

RURAL FINANCIAL MARKETS IN TANZANIA:
*An Analysis of Access to Financial Services in Babati District,
Manyara Region.*

By

FAUSTINE KARRANI BEE

submitted in accordance with the requirements

for the degree of

DOCTOR OF LITERATURE AND PHILOSOPHY

in the subject

DEVELOPMENT STUDIES

at the

UNIVERSITY OF SOUTH AFRICA

PROMOTER: PROF. FRIK DE BEER

JOINT PROMOTER: DR. ANACLETI K. KASHULIZA

April, 2007

DECLARATION AND COPYRIGHT

I, FAUSTINE KARRANI BEE do hereby declare that this Doctoral Thesis titled ***“RURAL FINANCIAL MARKETS IN TANZANIA: An Analysis of Access to Financial Services in Babati District, Manyara Region”*** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references. In addition, I also declare that this work has not been submitted elsewhere for a similar or any other educational or non-educational award.

Candidate: -----

Faustine Karrani BEE

Date: -----

© 2006, University Of South Africa

This thesis is a copyright material protected under the Berne Convention, the Copyright Act 1996 and other international and national laws, in that behalf, on intellectual property. It may not be reproduced by any means, in full or in part, except for short extracts in fair dealing, for research or private study, critical scholarly review or discourse with an acknowledgement, without written permission of the Registrar (Academics) on both the behalf of the author and the University of South Africa.

ACKNOWLEDGEMENT

This study was inspired by my previous involvement in rural studies in Babati, where I observed rural households and enterprises experiencing poor access to financial services. I was moved by the situation and encouraged to study the limitations of rural households' access to financial services. My interest in the area was further enriched by my appointment to a "Task Force on Microfinance studies" constituted by the Principal of the then Co-operative College Moshi, now Moshi University College of Co-operative and Business Studies, Professor Suleman Chambo. I am very much indebted to him for his persuasion to take interest in this discipline. Furthermore, available literature on Rural Finance enabled me to appreciate the role of finance in economic growth.

In the course of undertaking this study I have received intellectual, financial, material and moral support from various individuals, institutions, and organizations to whom/which I wish to register my deep heartfelt appreciation. While I am thankful to all, I am obliged to mention few by names. First, I am indebted to my supervisor Professor Frik De Beer former Head of Department of Development Studies at the University of South Africa (UNISA) who, notwithstanding his pressing commitments, provided guidance, comments, and encouragement in writing and shaping this study. His patience and understanding was very important in the realization of this final output, for which I wish to thank him. Equally, I am indebted to my co-supervisor Dr. Anacleti K. Kashuliza Registrar of Co-operatives and Director for Co-operative Development Department in the Ministry of Agriculture, Food Security and Co-operatives in Tanzania, formerly a Senior Lecturer in Agricultural Economics and Finance at the Sokoine University of Agriculture in Morogoro for his constant guidance, encouragement and criticisms that facilitated completion of this study.

I also wish to thank Professor L. Molamu the Registrar (Academics) of the UNISA for his constant guidance on academic matters including yearly registration, and Ms Leanne Brown the subject Librarian for Development Studies at the UNISA Library who provided support for the needed literature.

Furthermore, I wish to register my appreciation to Dr. Michael Ndanshau Head of Economics Department at the University of Dar es Salaam for his willingness to comment on some of the draft chapters and sharing of literature. My sincere appreciations also go to my colleagues Basili Liheta, Prof. M. J. Sizya, Mathew Diyamett, Samwel Jonathan, and Boneventure Massera for commenting on parts of the draft chapters.

The completion of this study was made possible through financial and moral support provided by my employer and UNISA. I therefore, wish to register my appreciation to the Management of the Moshi University College of Co-operative and Business Studies (MUCCoBS) especially Professor S. A. Chambo the Principal, Richard Mbagha the then Acting Deputy Principal (Administration), Jones Kaleshu the Deputy Principal (Academics), and Professor L. H. K. Mlowe Dean Faculty of Co-operative and Community Development Studies for their moral and administrative support during the study. I also wish to thank the University College Management for the financial support during my study. I am equally grateful to UNISA for the Postgraduate Bursary Award granted to me during 2006 that partially eased my study financial burden.

In the field I am very much indebted to all those who facilitated access to data and information. I am deeply thankful to the district administration in Babati especially Mr. Raphael Mbunda the District Executive Director, Planning Officer Mr. Gabriel, Co-operative Officer Mr. J. M. Chisumo, and Community Development Officer Mr. Bilali Somosomo. Others are George Odhiambo of FARM Africa (Tanzania), Walther de Nijs Executive Director of Local Initiatives Support Organization (LISO), Ms Mjauzi - the NMB branch manager for Babati, Mr. Mchau - the Tanzania Postal Corporation (TPC) branch Manager for Babati, and local leaders in the study area. Moreover, I am equally grateful to farmers, leaders and staff of the surveyed co-operative financial institutions.

I also wish to register my appreciations to officials of the Bank of Tanzania, especially Ms Flora Rutabanzibwa Deputy Director Microfinance, and H. B. Kessy Deputy Director Banks Supervision department, and Salome Mbusa for providing the required information. Others are M. Laizer Director General of the Small

Industries Development Organization (SIDO), A. Mshaweji and Peter Mashingia both from the Savings and Credit Co-operative Union League of Tanzania (SCCULT), Obama the General Manager of the Promotion of Rural Initiatives and Development Enterprises (PRIDE - Tanzania), and Mwangi the Executive Director of Small Enterprises Development Agency (SEDA).

I am also thankful to my research assistants – Solomon Ngira, Daud Massambu, Gabriel Bee, and Boay Francisc Marmo, for their utmost assistance in conducting the interviews and compiling data. I am thankful to Dr. J. Mduma of the University of Dar es Salaam and Justine Mwengele for their guidance and assistance in data analysis. Furthermore, I wish to thank Ms Basilisa Mbagu, Hakhi Mpembule, Joyce Ngatulile and Mrs Theresia Seif for typing parts of this thesis.

Finally, to my family – my wife Julieth, our children Honoratha, Filomena, Michael and Francisca for their patience and understanding during the research and writing of the thesis as they missed the love and affection of husband and father respectively.

This report is dedicated to my beloved mother Maria Gwasma-Nane Bee, who passed away on 23rd October, 2004 and put to rest at her place on 25th October, 2004. This happened when I had just completed my fieldwork and was about to begin data analysis. Her loss affected the tempo of completing this work in time.

Finally, I am personally responsible for the contents and facts.

Faustine Karrani Bee
Moshi, Tanzania,
April, 2007

ABSTRACT

Tanzania is among the poorest countries in the world, with most of its population living in rural areas. Like most other developing countries, rural households' access to financial services is very limited. The government has adopted series of economic reform measures since mid-1980s that include financial liberalization. Liberalization of the financial sector facilitated participation of private financial institutions, restructuring of public financial institutions and privatization, elimination of interest rate controls, credit allocation and targeting. In addition, the role of the Bank of Tanzania in supervision and regulation of financial institutions was strengthened.

Following the privatization of the financial sector, the number of financial service providers increased and diversified, which include commercial banks, development banks, insurance and social security funds, and capital markets. The role of the central bank was re-defined and strengthened in terms of price stability, supervision and regulation. Although there is an increase in financial sector service providers and products, rural households' access to financial services did not improve. To the contrary access to formal financial services is diminishing significantly, hence making poverty reduction initiatives more difficult.

This study analyzed constraints to access to rural financial services, examined its impact on rural households' livelihoods, and recommended appropriate financial sector development strategies. The data for the study were collected from various sources – both primary and secondary. Primary data were collected from selected thirteen villages in Babati and government offices in the district through interviews, focus group discussions, questionnaire, and observation. Secondary information was gathered from documentary sources in the form of reports, records and review of literature. A combination of analytical tools was used – qualitative and quantitative.

The study observed that history of rural finance in Tanzania is associated with colonialization of Tanganyika. The German colonial administration was the first to introduce establishment of modern commercial banking in the country in 1905

when the *Deutsche Ostafrikanische* bank opened a branch in Dar es Salaam. The British colonial administration, after the defeat of Germans in World War I, promoted establishment of commercial banks in Tanganyika in order to support commercialization of the economy. Consequently, German banks were replaced and commercial bank branches were established in other parts of the country. The independent government undertook massive re-organization of the financial sector and much attention was put on agricultural credit. Agricultural credit was organized through specialized agricultural credit organizations that corroborated with state owned commercial banks. However, the co-operative movement were assigned important role in credit administration on the ground as they are closer to the beneficiaries.

The financial structure after independence up to the 1990s, when reforms were ushered in, is characterized by state owned financial institutions with pervasive interference. Credit was directed on the basis of the government priorities with little regard to credit worthiness analysis. The National Bank of Commerce (NBC) and Co-operative and Rural Development Bank (CRDB) were the dominant banks that implemented the government monetary policy. Emphasis was put on credit and savings mobilization was neglected. The CRDB operated mostly on managing donor funds meant for rural development.

Liberalization of the financial sector was introduced through the Banking and Financial Institutions Act (BAFIA) of 1991 to address the weaknesses observed in the financial sector. It was envisaged to improve access to financial services through enhanced competition, increased and diversified financial products and providers, and improved integration of the financial system. However, assessment of the impact of the financial liberalization has mixed results. While there are distinct expansion in financial institutions, products and services; these are more concentrated in urban areas and accessed mostly by wealthy clients. Consequently, rural households' access to finance is diminishing. On the other hand, most financial institutions continue to employ traditional banking approaches - of insistence on collateral, preference for less risky category of clients, bias towards large loans, and bureaucratic procedures in providing loans. Besides, there are limited initiatives in product innovation, design of appropriate

delivery mechanisms, and high interest rates spreads that discouraged potentials borrowers and depositors.

As a result of poor access to financial services, most households have strengthened self-financing mechanisms through the informal arrangements. Although, the semi-formal - especially member based financial institutions and some Financial NGOs (FiNGOs) are attempting to correct the financial imbalances, their outreach, products and services are still limited. While there are improvement in supervision and regulation of the financial sector, it must be noted that prudential regulation and supervisions as part of the financial infrastructure if not carefully used, will undermine the efficiency of the financial market.

The study concludes that rural households need a variety of financial products that include savings facilities, loans, insurance, leasing, and means of transfer payments. The degree of demand for these products is, however, determined by household's level of poverty, household size, level of education and skills, life cycle needs, and local market opportunities. However, financial sector reforms had little impact on households' livelihoods. Its implementation is associated with an increase in inequalities and poverty. Besides, there is a reduced funding as well as investment in agriculture, which forms the key sector of the economy. Consequently, the performance of the agricultural sector has been declining although its contribution to GDP is still significant.

Assessing the supply and demand for rural financial services, it is concluded that rural areas are hardly served by banks hence limiting access to financial services. Prior to liberalization, government owned financial institutions provided limited financial services to rural areas organized through co-operatives and specialized credit agencies. CRDB was responsible for organization of credit for farm inputs, while NBC provided crop finance. In addition, CRDB also facilitated rural development programmes through donor funds. With the liberalization of the financial sector – co-operatives have collapsed, development banks are no longer active, and commercial banks have withdrawn from serving rural areas, thus creating a “supply gap” that is being replaced by informal finance.

Furthermore, the study observed that demands for financial services is determined by age of the borrower, household size, and distance from a financial institution, the cost of borrowing that include loan transaction costs plus interest rate charged, bank procedures and conditions, policy and regulatory framework and institutional and infrastructural conditions.

The study recommends the following:

- (i) Continued efforts for establishment of supportive macroeconomic and sectoral policies – financial, fiscal, monetary & rural development - and legal and regulatory framework that facilitates the growth of the rural financial markets,
- (ii) A facilitative intervention by the government in the development of the financial markets that addresses the national poverty reduction development objective through economic growth is required. The desired actions are those that focus on improvement in demand for financial services, reduced bureaucratic banking conditions, reduced transactions costs, improved infrastructure, and reduction of other structural bottlenecks limiting access to financial services,
- (iii) Development of appropriate financial institutions and products relevant for the rural sector requires government guidance through policy, development of appropriate financial infrastructure (legal, regulation and information), and incentive mechanisms.
- (iv) Intervention by the government in institutional and infrastructural development is required so as to facilitate the functioning of markets. There must be purposive investment strategy that supports development of the public infrastructure – such as transport and communication, electricity, security system, and research and development. Institutional development - judiciary machinery, credit bureaus, and property rights and business registry are required. Furthermore, training and capacity building so as to change peoples' mindsets concerning loans and savings mobilization, and

- (v) There is a need for building up a “New Role” for financial institutions. Financial institutions need to revisit their financial terms and conditions in favor of the development of RFMs, especially in terms of bank conditions, interest rate spreads, demand for collateral, and requirements for addressing the needs of the poor and rural population, Furthermore, financial institutions need to become more innovative in developing new products and services, improvement in organization of rural financial institutions, delivery mechanisms, and establishment of the institutional framework for integration of MFIs into the national financial system in the country.

The following areas require further studies:

- (i) development of realistic rural development strategy that covers, among others, the development of the financial markets,
- (ii) institutionalization of the rural property ownership rights in order to establish how these can be used productively, through say mortgage, collateral, and/or sale for cash income, and
- (iii) Mechanisms for enforcement of loan repayments in rural areas – especially the lessons from informal operators. Experiences have shown that under informal credit arrangements, there are few default cases as opposed to formal commercial credit practices.

KEY TERMS – Rural Finance, Financial Liberalization, financial markets, financial deepening and widening, and households’ livelihoods, Tanzania.

TABLE OF CONTENTS					PAGE
1.0	INTRODUCTION	---	---	---	1
1.1	Background to the problem	---	---	---	1
1.2	Statement of the Research Problem	---	---	---	4
1.3	Objectives and Significance of the Study	---	---	---	5
1.4	Research Questions	---	---	---	7
1.5	The Scope of the Study	---	---	---	7
1.6	Limitation of the Study	---	---	---	10
1.7	Organization of the Thesis	---	---	---	10
2.0	RURAL FINANCE: THEORY AND LITERATURE REVIEW	---	---	---	12
2.1	Preamble	---	---	---	12
2.2	Financial Services and Economic Development	---	---	---	12
2.2.1	Financial Development and Economic Growth	---	---	---	12
2.2.2	Rural Finance and Sustainable Livelihoods Framework	---	---	---	14
2.3	Rural Financial Markets: The Analytical Framework	---	---	---	18
2.3.1	The Concepts: Rural Finance, Agricultural Finance and Microfinance	---	---	---	18
2.3.2	Rural Financial Markets and Financial Intermediation	---	---	---	24
2.4	Policies and Regulatory Framework for Rural Finance	---	---	---	33
2.5	The Current Perspectives on Rural Finance	---	---	---	36
2.6	Summary and Conclusions	---	---	---	38
3.0	DESCRIPTION OF THE STUDY AREA AND RESEARCH METHODOLOGY	---	---	---	40
3.1	Preamble	---	---	---	40
3.2	Choice of the Area	---	---	---	40
3.3	The Profile of The Study Area	---	---	---	40
3.3.1	The Geographical Location and Administrative Divisions	---	---	---	40
3.3.2	Demographic Patterns	---	---	---	41
3.3.3	Description of The Rural Economy of Babati	---	---	---	44
3.3.3.1	Agricultural Production and Farming Systems	---	---	---	44
3.3.3.2	Livestock Keeping	---	---	---	50
3.3.3.3	Other Sources of Households' Livelihoods	---	---	---	53
3.4	Research Methodology	---	---	---	55
3.4.1	Sample Size and Sampling Techniques	---	---	---	55
3.4.2	Data Sources and Collection Methods	---	---	---	59
3.4.3	Organization of the Field Survey	---	---	---	60
3.4.4	Data Analysis Techniques	---	---	---	60
3.4.5	Data Accuracy and Reliability	---	---	---	61
3.5	Summary and Conclusions	---	---	---	62
4.0	THE DEVELOPMENT OF RURAL FINANCE IN HISTORICAL PERSPECTIVE	---	---	---	63
4.1	Preamble	---	---	---	63
4.2	The German Colonial Period and the Evolution of Banks: 1891 – 1920	---	---	---	63
4.3	The British Colonial Rule and Expansion of the Financial Sector: 1920 – 1961	---	---	---	65

4.3.1	Commercial Banking and Rural Finance: Post World War I	---	---	---	---	---	---	---	66
4.3.2	Specialized Financial Institutions: Loan Funds and Land Bank	---	---	---	---	---	---	---	69
4.4.	Co-operative Societies and Agricultural Marketing Boards	---	---	---	---	---	---	---	73
4.5	The Developments in Rural Finance after Independence: 1961 – 1966	---	---	---	---	---	---	---	76
4.5.1	Growth of Commercial Banking and Emergence of Nationalism	---	---	---	---	---	---	---	76
4.5.2	Re-organization of the Specialized Agricultural Credit Institutions	---	---	---	---	---	---	---	79
4.5.3	The Bank of Tanzania and Rural Finance...	...	...	...	...	...	...	...	82
4.6	The State and the Financial Sector under the Arusha Declaration	---	---	---	---	---	---	---	89
4.6.1	The State and the Co-operative Movement...	...	...	...	...	...	...	...	89
4.6.2	The State and Commercial Banks--	---	---	---	---	---	---	---	92
4.6.3	Other Financial Institutions and Rural Finance	---	---	---	---	---	---	---	106
4.7	Financial Sector Crisis and the Need for Reforms ...	...	...	...	...	...	...	...	109
4.8	Summary and Conclusions ...	...	...	...	...	...	...	...	111
5.0	REGULATION AND SUPERVISION OF THE FINANCIAL SECTOR: IMPLICATIONS FOR THE DEVELOPMENT OF RURAL FINANCIAL MARKETS	---	---	---	---	---	---	---	115
5.1	Preamble	---	---	---	---	---	---	---	115
5.2	Macroeconomic Policies and the Financial Sector Reforms	---	---	---	---	---	---	---	115
5.2.1	National Microfinance Policy, 2000	---	---	---	---	---	---	---	117
5.2.2	Co-operative Development Policy, 2002	---	---	---	---	---	---	---	118
5.2.3	Rural Development Strategy (RDS)	---	---	---	---	---	---	---	119
5.2.4	Small and Medium Enterprise Development Policy, 2003	---	---	---	---	---	---	---	120
5.3	Regulation and Supervision of Financial Institutions	---	---	---	---	---	---	---	121
5.4	Harmonization of Standards and Compliance with Basel Core Principles	---	---	---	---	---	---	---	126
5.5	Regulation and Supervision of Microfinance Institutions	---	---	---	---	---	---	---	128
5.6	Limitation of the Regulation and Supervision Framework	---	---	---	---	---	---	---	134
5.7	Non-prudential Issues: Capacity Building and Regulatory Instruments	---	---	---	---	---	---	---	136
5.7.1	Conducive Policy Environment	---	---	---	---	---	---	---	136
5.7.2	Credit Reference Bureau (CRB)	---	---	---	---	---	---	---	138
5.7.3	Establishment of the Tanzania Bankers Associations (TBA)	---	---	---	---	---	---	---	138
5.7.4	Formation of Commercial Courts	---	---	---	---	---	---	---	139
5.7.5	Formalization of Business and Property Rights: MKURABITA---	---	---	---	---	---	---	---	139
5.8	Summary and Conclusions---	---	---	---	---	---	---	---	140
6.0	THE FINANCIAL STRUCTURE UNDER THE MARKET ECONOMY AND ITS IMPACT ON RURAL LIVELIHOODS	---	---	---	---	---	---	---	143
6.1	Preamble	---	---	---	---	---	---	---	143
6.2	Financial Markets in Tanzania during the Post-Reform era	---	---	---	---	---	---	---	143
6.2.1	Financial Sector Reforms and the Bank of Tanzania	---	---	---	---	---	---	---	145
6.2.2	Commercial Banks and Rural Finance	---	---	---	---	---	---	---	146

6.2.3	Grassroots-based unit Banks: Community Banks	---	---	---	---	---	---	149
6.2.4	Non-bank financial institutions	---	---	---	---	---	---	150
6.2.5	Microfinance Institutions	---	---	---	---	---	---	153
6.3	Capital Markets	---	---	---	---	---	---	170
6.4	Access to Rural Financial Services: An Assessment	---	---	---	---	---	---	172
6.4.1	Development of the Financial Institutions and Outreach	---	---	---	---	---	---	172
6.4.2	Development of appropriate financial products and services	---	---	---	---	---	---	175
6.5	Rural Finance and Households' Livelihoods	---	---	---	---	---	---	183
6.6	Summary and Conclusions---	---	---	---	---	---	---	187
7.0	AN ANALYSIS OF THE RURAL FINANCIAL MARKETS IN BABATI DISTRICT---	---	---	---	---	---	---	190
7.1	Preamble	---	---	---	---	---	---	190
7.2	The demand for Credit in Babati District	---	---	---	---	---	---	190
7.2.1	Description of the data	---	---	---	---	---	---	190
7.2.2	Empirical Results and Discussions	---	---	---	---	---	---	192
7.2.3	Utilization of Credit in Rural Areas	---	---	---	---	---	---	200
7.3	Demand for other Rural Financial Services	---	---	---	---	---	---	203
7.3.1	Savings Facilities	---	---	---	---	---	---	203
7.3.2	Means of Payments and Transfer Payments	---	---	---	---	---	---	205
7.3.3	Demands for other Financial Services	---	---	---	---	---	---	208
7.4	Supply of Rural Financial Services	---	---	---	---	---	---	210
7.4.1	Commercial Banks: NMB and TPB	---	---	---	---	---	---	210
7.4.2	Co-operative Rural Financial Services	---	---	---	---	---	---	216
7.4.3	Government Specialized Credit Programmes	---	---	---	---	---	---	222
7.4.4	Non – Government Organizations---	---	---	---	---	---	---	225
7.4.5	Informal Rural Finance	---	---	---	---	---	---	227
7.5	Gender and Rural Financial Markets in Babati	---	---	---	---	---	---	232
7.6	Constraints in Access to Rural Finance	---	---	---	---	---	---	234
7.6.1	The Cost of Borrowing: Interest rate and Transactions costs	---	---	---	---	---	---	234
7.6.2	Policy, Legal and Regulatory Framework	---	---	---	---	---	---	237
7.6.3	Infrastructural Weaknesses	---	---	---	---	---	---	238
7.7	Summary and Conclusions---	---	---	---	---	---	---	239
8.0	SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS							
8.1	Preamble	---	---	---	---	---	---	242
8.2	Summary and Conclusions	---	---	---	---	---	---	242
8.2.1	The Development of the Rural Financial Markets---	---	---	---	---	---	---	243
8.2.2	Impact of the Financial Sector Reforms on RFMs and Households' Livelihoods	---	---	---	---	---	---	246
8.2.3	Constraints to Supply and Demand for Financial Services	---	---	---	---	---	---	248
8.3	Recommendations and Policy Implications	---	---	---	---	---	---	250
8.3.1	Appropriate and Supportive Macroeconomic policies	---	---	---	---	---	---	250
8.3.2	Interventions by Government and Development Partners	---	---	---	---	---	---	251
8.3.3	Development of Appropriate Financial Institutions and Products	---	---	---	---	---	---	251
8.3.4	Investment in Infrastructure and Institutional Development	---	---	---	---	---	---	252
8.3.5	A "New Role" for Financial Institutions	---	---	---	---	---	---	253
8.4	Areas for Further Research	---	---	---	---	---	---	233

BIBLIOGRAPHY	---	---	---	---	---	---	---	254
---------------------	-----	-----	-----	-----	-----	-----	-----	------------

APPENDICES

Appendix 3.1	Research Questionnaire for Individual Households							281
Appendix 3.2	Checklist of Issues for Discussions with Leaders/Extension Staff and Politicians	---	---					284
Appendix 3.3	Questionnaire for the Formal Financial Institutions							285
Appendix 4.1	Distribution of the TRDB loans by borrowers, 1972 – 1984 (%)	---	---	---	---	---		287
Appendix 4.2	CRDB Approved Loans by Regions, 1985-1991 (%)							288
Appendix 5.1	Donor Funded Microfinance Programmes in Tanzania, 2005	---	---	---	---	---		289
Appendix 5.2	Chronology of Co-operative History in Tanzania							292
Appendix 6.1	Sources of GDP Growth, 1990-94 to 2000-04 (%)							293
Appendix 6.2	Sectoral Contribution to Overall GDP (% at Constant 1992 Prices)	---	---	---				294
Appendix 6.3	The Co-operative Map in Tanzania, as at 30 th April, 2004	---	---	---	---			295
Appendix 7.1	Babati: Some Basic Indicators of Economic and Financial Infrastructure, 2004	---	---	---				296
Appendix 7.2	Status of SACCOS in Babati District, 2005							296
Appendix 7.3	SACCOS' Financial Products, 2004	---	---					297
Appendix 7.4	List of Risks Identified during the Interview							298
Appendix 7.5	Characteristics of Informal Financial Institutions	---						299

LIST OF TABLES		PAGE
Table 2.1	Changing Perception of Poverty and Finance --- ---	37
Table 3.1:	Selected population data for Manyara region, 2003 --- ---	41
Table 3.2	Babati District Administrative Profile and Population Distribution --- --- --- --- --- --- ---	42
Table 3.3	The basic Characteristics of AEZs and Crops suitability, 2003 --- --- --- --- --- --- ---	46
Table 3.4	Production of selected major agricultural crops, 1994/95-2003/04 ('000 tons) --- --- --- ---	48
Table 3.5	Babati district: Livestock Statistics 2003 --- --- ---	50
Table 3.6	Average Meat and Milk Production in the District, 2003	52
Table 3.7	Livestock Marketed through the <i>minada</i> , 1991-2002--- ---	53
Table 4.1.	Growth of the Co-operative Societies, 1950 – 1964 ---	75
Table 4.2.	Sources and Uses of Commercial Bank funds in Tanzania: 1960 – 65 --- --- --- --- --- --- ---	78
Table 4.3.	Financial Institutions in Tanzania, 1967 – 1990 --- ---	93
Table 4.4.	Sources and Uses of Financial Resources of the NBC for selected years (%) --- --- --- ---	96
Table 4.5.	Analysis of NBC Lending by Economic Sectors for selected years (1967-80) --- --- --- --- ---	97
Table 4.6.	Uses of TRDB loans as approved by sector, 1972 – 1984 in (%) --- --- --- --- --- ---	101
Table 4.7.	Sources of CRDB's Funds, 1984/85 – 1990/91 (in Tshs. m.)	106
Table 5.1	Minimum Capital Requirements, 2005 (in Tshs.)--- ---	123
Table 5.2	Summary of Regulatory Framework for MFIs, 2005 ---	132
Table 5.3	Supervision Authorities and Instruments for MFIs in Tanzania, 2005 ---	133
Table 6.1	Tanzania's Financial Sector Landscape, 2004 --- ---	144
Table 6.2	Registered Commercial Banks, as of December, 2005	149
Table 6.3	The Status of the Central Finance Programme, 31.12.2004	157
Table 6.4	PRIDE's Tanzania Product Features --- --- ---	160
Table 6.5	Selected financial indicators, 2005 --- --- ---	173
Table 6.6	Typology of Financial Services offered by surveyed Commercial banks, 2005 --- --- --- --- ---	176
Table 6.7	Trend in Commercial Banks Deposits, 1996-2002 ---	177
Table 6.8	Trend in Average Nominal Interest Rates, 1997/98-2003/04	178
Table 6.9	Decomposition of changes in poverty, 1991-2001 (%) ---	183
Table 6.10	Average annual growth for selected GDP sectors, 1990 – 2004 (%) --- --- --- --- --- ---	185
Table 7.1	Data Output from Estimation of Tobit Regression Model	193
Table 7.2	Source of Loan for different education levels, 2004 --- ---	196
Table 7.3	Source of Loan for different Education Levels --- ---	198
Table 7.4	Sources and Uses of Loans, 2004 (%) --- --- ---	202
Table 7.5	Savings Facilities Identified by respondents, 2004 ---	204
Table 7.6	Means of Payments in Babati, 2004 --- --- ---	205
Table 7.7	Money Transfers and Remittances Methods, 2004 ---	206
Table 7.8:	Demands for other financial services in Babati, 2004 ---	208
Table 7.9	The Status of Cooperative Societies in Babati District, 2004	217

Table 7.10	Farmers' Pledges against actual, June-Dec. 2005	---	---	---	---	221
Table 7.11	Economic Groups, Membership and Financial Assistance, 2004	---	---	---	---	223
Table 7.12	NGOs Operating in Babati district, 2004	---	---	---	---	226
Table 7.13	Village Community Banks in Babati District, March 2006					227
Table 7.14	Forms and Institutions of Informal Savings in Babati, 2004					229
Table 7.15	Savings against Sources of loans	---	---	---	---	231
Table 7.16	Sources of loans for Men and Women in Babati	---	---	---	---	233
Table 7.17	Interest rate by Lenders, 2005	---	---	---	---	234
Table 7.18	NMB and TPB Loan Transactions costs	---	---	---	---	236
Table 7.19	Requirements for opening Bank account with selected Banks					237

PREVIEW

LIST OF FIGURES AND MAPS		PAGE
Figure 1.1	Map of Tanzania Showing Regional Divisions Before the Split of Arusha --- --- --- --- --- ---	9
Figure 2.1	Poverty is multi-dimensional --- --- --- ---	13
Figure 2.2	The Sustainable Livelihoods Framework and Access to Finance --- --- --- --- --- ---	16
Figure 2.3	The Relationships Between Poverty and Access to Financial Services --- --- --- --- --- ---	17
Figure 2.4	Schematic Representation of Rural Finance, Agricultural Finance, and Microfinance --- --- --- ---	19
Figure 2.5	Rural Household and the Economic Environment --- --- --- ---	23
Figure 2.6	Links between Macro-Economic Policy and Household Welfare --- --- --- --- --- ---	34
Figure 3.1	Maps of Arusha and Manyara Regions --- --- --- ---	43
Figure 3.2	Map of Babati District Showing Different Agro-Ecological Zones --- --- --- --- --- ---	47
Figure 3.3	Layouts of Villages of Babati and those Covered by the Study --- --- --- --- --- ---	57

LIST OF GLOSSARY

Kujitegemea	Self-reliance
Minada	Cattle auction
Ujamaa	African Socialism
Ujamaa na Kujitegemea	Socialism and self-reliance
Ushirika	Co-operation
Wananchi	Citizens

COUNTRY FACTS

Local Currency:	Tanzanian Shilling abbreviated as Tshs.
Exchange rate used:	US \$ 1 equivalent to Tshs. 1,280
National language:	Kiswahili and English as an official second language
Capital city:	Dodoma, with Dar es Salaam as commercial city.
Village	the lowest unit of local government administration. Several villages form a Ward, which in turn constitute a division. Several divisions form a district headed by a District Executive Director (DED) who reports to District Council a democratic body elected to represent Wards.

LIST OF ACRONYMS

ABEDIA	Arab Bank of Economic Development in Africa
ACA	Agricultural Credit Agency
ACB	Akiba Commercial Bank
AEZs	Agro - Ecological Zones
AGITF	Agricultural Input Trust Fund
AMCOS	Agricultural Marketing Co-operative Societies
AMSDP	Agricultural Marketing Systems Development Programme
APLF	African Productivity Loan Fund
BAFIA	Banking and Financial Institution Act, 1991
BoT	Bank of Tanzania
CAMEL	Capital Adequacy, Asset Quality, Management Quality, Earnings Capability, and Liquidity
CBT	Co-operative Bank of Tanganyika
CDC	Commonwealth Development Corporation
CMSA	Capital Markets and Securities Authority
COASCO	Co-operative Audit and Supervision Corporation
CGAP	Consultative Group to Assist the Poorest
COCOBAS	Community Conservation Banks
CUT	Co-operative Union of Tanganyika
CRDB	Co-operative and Rural Development Bank
CRMP	Co-operative Reform and Modernization Programme
DANIDA	Danish International Development Agency
DC	District Council
DFID	Department for International Development, UK
DFIs	Development Finance Institutions
DED	District Executive Director
DLCs	District Loan Committees
DJTF	Diamond Jubilee Trust Fund
DJITF	Diamond Jubilee Investment Trust Fund
DSE	Dar es Salaam Stock Exchange
EAC	East African Community
EACB	East African Currency Board
EACSO	East African Common Services Organizations

EAHC	East Africa High Commission
EIB	European Investment Bank
ERB	Economic Research Bureau
ERP	Economic Recovery Programme
ESRF	Economic and Social Research Foundation
FDI	Foreign Direct Investment
FINCA	Foundation for International Community Assistance
FiNGOs	Financial Non Governmental Organizations
GDP	Gross Domestic Product
GBT	Gaming Board of Tanzania
GEPF	Government Employees Provident Fund
GSD	Grain Storage Department
GTZ	Gesellschaft für Technische Zusammenarbeit
HIPC	Highly Indebted Poor Country Initiatives
HITAL	Humber Institute of Technology and Advance Learning, Toronto Canada
HPI	Heifer Project International
ICA	International Co-operative Alliance
IDA	International Development Assistance
ILO	International Labor Organization
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
KNCU	Kilimanjaro Native Cooperative Union
KNPA	Kilimanjaro Native Planters Association
LAPF	Local Authorities Provident Fund
LBT	Land Bank of Tanganyika
LDLF	Local Development Loan Fund
LISO	Local Initiative Support Organization
LCH	Life Cycle Hypothesis
LDCs	Least Developed Countries
MEDA	Mennonite Economic Development Associates
MFIs	Micro-finance Institutions
MIS	Management Information Systems

MKUKUTA	Mpango wa Kukuza Uchumi na Kupunguza Umaskini Tanzania
MKURABITA	Mpango wa Kurasimisha Rasilimali na Biashara za Wanyonge
MUCCoBS	Moshi University College of Co-operative and Business Studies
NAFCO	National Agriculture and Food Corporation
NAFCREP	National Food Credit Programme
NBC	National Bank of Commerce
NBS	National Bureau of Statistics
NCB	National Co-operative Bank
NCDB	National Co-operative and Development Bank
NDCA	National Development Credit Agency
NEDF	National Entrepreneurship Development Fund
NIC	National Insurance Corporation
NICO	National Investment Company
NPF	National Provident Fund
NPES	National Poverty Eradication Strategy
NORAD	Norwegian Agency for Development
NSGRP	National Strategy for Growth and Reduction of Poverty
NSSF	National Social Security Fund
NMB	National Microfinance Bank
NMC	National Milling Corporation
NMP	National Maize Programme
NGOs	Non Governmental Organizations
PBZ	Peoples Bank of Zanzibar
PC	Planning Commission
PIM	Programme Implementation Manual
PPF	Parastatal Pension Fund
PRIDE	Promotion of Rural Initiatives and Development Enterprise
PRSP	Poverty Reduction Strategy Paper
POSB	Postal Office Saving Bank
PSB	Postal Savings Bank
RIVACU	Rift Valley Co-operative Union

ROSCAs	Rotating Savings and Credit Association
RC	Regional Commissioner
RDS	Rural Development Strategy
RFF	Rural Finance Fund
RFMs	Rural Financial Markets
RFSP	Rural Financial Services Programme
RH	Rural Household
RLFC	Regional Loan Fund Committees
SACCOS	Savings and Credit Co-operative Societies
SACAs	Savings and Credit Associations
SAP	Structural Adjustment Programme
SAYE	Save As You Earn
SEDA	Small Enterprises Development Agency
SIDA	Swedish International Aid Agency
SIDO	Small Industries Development Organization
SCCULT	Savings and Credit Co-operatives Union League of Tanzania
SELF	Small Enterprise Loan Fund
SELFINA	Sero Lease and Finance Company
SME	Small and Medium Enterprises
SFCI	Specialized Farm Credit Institutions
SLF	Sustainable Livelihoods Framework
SUDECO	Sugar Development Corporation
TBC	Tanzania Bank of Commerce
TBL	Tanzania Breweries Limited
TDV	Tanzania Development Vision
TFC	Tanzania Federation of Cooperatives
TAFCO	Tanganyika Finance Company
TDB	Tanzania Development Bank
TDFL	Tanzania Development Finance Limited
THB	Tanzania Housing Bank
TIB	Tanzania Investment Bank
TPB	Tanzania Postal Bank
TPC	Tanganyika Planting Company
TRA	Tanzania Revenue Authority

TRDB	Tanzania Rural Development Bank
TTCL	Tanzania Telecommunication Company Limited
TTCIA	Tanzania Chamber of Commerce, Industries and Agriculture
UCSC	Unified Co-operative Service Commission
URT	United Republic of Tanzania
USA	United States of America
USAID	United States Agency for International Development
VICoBA	Village Community Bank
WADU	Weka Akiba Daima Upatapo
WB	World Bank
WOCCU	World Council of Credit Unions

PREVIEW

CHAPTER ONE

INTRODUCTION

1.1 Background to the problem

Tanzania is among the developing countries categorized as the poorest country in the world with a GDP per capita of US \$ 321 (URT, 2006b:21). The country is made up of Tanganyika and Zanzibar - two sovereign states that united in 1964 to form the present United Republic of Tanzania. Historically, Tanganyika was ruled by the Germans from 1891 to 1920, but after their defeat in World War I, Tanganyika was from 1920 to 1961 put under the British protection by the United Nations. Administratively, Tanzania is divided into twenty six regions, of which twenty one are on the mainland and five in the Islands of Zanzibar. According to the national population census in 2002, Tanzania had a total population of 34,569,232 growing at an average rate of 2.9% per annum (URT, 2003b:2-3). Based on this growth rate, the country's population is projected at 36,321,000 people by the end of 2005.

Like in most other developing countries, the degree of rural households' access to financial services in Tanzania is significantly low. According to a study commissioned by the Bank of Tanzania (1997:2-10) the unmet demand for rural financial services by formal financial institutions was significantly high, thus forcing rural households to rely on informal financial services by 82%. Of those operating bank accounts, they only saved 12% of their total savings. In addition, about 94% of the total households were willing to borrow if there were available resources and appropriate products and delivery methodologies. A follow up survey conducted in 2002 revealed that only between 6%-8% of the total rural credit demands were met by the existing formal financial institutions (IFAD, 2002b:19; URT, 2002b:15).

Agriculture forms the key sector in rural economy upon which rural households depend for their livelihoods. However, most studies reveal that with the liberalization of the financial sector, financing of this main sector declined precariously (Moshi, 2003; Bee, 1997; Kashuliza, 1994; Nyagetera and Kilindo, 1995; Ndanshau, 1995). According to Moshi (2003:15) liberalization of the