training
- Cash flow/project record
- Infrastructures
- Interest rate

Credit
- Investment/Income
- Generating activities
- Age
- Occupation
- Education

Income
- Generating activities
- Age
- Occupation
- Education
productivity (Gordon, 2000).

4.1.3 Marital status

It can be seen from the Table 4.1 about 84% of the respondents were married, 12% of the respondents are widowed. This shows that the society is stable; a stable family can concentrate more on production and marketing decision is well managed within the household than an unstable one. Moreover, since majority of respondents were married, the primary responsibility of women in the household is childcare; this limits the involvement of women in other activities.

4.1.4 Age structure

Table 4.1 reveals that, 59% of respondents had an age 34 – 49 years. Age affects experience, wealth and decision making all of which affect how one works and hence influence individual productivity (Singh et al. 2003; Hoppe, 2002). For example, Hoppe (2002) state that business person can continue to do business often at a reduced scale (i.e. according to nature of business) after reaching the age at which movement of finding inputs become difficult. Other observations made by Singh et al. (2003) suggest that younger business persons (i.e. age group 31-35 years) earned higher profits by adopting more techniques especially moving long distance to find inputs to their business. Therefore it was worth investigating the age structure of business persons in the study area and its influence in this study.

4.1.5 Occupation

The present study looked into income source at the household level in order to find
out the current occupation of the respondents. It can be seen from the Table 4.1, 74% of respondent earned income though operating business, 15% through formal employment. This implies that majority of population in study area operate IGAs to the needs of their family.

4.2 Credit agency for the loan

Table 4.2 presents a list of studied financial institutions with respective number of respondents that reported to have received credit from the loan agencies. The table shows that the major sources of credit are PRIDE and NMB where 40% and 35% of respondents respectively received loans.

<table>
<thead>
<tr>
<th>Loan agency</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIDE</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>NMB</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>FINCA</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>CRDB</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>SIDO</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Apart from choices for the loan agencies, the study revealed that the distribution structure of respondents was largely based on the nature of credit conditions. Some of the conditions have had incentives to attract many recipients while others were limiting them from accessing loans. For example PRIDE Clients are advised to form groups of five with other members who are not closely related such that: they have no blood relationship; they don’t live in the same house; they do not have “Landlord and tenant” relationship. Groups of five are formed on basis of acquaintance, love
and trust, free from interference by credit officers, the group has a function of providing joint liability for members within the group, and to advice the operations of member projects. Other functions include monitoring loan use and loan repayment by group members and to advise or expel members in case of misconduct. Six to eight groups of five forms a federation of groups called a Centre. A centre has the following functions; providing security to each group of five, advising and guiding the conduct of each “group of five”, and supervising the operations of the groups in terms of projects performance and loan repayment. The centres conduct meetings for all members once every week. The agenda for the meetings includes: attendance, loan repayment and savings, and discussions on performance of projects undertaken by members.

Credit conditions therefore, were the main source of motivation to secure loan from various financial institutions. Credit policies and conditions reflect different profiles of credit models. They include credit amount, repayment periods, interest rates, and conditions/terms of repayment.

4.3 **Reason for looking credit**

The survey result shows that 90% of the respondents need credit in order to expand their business; whereby 6% of respondents were searching for initial capital to boost their business.

<table>
<thead>
<tr>
<th>Reasons made respondents to look for a credit</th>
<th>Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>To expand the business</td>
<td>90</td>
</tr>
<tr>
<td>To get initial capital</td>
<td>6</td>
</tr>
</tbody>
</table>
Because lenders were there 3 3
Because other were borrowing 1 1
Total 100 100

This implies that, the respondents who received loans to expand their business have chance of making profit and improve social life than ones who are starting business. Not only that, banks are also interested by giving loans to borrowers who expand there business because the risk of management is low.

4.4 Types of income generating activities

The study found out the type of IGAs taken, about 70% of the respondent use loan for retail/whole sale business, 17 % of respondent were operating food vending commonly known as “mama lishe”. This implies that majority of the respondents used credit in investing in retail/whole sale and food vending businesses as the means of getting profit because most of the customers are from different districts that purchase goods for further business. Thus, more capacity building training on business management and entrepreneurship skills is highly needed to enable borrowers to do business in a profitable way.

Table 4: Types of IGAs (N = 100)

<table>
<thead>
<tr>
<th>Income generating activities (IGAS) done using credit</th>
<th>Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Retail/whole sale business</td>
<td>70</td>
</tr>
<tr>
<td>Second handed clothes (mitumba)</td>
<td>7</td>
</tr>
<tr>
<td>Shoes selling</td>
<td>2</td>
</tr>
</tbody>
</table>
4.5 Credit performance on income

4.5.1 Monthly income before, after and differences

Table 4.5.1 shows the distribution of respondents by various categories of income before receiving loans for IGAs. The Table shows that, 79% of respondents had an average monthly income between 100,000 – 500,000 before received loans. Also, the Table reveals that after receiving loans 59% of respondents had an average monthly income between 100,000 – 500,000. The difference of income before and after shows that 83% of respondents have an income between 100,000 – 500,000.

Table 5: Borrowers monthly income before, after and differences (N=100)

<table>
<thead>
<tr>
<th>Incomes</th>
<th>Income before loan</th>
<th>Borrowers</th>
<th>Differences of income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
<td>Frequency</td>
</tr>
<tr>
<td>100000-</td>
<td>79</td>
<td>79</td>
<td>59</td>
</tr>
<tr>
<td>&gt;500 000</td>
<td>21</td>
<td>21</td>
<td>41</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The performance of IGAs involved the process of finding whether the project generate the enough for monthly income for survival. Credit was considered to have positive effect on income of respondents. This is shown by respondents who have 79% of income between 100,000 – 500,000 before loan credit decrease to 59% after
credit. However, the difference of income between “After” and “Before” was 83%. Not only that, those who have an average of income of 500 000 and above were 21% before loan but increased to 41% after borrowing credit. Therefore credit was considered to have positive effect on income if this amount would be greater than the previous income of the respondents.

### 4.5.2 Income generated for the past one year

Generally, the respondents in the study area had varied levels of generating income in the past one year since they received loans. The study revealed that 64% of the respondents have generated more than Tsh 1 300 001, 21% respondents generate amount between Tsh 100 000 – 500 000. The criterion for assessing better performance involved the process of finding out whether the project was generating income which was enough for monthly survival. The majority of respondents reported to generate income beyond the poverty line as shown by majority of borrowers who have earned substantial amount of income.

#### Table 6: Income generated for the past one year since received credit loan (N=100)

<table>
<thead>
<tr>
<th>Income</th>
<th>Borrowers</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000-500,000</td>
<td>21</td>
<td>21.0</td>
<td></td>
</tr>
<tr>
<td>500,001-900,001</td>
<td>6</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>900,001-1,300,001</td>
<td>9</td>
<td>9.0</td>
<td></td>
</tr>
<tr>
<td>&gt;1,300,001</td>
<td>64</td>
<td>64.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

### 4.5.3 Assets acquired through business income

The study revealed that, 40% of respondents had bought house assets (i.e. tables,
chairs, sofa sets, wardrobes, watches and beds), 30% of respondents acquired kitchen facilities like charcoal, cooker, electric cooker and refrigerator. Respondents reported to possess good furniture; the same applies to those having wardrobes. They seem to have more spending on high standard furniture. For high valued assets to have impact on borrowers’ quality of life, several factors ought to be in place. Ponte (2002), suggested that it depends on the trade-offs between material goods owned, better housing and other aspects of livelihoods. Thus apart from credit use, presence of other factors such as market arrangements and infrastructure might actually facilitate better livelihoods. The results on value of total household assets suggest that *ceteris paribus* use of credit might influence possession of high valued assets for different livelihood strategies.

Table 7: The assets acquired according to the business income (N = 100)

<table>
<thead>
<tr>
<th>Categories of assets</th>
<th>Borrowers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Houses assets</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Kitchen facilities</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Communication items</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Transportation facilities</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Farm implements</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.6 Future plans about business

Table 4.6 shows various responses on future plans about business after loan repayment. About 42% of respondents planned to have future business. The implication of this is that respondents will open the new IGAs successfully without asking for more credit loan. 51% of respondent planned to expand their business in order to generate more income because there are opportunities of high market growth and market share.
Table 8: Respondent’s future plans about business (N=100)

<table>
<thead>
<tr>
<th>Response</th>
<th>Borrowers</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td></td>
</tr>
<tr>
<td>Expansion</td>
<td>51</td>
<td>51.0</td>
</tr>
<tr>
<td>Plan to open new business</td>
<td>42</td>
<td>42.0</td>
</tr>
<tr>
<td>More loan</td>
<td>3</td>
<td>3.0</td>
</tr>
<tr>
<td>Close down the business</td>
<td>2</td>
<td>2.0</td>
</tr>
<tr>
<td>Maintain income</td>
<td>2</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

### 4.7 Estimated project life span after loan repayment

Table 4.7 shows that 58% of respondents revealed that projects will survive for more than eight years after they have repaid their loans. 13% of respondents show the expected lifetime of project to be 1 – 2 years.

Table 9: Project life span after loan repayment (N=100)

<table>
<thead>
<tr>
<th>Estimated response</th>
<th>Borrowers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td></td>
</tr>
<tr>
<td>1&lt;years</td>
<td>11</td>
<td>11.0</td>
</tr>
<tr>
<td>1 – 2 years</td>
<td>13</td>
<td>13.0</td>
</tr>
<tr>
<td>2 – 5 years</td>
<td>12</td>
<td>12.0</td>
</tr>
<tr>
<td>5 – 8 years</td>
<td>6</td>
<td>6.0</td>
</tr>
<tr>
<td>&gt;8 years</td>
<td>58</td>
<td>58.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Generally, most of the respondents show that, the project life span will be more than five years. This implies that the credit contributed a lot whereby respondents can run their businesses without depending on more loans after the initial credit. Apart from types of projects undertaken, most of respondents considered the length of project lifetime after loan repayment as determining factor for reasonable savings.
4.8 Other investment after starting the business

About 57% of respondents reported to have no profits that would enable them to start other new IGAs apart from the ongoing ones, because they want to expand the existing rather than investing into new ventures because the ongoing businesses have better market growth and market share.

Table 10: New investment after starting the business (N=100)

<table>
<thead>
<tr>
<th>Response</th>
<th>Borrowers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td></td>
</tr>
<tr>
<td>Open new investment</td>
<td>43</td>
<td>43.0</td>
</tr>
<tr>
<td>Current investment</td>
<td>57</td>
<td>57.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.9 Other sources of income

Table 4.9 shows the percentages for respondents “with” and “without” other sources of income at the time of the study, 65% of respondents have other source of income while 34% of respondents have no other sources. Those reported to have other sources of income were either Government employees or from husbands. Before the loans, other employees had one of the IGAs, namely: food vending, retail shop, and grains shop. Therefore the received loan was used to impact on some potential growth into these IGAs. The operating of these projects were not the same to respondents who reported to have no other sources.

Table 11: Other source/investment that may be giving more income (N=100)

<table>
<thead>
<tr>
<th>Response</th>
<th>Borrowers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td></td>
</tr>
<tr>
<td>Other source (investment)</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Existing source</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
Generally, the need for other sources of income is very important in order to fulfill the needs most of family who claim that the cost of living is high. However, IGAs started before credit loans, had accessibility of capital.

4.10 Causes leading to income failure in operating IGAs

4.10.1 Loan offered and collateral

The survey results show that, the major collaterals items in the sampled area is house and land/farm plots that is 53% and 20% respectively.

<table>
<thead>
<tr>
<th>Name of Collaterals</th>
<th>Borrowers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent</td>
</tr>
<tr>
<td>House</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Land/farm plots</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Others (money, groups etc)</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>House furniture</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Car</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

The implication of these percentages is that, for any applicant who did not have land/farm plots, house, house furniture and car- it was easier for them to secure loan through group solidarity. For example PRIDE allows group for the loan security, provided the customer met all security requirements. However majority of the borrowers can offer/surrender their houses at risk as major assets to acquire loans.
with confidence that they will pay back the loans taken.

4.10.2 Terms for securing loans

The study reveals that, out of 100 respondents, 79% of the borrowers agreed that there are no bureaucratic procedures and conditions to abide before receiving loans. However, 21% revealed that the conditions restrict them in receiving loans especially at NMB. This concludes that the conditions and procedures for receiving loan are not bottleneck factors to acquire loans.

Table 13: Terms for securing loans (N=100)

<table>
<thead>
<tr>
<th>Terms/conditions of getting loans</th>
<th>Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>There are terms/conditions</td>
<td>21</td>
</tr>
<tr>
<td>No terms/conditions</td>
<td>79</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

4.10.3 Amount of loan requested and approved

About 43% of the respondents requested loan ranged from 50 000-500 000 had received the amount requested; while 26% requested the amount above 950 001 but failed to get the exact amount.

Table 14: Amount of loan requested and approved (N=100)

<table>
<thead>
<tr>
<th>Amount of loan requested</th>
<th>Those received</th>
<th>Those did not received</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>amount</td>
<td>the amount</td>
</tr>
<tr>
<td>Frequency</td>
<td>Percent</td>
<td>Frequency</td>
</tr>
<tr>
<td>50 000 - 500 000</td>
<td>43</td>
<td>8</td>
</tr>
<tr>
<td>500 001 - 950 001</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>&gt;950 001</td>
<td>21</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>64</td>
<td>36</td>
</tr>
</tbody>
</table>
This implies that credit requested will only be approved if the client had fulfilled the incentive to repay. For example PRIDE Tanzania uses many ways for ensuring high loan repayment rates. These include the following: Close loan monitoring and supervision. Credit officers ensure that no group is allowed to leave the meeting centre if one of its members has failed to repay the required instalment. Default is declared after two delinquency instalments. Then, processes for loan collection begins by deducting the remaining loan amount from the defaulter’s savings. Peer pressure is also applied to enhance better repayments. Group members are obliged to repay for the defaulter either through on the spot contributions or through group savings. These inconveniences invite group members to execute immediate remedial measures against the defaulting member. The effect of all this amounts to a negligible amount of defaults. PRIDE offers progressively large loans upon good repayment behaviour.

4.10.4 Loan Sufficient for the business

Table 4.10.4 shows that 73% of respondents revealed that the loan obtained was not sufficient to meet business needs, the reasons might be due to procedures and rules of the MFI also the capital requested was higher than the available money to disburse. This can be solved once the borrowers find another source of getting income from friends, husbands and building good image from particular MFI for progressively large loans.
Table 15: Amount of loan requested and approved (N=100)

<table>
<thead>
<tr>
<th>Loan obtained sufficient to meet business needs</th>
<th>Borrowers</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sufficient</td>
<td>27</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>Not sufficient</td>
<td>73</td>
<td>73</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

4.10.5 Cost incurred in obtaining credit

Results in Figure 1 show that, 60% of the respondent indicated that there were costs one should incur in order to obtain loans. Kavanamur (2000) defined transaction costs as those costs other than price which are incurred in trading goods and services.

Figure 2: Cost incurred in obtaining credit (N=100)
However, Table 4.10.5 shows the costs incurred and amount in obtaining credit as component of the cost of credit. Majority (43%) of respondents incurred costs in obtaining applications forms the cost ranged from Tsh 500 – 1 000, this make a quarter (15%) of respondents and 39% of respondent incurred cost to sign contract from Ward Executive Officer (WEO) the cost ranged from Tsh 1 001 - 1 500 this is about 19% of respondent. The remaining percentage (18%) incurred transportation cost, which can cost up to Tsh 1 500 or more; this is more than a half (66%) of respondent.

Table 16: Type of cost incurred in obtaining credit

<table>
<thead>
<tr>
<th>Type of cost</th>
<th>Amount of cost incurred to obtain credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>500 - 1000</td>
</tr>
<tr>
<td>Application form</td>
<td>8</td>
</tr>
<tr>
<td>Abide to sign contract to WEO</td>
<td>7</td>
</tr>
<tr>
<td>Transport cost</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
</tr>
</tbody>
</table>

In case of transportation, expenses tend to be high due to the fact that many borrowers are located at long distances from the loan offices. When the opportunity cost of labour in-terms of the work time lost is considered in the total borrower transaction cost computations, the loans tend to be very expensive to the borrowers as the total transaction costs amount to a substantial part of the loan received. Generally client agreed that costs are not much higher that can hinder one to get a loan.
4.11 Training for income generating activity and management

Statistical data shows that 54% of respondents reported to have received training for managing income generating activity (IGAs) which they were running before getting their loans and about 46% of respondents receive “no” training for managing their IGAs before or after loans. The two percentages are more or less equivalent, and they are some of the indicators showing the relationship between lack of training and sub-standard performance in the operation of IGAs.

Table 17: Training for managing IGAs before loan (N=100)

<table>
<thead>
<tr>
<th>Practical or basic training before stating business</th>
<th>Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Acquire practical/training</td>
<td>54</td>
</tr>
<tr>
<td>No practical/training</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Management skills and operations skills are fundamental skill for running IGAs, balance their budget like fund for the children’s education, health and food security. Borrower’s training will help to invest in good business and to challenge financial service providers to develop products that truly respond to their needs, and that should have positive effects on both investment levels and economic growth (Kuzilwa, 1997).

During this study, respondents were asked whether they still needed any more training irrespective of any prior training before receiving loans. Table 4.12 presents various responses on the need for more training.
Table 18: The demand for more training after receiving loans (N=100)

<table>
<thead>
<tr>
<th>Demand level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very much</td>
<td>57</td>
<td>57.0</td>
</tr>
<tr>
<td>Not at all</td>
<td>18</td>
<td>18.0</td>
</tr>
<tr>
<td>At least some more</td>
<td>17</td>
<td>17.0</td>
</tr>
<tr>
<td>Not much</td>
<td>8</td>
<td>8.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

About 57% responded positively towards more training. 18% responded negatively about getting more training.

4.12 Reasons for training

There were reasons for the greater demand to train. First, respondents expressed the intention to get knowledge about various systems of operations that apply in running IGAs. The necessary basic knowledge of record keeping, simple performance ratios- (so as to assess associations of inputs against outputs, or determine the existing relationship between them etc) and customer care in order to build longtime good relationship with customers not only through advertisement as the way of attracting more customers. Respondents call for training before and after receiving their loans.

Secondly, there was a need for respondent to get knowledge on feasibility study in order to site the proper location of allocation of resource. This reason was paramount because site allocation is foundation of a better growth potential for future expansion and progress.

4.13 Record keeping

The study revealed that, 56% of respondents keep written records of their business. 42% of respondents had no business record. However the records kept involve
recording only daily transaction that is purchases and sales input and output in case of IGAs dealing in production. This level of records keeping is insufficient especially when the records are not used to compute profits and losses of the transaction. The study also revealed that, other respondents said they do not keep records in order to avoid being taxed (Pay as you earn as kind of tax) by municipality.

Table 19: Reported project’ records (N=100)

<table>
<thead>
<tr>
<th>Response</th>
<th>Borrowers</th>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keep records</td>
<td>56</td>
<td>56.0</td>
<td></td>
</tr>
<tr>
<td>No records</td>
<td>42</td>
<td>42.0</td>
<td></td>
</tr>
<tr>
<td>Not available</td>
<td>2</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

4.14 Day to day problems

Table 4.14 revealed that 25% the major day to day problems encountered are competition of products in the market in terms of qualities, 23% of respondents show the price fluctuations in the market is a problem. The respondents came up with suggestions as solutions to the problems namely: 54% of respondents revealed that it is out of their control, for example issues of interest rate and grace periods.

Table 20: Day to day problems and suggested solution (N=100)

<table>
<thead>
<tr>
<th>Day to day problems</th>
<th>Suggested solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To increase</td>
</tr>
<tr>
<td></td>
<td>price</td>
</tr>
<tr>
<td>Price fluctuations</td>
<td>7</td>
</tr>
<tr>
<td>Local government taxes increases</td>
<td>4</td>
</tr>
<tr>
<td>Transport cost</td>
<td>4</td>
</tr>
</tbody>
</table>
Late delivery of goods  
Competition in 
business  
Bad debts  
Total

<table>
<thead>
<tr>
<th></th>
<th>2</th>
<th>12</th>
<th>1</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3</td>
<td>10</td>
<td>12</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>54</td>
<td>23</td>
<td>100%</td>
</tr>
</tbody>
</table>

Loan default is typical problem considered to be caused by either inability to repay 
due to enterprise failure or unwillingness to repay due to borrowers viewing the loan 
as grant or sometimes as political patronage. However, borrowers need to take these 
problems as challenges for success in the business not limiting factors.

**4.15 Respondent’s interest rate**

Survey results revealed that 50% of the respondents were not satisfied with interest 
rate and 98% of the respondents commented on reducing interest rate. Other 
conditions assumed by the study to be undesirable include intensive repayment 
duration; time is too short and poor business performance, short grace periods and 
small loans and short loan duration. This implies that there is a need to lower interest 
rate so that borrowers can benefit from these loans and increase grace period 
because taking credit loan and soon start to repay becomes a big burden to most of 
borrowers.

<table>
<thead>
<tr>
<th>Responses</th>
<th>What reforms to be done</th>
<th>Total</th>
<th>Chi-square value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To reduce interest rate</td>
<td>To increase grace period</td>
<td></td>
</tr>
<tr>
<td>Satisfied</td>
<td>48</td>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>Not satisfied</td>
<td>50</td>
<td>0</td>
<td>50%</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>2</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.16 Factors of change in performance of IGAs

This study has identified factors which have contributed to the importance of IGAs, “Experience” in operating the IGAs and “Credit” has been mentioned as the important factors by many respondents. Reinvestment out of other personal savings was mentioned by respondents. Some factors were said to negatively affect IGAs role. These are consumption and poor economy. “Consumption” was a reason in the sense that, money taken from micro-enterprises for consumption by MEs owners’ family withdraws MEs capital. Poor economy is associated with lack of market, poor prices, and low demand as a result of little amount of money circulating in the economy. However, credit has contributed positively on the micro-enterprises as mentioned by respondents.
CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the study

The general objective of this research was to assess the overall impact of credit to borrowers from various income generating activities. The study finds the contribution of credit in performance of IGAs and identifies causes leading to income failure also provides suggestions that can be used to overcome existing problems. The literature review found no documented work on impact analysis of credit borrowers in Tanzania. Four research questions were formulated on the basis of the specific objectives. Due to times and financial constraints the study concentrated in Mbeya Municipality. Both secondary and primary data were collected and used for study.

5.2 Conclusions

5.2.1 The existing sources of credit

Results from this study show that PRIDE, NMB, FINCA, CRDB and SIDO are the main source of credit agencies in the study area whereby PRIDE and NMB are major source of credit (Table 4.2). Loan agencies in sampled area operate differently on both organizational objectives and procedure. The existing differences influence the adopted models and the funding criteria among the existing loan agencies.
5.2.2 The performance of credit on income generating activities

There are changes in income in area of study due credits from financial institution as discussed. The trend shows that the projects will sustain because of growth and other borrowers open other investment. But there are other projects associated with several factors. The most critical ones include the small size of the issued loans and the grace period (e.g. PRIDE issues very little amounts and demand immediate repayments)

Although the differences were observed in land owned, houses, farm tools, school fees and cash spent on food items before loans and after loans, there were significant differences in income, expenditure on basic needs, high valued assets, communication facilities, cooking facilities and type of livestock kept. Borrowers have relatively higher valued household assets, communication assets, cooking facilities and livestock kept than it was before loans. The study therefore found that credit has impact on borrowers’ livelihoods.

5.2.3 The causes leading to income failure in operating IGAs

The problems of most of the borrowers include insufficient training on business management. Training is still needed on handling IGAs. Some respondents from PRIDE, NMB, FINCA and CRDB reported to require management and operational skills in order to increase performance of the IGAs.
Most of the financial institutions consider high repayment rates as indicator for the better institution performance as result bring the conflict of interest. The conflict is between targeting the poor and capacity to repay loan. The loan officers usually find borrowers from new applicants who will be able to repay. This is evident in all financial institutions studied.

Lending through recognized groups has been found to be a common methodology for giving credit to the most of the borrowers. This is reported by some respondents from PRIDE. Most of the groups have been formed just to meet the necessary condition for getting credit loans and not working in unit per se.

Credit procedure and overall principles for various financial institutions have certain amount of loan to be disbursed, which is found by most of respondent as limiting factor because they request certain amount but given little amount which does not fulfill the needs of the business. This is reported by some respondents from PRIDE and FINCA but in general credits have shown positive impact to IGAs.

5.3.1 Recommendations

Credit course of action and system for FINCA on micro-credit in Mbeya are replicated models of Grameen system. The major difference is that in Mbeya context the loan agencies are commercially oriented and therefore, can provide very little opportunity for the applicants to rid themselves off from asking more loans after they have repaid the previous ones. The tendency creates subsistent loan dependants for survival in the long run. In order to avoid this consequence, the loan agencies are
advised to modify/reform the nature of their credit conditions so as to enable smooth wearing of their borrowers to stand on their own without asking for more loans.

There are lacks of education on business management and operation skill to most of borrowers. Therefore financial institution should provide different skill in terms of record keeping, loan management, market promotion and feasibility study on area of allocating IGAs.

It is worthwhile to note that in order to enable IGAs to support better household welfare, enough time should be given for IGAs to grow. This should be observed in order to increase amount of capital to overcome demand of customers, to improve the livelihoods and loan repayment.
REFERENCES


Hisrich, M. and Brush, C. (Eds.) (1999). New studies on informal finance: Exploring the state-of-the-art and the art of the state in Savings and


## APPENDICES

### Appendix 1: variables and operational definition

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>OPERATIONAL DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>The amount of money given to people under contract in a certain period of time.</td>
</tr>
<tr>
<td>Borrowers</td>
<td>People/group of people who take loan from financial institution</td>
</tr>
<tr>
<td>Investment/Project</td>
<td>Is the income generating activities</td>
</tr>
<tr>
<td>Training</td>
<td>Education given to people on the certain issue</td>
</tr>
<tr>
<td>Income</td>
<td>Amount of money earned after doing certain activity</td>
</tr>
<tr>
<td>Interest rate</td>
<td>Cost of capital</td>
</tr>
<tr>
<td>Environment</td>
<td>General surround of project/investment.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Things which facilitate the business to operate.</td>
</tr>
<tr>
<td>Project record/Cash flow chart</td>
<td>Records which show the amount of money earned in a certain period of time</td>
</tr>
<tr>
<td>Financial institution</td>
<td>Agencies which provide loans to people under establishes rules and regulation.</td>
</tr>
<tr>
<td>Education level</td>
<td>Highest level of respondent education</td>
</tr>
<tr>
<td>National microfinance Policy</td>
<td>The guidelines which control the efficiency and effectiveness of microfinance system in the country the serve low income of the society</td>
</tr>
<tr>
<td>National trade policy</td>
<td>The guidelines which control the efficiency and effectiveness of trade in the economy of the country.</td>
</tr>
</tbody>
</table>
INTERVIEW SCHEDULE/QUESTIONNAIRE

SECTION A: BACKGROUND INFORMATION

Please write the letter of an appropriate answer or write the appropriate explanation in the space provided.

1. Interviewer’s name………………………………
2. Name of respondent…………………………Date……………………
3. Village……………….Ward………………District……………………

Basic household data

4. Household head sex
   1=Male      2=Female

5. Household head age...........(years)

6. Household head marital status
   1=Single   2=Married   3=Widowed    4=Divorced

7. Household head education level (yeas in school).................

8. Household head occupation
   1=Formal employed   2=Farming/livestock keeper
   3=Business            4=Others

9. How long the household have been living in the place?.............(years)

10. What made the household migrating/being in Mbeya urban?
    1=Work   2=Followed the relatives   3=Business/trading
    4=Others (explain).................................

11. What region is the origin of the Household head?.....................

12. Is the household involved in Business/trading?
    1=Yes    2=No

14. If yes in 13 above, for how long the household have been involved in
    business/trading.........................(years)
SECTION B: LOAN RELATED MATTER

15. Did you get the credit for the business?
   1=Yes    2=No
   (       )

16. If yes where did you get the loan from? …………………………….

17. When did you receive the loan? ………… year

18. Is there any person who has supported you to secure a loan?
   1= Yes     2= No
   (       )

19. If yes in 18 above, what is your relation with him/her?
   1=Husband / Wife   3=Other (specify)
   2=Friend
   (       )

20. Was there any collateral for the loan?
   1=Yes    2=No
   (       )
   Name……………Equivalent to Tshs…………

21. Are the terms/conditions of getting loans a bottleneck (obstacle) to you?
    Yes = 1    No = 2
    (       )

22. If yes, give reason (s) for number 11 above…………………

23. What was the amount of credit that you request?..........................Tshs

24. Did you receive the exactly amount of cash applied for?
   1=Yes    2=No
   (       )

25. Was the loan obtained sufficient enough to meet your business needs?
    Yes = 1    No = 2
    (       )

26. If is no, give reason (s) for your answer in question 25 above………….
    …………………………………………………………………………………
    …………………………………………………………………………………

27. If the answer for the question 25 is NO, what reforms would you want to be done?…………………………………………………………………………….
28. Did you incur any costs in trying to obtain credit from the institution?  
   1=Yes     2=No                                           (          )
29. If Yes what costs do you incur? ...........................................................  
30. What amount did you spend for the above cost?  …………………..Tshs.  
31. What reasons made you to look for credit?  
   1=To get initial capital     2=To expand the business that was going on  
   3=Because other were borrowing     4= Because lenders were there   (        )
32. Was some of credit used for the consumption purposes?..............................  
   ...............................................................................................................  
33. Did you utilize the credit obtained from institution for the purposes acquired?  
   1=Yes     2=No  
34. If No in 33 above, what hindered you from utilizing the credit for the purposes  
   Acquired........................................................................................................  
   ...............................................................................................................  
   ...............................................................................................................  

SECTION C: BUSINESS RELATED MATTERS

35. What are income generating activities (IGAs) do you do by using the credit?  
   (a)........................................................................................................  
   (b)........................................................................................................  
   (c)........................................................................................................
36. What are the day to day problems that your encounter?  
   (a)........................................................................................................  
   (b)........................................................................................................  
   (c)........................................................................................................
37. What steps do you take to solve the problem affecting your activities?  
   (a)........................................................................................................  
   (b)........................................................................................................  
   (c)........................................................................................................
38. Please can you recall of the amount of capital you had before receiving the loan? Tshs....................

39. Is your previous money a part of the capital in your business?
   1=Yes   2=No   3= Other (specify) (   )

40. Did you get any practical or basic training before starting your business?
   1=Yes   2=No   3= other (specify) (   )

41. For how much would you still need it?
   1=Very much 2=At least some more 3=Not much 4=Not at all 5= other (specify) (   )

42. How much income your business has so far if you would add together your bank deposit and the cash at hand?
   Tshs .........................

43. What is the remaining amount of loan to be paid back plus the interest rate?
   Tshs.........................

44. Are you satisfied with the rate of interest charged?
   1=Yes 2=No (   )

45. If the answer for question 23 is NO, what reforms would you want to be done?
   ...........................................................................................................................
   ...........................................................................................................................

46. Have you tried alone or with anybody to invest into another different mini-business elsewhere since you began this one?
   1=YES 2=No 3=No money 4=other (specify) (   )
   Value in Tshs.................

47. Apart from this business have you any other source (or investment) that may be giving you some more income?
   1=Yes 2=No 3=other specify (   )
48. How much income has your business created so far for the last one year? Tshs…………………

49. Please can you tell me the value of assets you have bought or acquired according to the business income?

<table>
<thead>
<tr>
<th>Assets</th>
<th>Value (Tshs)</th>
<th>Uses</th>
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<td><strong>Total</strong></td>
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</tbody>
</table>

50. If you may recall of your monthly income before running this business, how much has it changed to the average?

Before: Tshs………….... After: Tshs………..Difference Tshs……………….

51. After finishing loan repayment, have you any other future plans about the business?

1=Yes  2=No  3=Expansion  4=More loan  5= Maintain income
6=Close down  7= other (specify) ( )

52. For how long would you expect your business to survive after paying back the loan?

1=<yr  2= 1-2 yrs  3= 2-5 yrs  4= 5-8 yrs  5= >8yrs ( )

53. In what ways does your husband/partner benefit from your business?

1=Borrows money  2=Household budget  3=other way ( )

53. How do the local environment and the general infrastructure contribute to your business?

2= Transport  3=Market demand
4= Financial agencies  5= All above  6= Business limitation
7= Nothing ( )
54. Do you have any business records and the cash flow chart?

1= Yes 2= No  3= Not available  4= other specify  (  )

Thank you for your good co-operation
QUESTIONNAIRE TO LENDERS

1. Please may I know your official title? .................................................................

2. How long have you been with this office at this title.........years?
   (For public institution go to Qn.4)  
   (    )

SECTION B: CREDIT SCHEME ISSUES

3. When had your financial institution started providing credits? ........ years

4. Please can I know the amount of the advanced loan and the total number of beneficiaries in your financial institution so far?
   Amount Tsh. ...............................Total beneficiaries ..........................

5. To what extent has the institution succeeded so far?
   Excellent = or > 75%
   Very good = 70% - 74%
   Good = 60% - 69%
   Fair = 50% - 59%
   Failure = 50%
   Other specify

6. On what factor is this range of ratio based?
   Loan repayment = 1
   Improved income = 2
   All total beneficiaries = 3
   Beneficiaries’ growth records = 4
   Current loan holders = 5
   Other specify = 6

7. Is there any involved action or penalty of these failing to repay their loan as in time? 1= Yes  2=No  3= other specify  
   (    )

Thank you for good co-operation.