

Micro Finance Scheme in Tunduru

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Abstract

Microfinance scheme for women and youth in Tunduru District - Tanzania was started in July 2017. Targeting women and youth, the aim of this initiative is to create jobs and alleviate poverty. Tanzania has a population of about 50 million people, approximately 80 percent of the population live in the rural and semi urban areas. Most people living in rural areas depend on small scale farming and small businesses for income. Tunduru is one of districts in Ruvuma Region, the region is economically marginalized compared to other regions in Tanzania. Stagnant economy growth has been reported in Ruvuma and Tunduru despite agricultural and other economic potential. Poor governance and challenges to access capital for investment and agricultural markets are major challenges to poverty reduction in the district. Common financial institutions in the district are the Saving and Credit Cooperative Societies (SACCOS) and Village community banks (VICOBA). Tanzanian government has taken measures to regulate and supervise SACCOS and VICOBA. However, joining and participating in these initiatives remains difficult for poor villagers mainly due to lack of capital to join VICOBA, and high interest rates charged by some of MFIs. Borrowing from family members and friends has become the most common method for people who earn very low income to get fund to start or sustain small businesses and farming activities.

Key words: Social business, microfinance, poverty alleviation, farming, unemployment, rural economy

1. INTRODUCTION

In recent years Tanzanian government has developed an ambitious development agenda focused on creating a better business environment through improved infrastructure, access to financing, and education progress, however achieving these goals has been a challenge due to insufficient budget. In 2012, it was reported that more than 30% of the Tanzanian population could not meet their basic needs while almost 20% could not afford basic needs and sufficient food for healthy living, Tanzania National Bureau of Statistics (2017). According to the World Bank (2012) major causes of poverty in Tanzania are fiscal and monetary policies that do not support the leading economic sector of agriculture. Tanzania government has been reforming the country's financial sector since 1991. This resulted in the privatisation of the National bank of commerce (NMB) and the Cooperative and Rural Development Bank (CRDB) which were dominant providers of rural finance. Privatization of the banks led to decreased access of financial services in rural areas causing an exclusion of the rural poor from the financial system. In 2006 only 5% of the rural population had access to bank services. Tunduru district has a population of about 300,000, 90 % of the population live in rural areas while 10 % live in sub urban area, Tanzania National Bureau of Statistics (2017). people in this region face more economic challenges compared to other regions. Despite having moderate number of crop farming households compared to other regions, Ruvuma region has lower number of crop growing households per square kilometre and land utilisation percentage compared to other regions in Tanzania, Ishengoma and Mbwilo (2008). Micro-finance institutions (MFIs) emerged in Tunduru district in 2001 as results of government effort to support business for small scale farmers and small business owners in rural areas of Ruvuma region, Economic and Social Research Foundation (2016).

However, microfinance institutions face challenges of inconsistent regulation by government and stringent eligibility requirements that cannot be met by very small businesses, Girabi and Mwakaje (2013). Difficulties in accessing funds from financial institutions is a major constraint to the development of small businesses, for example findings from a survey show that about 94 per cent of the surveyed small businesses depend on personal resources and loans from family members and friends as a source of start-up capital for business, Satta (2004). Microfinance schemes have been a favourable approach in providing credit to the low-income earners who are not accepted by other sources of finance. These schemes are willing to loan small amounts to first-time or less creditworthy borrowers and most of the times to those lacking collateral, Girabi and Mwakaje (2013), Kessy and Temu (2010) and Satta (2004).

2. THE ROLE OF MICROFINANCE SCHEME AMONG WOMEN AND YOUTH IN RURAL AREAS

About 70 percent of the world's poor are women, Khan and Noreen (2012). Approximately 60 percent of women in Tanzania live in absolute poverty, in many societies in Africa, customary laws and practices remain discriminatory against women on issues of property inheritance particularly on land and business ownership, Kato and Kratzer, (2013). Participating in microfinance services could be a way for women to gain the ability to make strategic choices concerning their lives. With access to microfinance services women can set up their own businesses and consequently improve their status in the household and community, MFIs enable women to contribute to family household budget, providing opportunity to have greater voice and increase their role in decision making (Kato and Kratzer, 2013) and Khan and Noreen, 2012). MFIs targeting women are favourable because women are good credit risk, less likely to misuse the loan, and more likely to share benefits of the loans with others in their household, especially their children, Acquah (2016) and Kato and Kratzer (2013). Microfinance scheme in Tunduru targets women in the informal sector, unemployed youth, rural small-scale farmers and the disabled. Women as a group are expected to take a higher percentage of disbursed loans.

However, some studies have also detected a negative impact on women's income and employment from MFIs that give loans at very high interest rates similar to the money lenders, causing women to leave their homes and villages after failure of repayment of loan instalment, to avoid their properties to be taken by MFIs, Economic and Social Research Foundation (2016) and Girabi and Mwakaje (2013). Microfinance scheme in Tunduru provides loans to women who own very small to medium size businesses, the loan given is not asset based. When loan recipients struggle to pay back their loans, the scheme provides more entrepreneurship training or additional loans to enable them to achieve their business targets and pay back the loan.

Microfinance has a significant impact on agricultural productivity under small holder farmers. Borrowers from MFI invest in purchase of agricultural inputs and livestock establishment; MFI creates employment opportunities in rural areas, Girabi and Mwakaje (2013). Recipients of microfinance funding can access competitive prices in agricultural markets through warehouse voucher systems, ability to hire labourers and transport to carry goods to the markets, Girabi and Mwakaje (2013). A group of 6 young people have successfully used a loan provided by Microfinance scheme in Tunduru to transport rice from Chikomo village to sub urban Tunduru to access better markets for their produce.

Study on impact of providing training to recipients of microcredit shows that recipients of business training have a higher level of assets and sales revenue compared to non-recipients of training. Motivational characteristics are significant factors in changing behaviour of owners of small businesses to enable them to perform well in their businesses. This can be acquired through training and learning from others Kessy and Temu (2010). Groups of entrepreneurs in Tunduru consist of a mixture of experienced and new entrepreneurs, the group of 10 women in sub urban area meet once a week to share their experiences and learn from each other.

3. OBJECTIVES OF THE PROJECT

Microfinance scheme in Tunduru District - Tanzania was started in July 2017, the aim of the initiative is to create jobs and alleviate poverty. The initiative “Microfinance scheme in Tunduru” explores opportunities and barriers influencing micro-enterprises’ access to finance in rural and semi urban areas, and provide alternative solution to existing challenges. The initiative gives micro-enterprises and informal-economy businesses access to capital money to start and develop small business and to secure savings and borrowings with transparent costs, low interest rate and without time burden to return the loan. Objectives of the microfinance scheme in Tunduru are:

1. To provide low interest loans to individuals and groups of women and young entrepreneurs, to enable them to establish or develop their small businesses, to increase their income.
2. To provide entrepreneurship training to groups of entrepreneurs and individuals to enable them to reach business goals.

Three entrepreneurs’ groups have received the loans, 10 women in semi urban Tunduru, 6 youth and 4 women in rural Tunduru.

4. OUTPUT OF THE PROJECT

This project provides microloans to women and young men to run small businesses. Loans are provided according to procedures outlined in loan contract. The outcomes of the first part of the project are, to lend small amounts of loans at low interest to individuals and groups of entrepreneurs, to establish or develop small businesses, to increase their income and to provide entrepreneurship training to recipients of the microloans as needed.

The scheme also provides opportunity for entrepreneurs to learn from each other. Returned loans are saved in a bank account to further expanding the scheme. Interest gained from the loan is used to administer the loans to maintain sustainability of the project. The project started by providing a total of 3.5 Million Tanzanian Shillings as microloans to 20 entrepreneurs. Evaluation of the first 4 months of the scheme shows loan return rate of more than 70%. The aim of the project is to reach 100 entrepreneurs in the first quarter of 2018.

Microfinance scheme in Tunduru is undertaken in such manner that the loan receivers and their families are the beneficiaries of the project. Returned microloans and other monetary profit will be used to lend to other groups and individuals, develop or subsidize ongoing projects, or starting new projects. Profit is calculated as number of people who have received the loan and successfully paid back, the profit will be calculated monthly.

5. PROJECT ACTIVITIES

Community leaders in semi urban Tunduru were asked to identify women who would benefit from the scheme. Community leaders identified 7 women, the women were asked to identify more women, they identified 3 women from local area and 4 women from rural area. 14 women formed two groups, one group of 10 women in semi urban Tunduru and a group of 4 women in rural Tunduru. Community leaders also identified a group of 6 young rice farmers in rural Tunduru, who would benefit from the scheme by receiving loan to transport their produce to better market. Selection of entrepreneurs focused on women and young people who do small scale farming or own small businesses and have limited or no access to loans from formal financial institution. Selection was made without discrimination in tribe, religion beliefs or political party membership. Community leaders involved in selection process were excluded from application of the microloans to avoid bias in selection process.

Entrepreneurs selected two project leaders, chairperson and a secretary. Leaders received training on filling in joining forms, registers for financial records and contracts. Entrepreneurs were asked to sign forms and contracts providing their contact details, details of their business activity, and amount of loan they wish to receive. Members of group were educated about the operations, aim and objectives

of the project. Leaders of the projects visited individual entrepreneurs at their business places and contacted their husband or families to ask for consent for their family members to join the scheme.

Members of the scheme decided to meet once a week at home of secretary of the scheme to collect weekly return of the loan and to share challenges and success of their business activities. The secretary of the scheme collects returned fund weekly, keeps records and deposits the fund in a bank account for the scheme.

6. MANAGEMENT OF PROJECT

Elizabeth Kpozehouen is a medical doctor trained in China and research associate at the University of New South Wales (UNSW), Australia, she has completed Master of Public Health and Master of Health Management programs at UNSW. Elizabeth has experience in management of the National Health and Medical Research Council (NHMRC) Centres for Research Excellence. Currently she manages the NHMRC Centre for Research Excellence (CRE) - Integrated Systems for Epidemic Response (ISER), previously she managed the CRE Immunisation in Under-studied and Special Risk Populations. Elizabeth takes part in financial contribution and management of the microfinance scheme in Tunduru as well as planning and evaluation of project activities.

Ado Shaibu Ado is graduate lawyer from University of Dar es Salaam Tanzania (UDSM), Ado is chair of Tanzania Sahrawi Solidarity Committee and secretary of ideology and publicity for Alliance for Change and Transparency party. Previously Ado worked at Mwalimu Julius Nyerere Professorial Chair, the Chair was established by UDSM in 2008 to honour and promote the thoughts and ideas of Mwalimu Julius Nyerere, the founder of Tanzania nation and first President of the United Republic of Tanzania. The chair promotes Nyerere's ideology and commitment to human rights and to uplifting the welfare of the poor. Ado oversees administration of the project, record keeping and reporting, monitoring of project activities, financial management and he takes part in planning and evaluation of project activities.

7. EXPANSION OF THE PROJECT

More than 90 % of people in Tunduru depend on farming for living. Maize, beans and cassava are among popular food crops while cashews, pigeon peas, sesame and tobacco are main cash crops, Economic and Social Research Foundation (2016). Farmers in Tunduru face challenges due to draught caused by climate changes and low prices of unprocessed cash crops particularly cashewnuts, Rweyemamu (2002). Future plans for Microfinance scheme in Tunduru are; to establish small businesses that will be owned by groups of women and young entrepreneurs to create employment opportunities to increase their income and to plant a small cashew processing facility to add value to cashews by as the main cash crop. Income from these businesses will be used to further expand the scheme and to subsidize microlending activities and other development projects in rural areas. Business activities for the scheme will focus on using new and environmental friendly agriculture technology to increase crop productivity such as irrigation and green house farming. Microlending activities are expected to reach 100 people in the first quarter of 2018. The scheme is expected to have activities in each village of Tunduru district after 5 years by year 2022

8. CONCLUSION

Majority of Tanzanians live in rural and semi urban areas and depend on small scale farming and small business for living. Ruvuma region is economically marginalised compared to other regions of Tanzania. Difficulties in accessing loans for business cause challenges in developing and starting small businesses in rural areas. Microfinance schemes have been favourable approach in providing credit to the low-income earners who are not accepted by other sources of finance. The Microfinance

scheme in Tunduru district provides microloans to women and youth to develop and start business, the aim is to create jobs and alleviate poverty. Training in entrepreneurship has been found to benefit entrepreneurs by increasing profit and sustainability of their business activities. The microfinance scheme in Tunduru provides opportunity for entrepreneurs to learn from each other. Recently experienced entrepreneurs have volunteered to provide training to members of scheme. The project is expected to expand to reach all villages of Tunduru district by year 2022.

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