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農業背景調査：行政・法整備編

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

Rural and Agricultural Development Advisory Group of JICA Tanzania Office
(RADAG)

Discussion Paper
Agricultural Sector Development Programme (ASDP) of Tanzania

**Public Administration in Tanzania in the Context of Implementation of Agricultural
Sector Development Programme (ASDP)**
(Draft 2)

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1. Introduction

Tanzania is in the middle of institutional reform of the government sector. The Local Government Reform Programme (LGRP), a 6-year plan started in 1999, is a major on-going programme for the public sector reform. The vision on local government is that local government institutions should be free to make policy and operational decisions consistent with government policies without interference by the central government or its institutions. Under this arrangement, the role of the central government should be restricted to formulation of policy and provisions of a regulatory and monitoring framework.¹

On the other hand, under the new system, it is intended to give Local Government Authorities (LGAs: district and sub-district level of local governments) extensive range of autonomy in many areas of public service provision. Given this decentralised settings will be in place, it is assumed that most of the responsibilities for implementation of activities and funds to finance them under the Agricultural Sector Development Programme (ASDP) are to be in hands of LGAs.

In practice, however, LGAs are not ready to become what the vision of LGRP expects them to be. LGAs should be strengthened in many ways to make them functioning realities. The objectives of this paper are to review the present situation of local government reform and to present some key implications for ASDP.

2. Recent Moves of Decentralisation in Tanzania

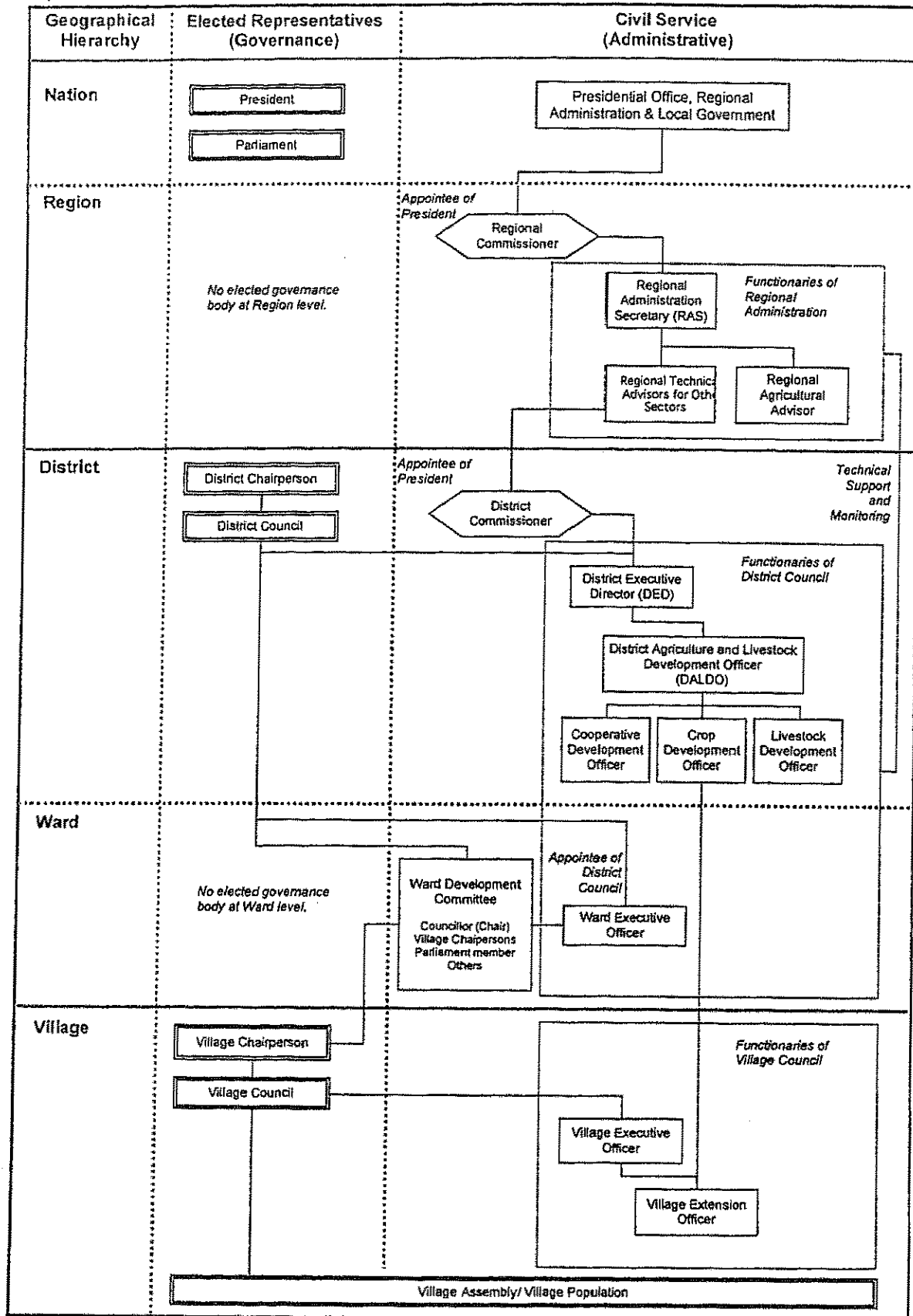
2.1 The Local Government Reform Programme: New Settings of Decentralisation

In short, LGRP is the programme to decentralise functions of the government sector in Tanzania. It has changed relationship between the Central Government and Local Government Authorities (LGAs). Before the reform, LGAs are part of a top-down administrative mechanism to implement central government programmes. The hierarchy of authority was uni-linear starting from Central Ministries, Regions, Districts, Wards, and to Villages. After reform, LGAs are independent from Central Ministries and Regions. New settings are as summarised in the Figure 1.

Regions were once cores of administrative arms of the central government and direct service providers to the population. At present they are transformed to organisations for monitoring and technical advice to the districts.

Districts and villages are recognised as local units of governance. They have the District or Village Councils whose members, the Councillors, are elected by the population. Among the councillors the District or Village Chairperson is elected as a leader. By and large, the Council is "the Local Government". The District Executive Director or the Village Executive Officer is the chief of administrative arms of respective levels of the Council.

¹ Ministry of Regional Administration and Local Government (present PORALG), *Local Government Reform Agenda 1996-2000*, October 1996.



Source: Drawn by the author based on interviews and information obtained from PO-RALG.

Figure 1 New Local Government Structure of LGRP

Unlike the district and village, the ward does not have either a democratically elected leader or organ. The ward is actually an administrative arm of the district council rather than a unit of governance. There are functionaries who manage the ward under the direction of the Ward Development Committee (WDC). The district councillor representing the ward is the Chairperson of WDC. The secretary of WDC is the Ward Executive Officer (WEO) who is an appointee of the District Council. The WDCs do not have their own staff or source of funds. They entirely depend upon the funds and staff seconded from district councils. Members of WDC include the district councillor from the ward, all village chairpersons (*Mitta* chairpersons in urban areas), and other appointed members. The main function of the WDC is to ensure the implementation of the decisions and policies of the district council at the sub-district level.

2.2 Principles of the Reform

In the reforms there are general principles of relationships between different levels of administrations as follows.

- Financial transfers will be direct from the Ministry of Finance to each LGA (no disbursement through line Ministries as illustrated in Figure 2).
- The central government can intervene LGAs only through legislation and policies.
- Any legislation with an impact on LGAs must be negotiated with the LGAs representatives before it is passed.

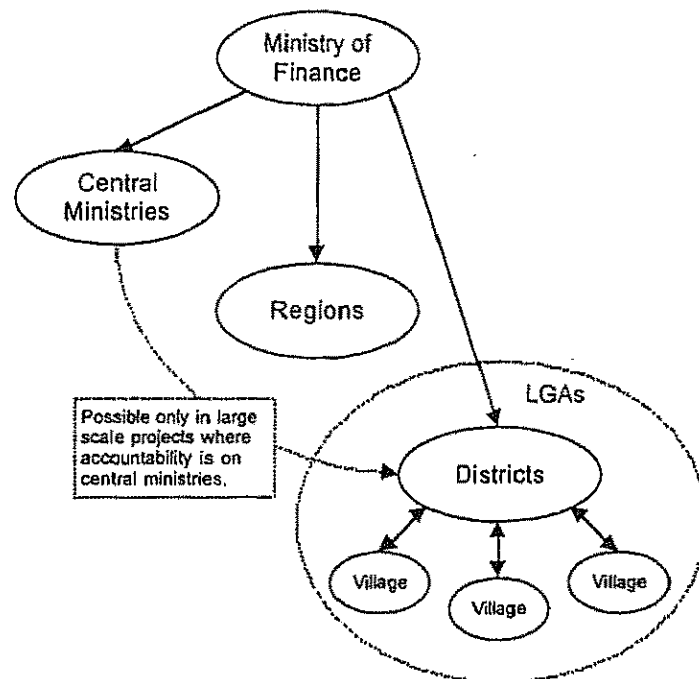


Figure 2 Financial Transfers to Different Levels of Administration

Many functions and responsibilities of the Ministries and Regional Administrations have been shifted to LGAs. LGAs now have responsibility for primary education, secondary education, primary health care, district hospitals, water and sanitation, land use planning, feeder roads and community roads, agricultural extension services, environmental protection, and etc. In line with this change in functions, the majority of technical personnel in the Regional Secretariat Office have been transferred to Districts.²

² In case of Mwanza Region, technical officers had been reduced from 250 to 80.

It is intended that the quality of and access to these public services are improved when these are provided through or facilitated by local authorities. This is based upon the idea that decentralisation will provide the following opportunities to local people.

- To find local solutions to local development problems.
- To influence and participate in decision making and priority setting for own communities.

2.3 Outline of LGRP

To realise decentralisation, LGRP consists of the following six components.

- Governance: to establish broad-based community awareness of and participation in the reform process and promoting principles of democracy and accountability.
- Restructuring of Local Authorities: to enhance abilities of local authorities to deliver services in good quality and in a sustainable manner.
- Local government finance: to increase the resources available to LGAs and improve efficiency of their use.
- Human resource development: enhance accountability and efficiency of manpower of LGAs.
- Institutional and legal framework: to reform institutional settings of LGAs and to enable relevant legislation and amendments to support the LGRP process.
- Programme management: to support the effective management of the LGRP.

Each component consists of various sub-components of activities and step-wise work items including the formation of "Council Reform Team", "Stake Holder Workshop", "Formulation of Strategies and Performance Indicators", "Implementation Plan", etc.³

The implementation schedule of LGRP is as shown in Figure 3.

		Year				1999				2000				2001				2002				2003				2004			
		Qtr				1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Phase 1	Preparation																												
	Mobilization																												
	Implementation																												
	Evaluation																												
Phase 2	Mobilization																												
	Implementation																												
	Evaluation																												
Phase 3	Mobilization																												
	Implementation																												
	Evaluation																												
Consolidation																													

Source: LGRP Action Plan and Budget 1999-2004

Figure 3 Local Government Reform Programme (LGRP) Implementation Schedule

The implementation of the LGRP is divided into three phases. There are 114 districts in

³ For detail, see *The Assessment of the Changes and Impact of Local Government Reform Programme on Local Government Authorities: Progress Report for JICA*, February 2001.

Tanzania. In Phase 1, 38 district councils have been chosen to begin with. These 38 districts are considered to have relatively strong financial bases of their own. In Phase 2 and Phase 3, 45 and 31 district councils respectively are planned to follow.

2.4 Status of Implementation of the LGRP

As of November 2001, the implementation of LGRP is far behind the schedule (at least 3-6 months behind). Phase 1 will not be completed at the end of 2001.

In addition to the delay of the LGRP implementation, officials in several Regional Administration Secretariats and Districts raised the following matters as prevailing issues related to on-going decentralisation.

- Limited acceptance of changes: Among staff members of government agencies, the significance of decentralisation is not fully understood and realised as it is intended to be;
- Lack of management capacity at the district level: Management capacity of District Councils is often limited in terms of planning and implementation; and
- Revenues of Districts are limited and thus still much depend upon the budget allocated by the central government. Therefore, there is lack of logistics, especially transport and communication facilities.

The following points are also raised as possible options to strengthen districts.

- Put right people at the district level: Human resources of most districts are seriously limited. More professional and technical people are needed at the district level, rather than at the regional level.
- It is necessary to set certain qualification or guideline to become a district council member.

3. Major Issues in Public Administration in the Context of ASDP

Issues of public administration in Tanzania in the context of ASDP are boiled down to the following two major aspects.

First, Government expenditure programs are severely under-funded due to revenue shortfalls. It is quite unlikely to find quick solutions to this structural problem. The only way to install self-funding capacity is to reform the financial management system step by step and change behavior of the taxpayers. For the time being Tanzania's Government budget continues to depend upon external funding from the donor countries.

Secondly, there are many issues concerning institutional capacity. In short to medium term, the core of concern is whether the expected increase in external financing will yield the intended results with a certain degree of accountability and transparency needed to introduce new forms of financing, namely budget support and sector-wide programs (ASDP is the one for the agriculture sector).

3.1 Lack of Financial Capacity

3.1.1 Weak Revenue Basis

In Tanzania, one of the most fundamental issues concerning public administration is a fact that total amount of revenue is far short of required expenditure. Approximately 80% of public investment is financed by external sources that are mostly financial assistance by the donor countries. Local revenues are not sufficient even to finance recurrent expenditure such as salaries for civil servants. For example, "daily subsistent allowances (DSAs)" that are largely financed by project expenses often far exceed nominal wages of civil servants and account for major part of total incomes of officers who are seconded to donor assisted projects.

It is obvious that Tanzania cannot continue to be financed in such a way in the longer term. Improving planning and expenditure management is indispensable yet only a half way of doing thing. Tanzania needs to have a long-term prospect to establish a better feedback link that brings more tax and other government revenues when the economy grows. In practice, a recent trend is not following this line. Total revenue as a percentage of GDP continued to drop from the peak of 13.5% in FY1997 to 11.2% in FY2000.⁴

The cause of the decline is explained as follows: "...substantial reductions in external taxes, relatively large tax incentives for new investments, the continued downsizing of the parastatal sector, and sluggish private sector growth which has not yet yielded enough revenue to compensate for lost revenues from the shrinking parastatal sector."⁵ Increasing government revenue is the key challenge to restore the Government's essential role of providing infrastructure services, and basic social services. It is important to note that this issue in financial capacity is deep rooted in any aspect of public administration in Tanzania, though revenue mobilisation as a whole is beyond the scope of Agricultural Sector Development Programme.

⁴ Government of Tanzania and the World Bank, *The United Republic of Tanzania: Public Expenditure Review FY00*, January 2000.

⁵ *ibid.*

3.1.2 Agricultural Taxation-Disincentives to Produce Surplus

(1) Narrow Based Taxation

In Tanzania, the readily accessible tax base is relatively small. For non-agriculture sectors, tourism and manufacturing sectors are some of those most accessible tax bases. Within the agricultural sector, major tax bases include traditional export crops, any crops that are traded through commercial channels, and livestock.

When the tax burden falls on a narrow base, serious structural problems often surface. Firstly, disproportionately heavy burden leads those taxpayers to poor compliance. This is one of the reasons why tax evasion is wide spread in Tanzania. Secondly, narrow based taxation act as explicit disincentives against readily taxable economic activities. For example, it is estimated that the capital formation of the tourism sector (building, machinery, inventory and etc.) with foreign direct investments in Tanzania is taxed with a rate of three times as high as the one in Kenya, which is an immediate competitor among the others for attracting tourists heading for Kilimanjaro.⁶

(2) LGAs Depend upon Agriculture Taxation

In case of agricultural taxation, situations are more diverse. The taxes are designated as central or local taxes and collected by respective governments. Depending on the kind of crop and the District, the tax burden on farmers is quite different. It is well known that livestock and traditional export crops are heavily and unevenly taxed across different local districts.⁷ The conceptual image of the difference in significance of taxation at different levels of government by agricultural products is as shown in the Figure4.

Export Crop e.g., Coffee, Tobacco, Cashew Nuts	Food Crop		Livestock
	Tradable e.g, Wheat, Rice, Maize	Local e.g, Maize, Cassava, Millet	
Central Government Tax			
	Local Government Tax		

Figure 4 Conceptual Image of Taxation of Levels of Government by Agricultural Products

Note: The relative size of shaded or non-shaded areas does not represent the real size of tax revenues from different agricultural products.

After the recent adoption of Value Added Tax (VAT) in 1998 and discarding of sales tax and stamp duties, food crops are not directly taxed by the central government anymore and export

⁶ *ibid.*

⁷ World Bank and International Food Policy Research Institute, *Agriculture in Tanzania Since 1986: Follower or Leader of Growth*, Washington D.C., June 2000.

crops are remained to be a major tax base in agriculture. Thus the direct taxation by the central government has little impact on the majority of smallholder farmers in Tanzania.

On the other hand, at the local level, marketed food crops are substantial tax bases. Food crops are not directly taxed as long as these are sold informally. However, once a farmer produced substantial amount of surplus that should be sold through more formal channels in the cash economy, she or he is liable for paying District, Education, and Village levies. In total, these local levies, known as cess⁸, amount to as much as 10 % of sales value. It is clear that these types of producers' taxes discourage farmers to produce surplus of food crops.

(3) Structural Problems of Agricultural Taxation by LGAs

Increasing revenue is important. However, it is important to do so by broaden tax base not by already burdened readily taxable economic activities. In case of LGAs it is needed to find ways to increase revenues without discouraging agriculture production. In short to medium term, distortionary taxes should be replaced by non-distortionary taxes. Existing structural problems of agricultural taxation especially at the local government level include following things.

- The use of fixed cesses that has no relationship with the profitability is highly regressive for smallholder farmers.
- Many different small taxes are hard to manage neither efficiently nor properly.
- Taxing trade rather than production (income) raises distribution costs, which discourages commercialisation.
- Differential tax rates on different commodities distort production and sales incentives.
- Unpredictable changes in taxation at the local level raise risks and thus costs.
- The system as a whole is unfair in those different individuals pay very different levels of taxes and not necessarily in relation to income.

3.2 Institutional Capacity of LGAs

3.2.1 Transparency and Accountability of LGAs

As addressed as the objectives of "Governance Component" in LGRP⁹, LGAs must upgrade themselves to have the following capacities.

- More transparency and participation in the decision-making process.
- More accountability to the local people, especially of financial management of LGAs.

These capacities coincide with what LGAs need to have in implementing ASDP. Given absolute shortfalls of self-financing, ASDP is a new medium to introduce external financing including basket-funding or budget support that requires built-in mechanisms of accountability and transparency within both Central Ministries and LGAs.

⁸ Cess: a tax from a word "assess". Webster's Revised Unabridged Dictionary, © 1996.

⁹ *The Assessment of the Changes and Impact of Local Government Reform Programme on Local Government Authorities: Progress Report for JICA*, February 2001.

Among LGAs, transparency and accountability are indispensable to strengthen district-village links to manage their own development resources in line with promotion of self-governance at grassroots level. This is particularly important to implement agricultural development programmes that have location specific nature.

3.2.3 Lack of Cooperation Between Districts and Villages

In practice, however, there are distrustful sentiments between the District and the Village. One of the most prevailing sources of distrust is the question of village revenue.

On the side of the villagers there are five sets of complaints about the district council.

- Revenue in the form of taxes, in particular development levy, is collected by the district council. The villagers think, however, they see very few fruits of the tax they pay either in the form of services or in cash for the use of the village.
- Village officers, such as village executive officers, are turned into tax collectors as agents of the district council for which the village is promised a certain percentage as commission.¹⁰ This creates a kind of antagonistic relationship between village officers and the villagers.
- Other sources, which could be used by the village for taxing, are also utilised by the district council.
- Although promises are made to return some percentage of the tax collected from the village back to the village, the promises are often not kept, or the payments are delayed.
- Villages are not provided meaningful information from the district council as to the amount of tax collected and the amount that the village is entitled to receive.

The district councils and central Ministries, on the other hand, often argue that the villages themselves have problems. Their perception of the villages is summarised as follows.

- The villages lack the necessary capacity to collect taxes, budget their expenditure and spend the money in an efficient and accountable manner.

It is difficult to say which side is right or wrong in each aspect of the revenue disputes among LGAs. However, it is certain that on-going decentralisation will not yield meaningful outcomes without trustful relationships between the districts and the villages. No serious reform of village governance will take place if the villages are not provided with reasonable and reliable sources of revenue.

For the districts, there are plenty of room for improvement to prepare district expenditure plans and let the villages understand and put trust in what they do with all the tax money they collect from the villages. This will also decrease risks in tax evasion at the level of LGAs.

¹⁰ In some cases in Mwanza Region, 30% of total amount of development levy collected by the village officers are returned to the village and 70% are kept with the district.

3.2.3 Priorities in Capacity Building of LGAs

Weak planning and implementation capacity at the district and sub-district levels is a major impediment in rural development. It is also a central issue for realising effective decentralisation of public administration. Among others, it is particularly important to install accountable budget management and monitoring systems all the way from the central level to the village level.

In line with above discussions and imperatives of on-going LGRP and forth-coming ASDP, the following matters are priorities.

Village Level:

- Facilitate the building of capacity of village officers to do the planning and budgeting for the use of revenue. A simple and clear accounting system is needed.

District Level:

- Facilitate the building of capacity of district officers to do the planning and budgeting for the use of revenue. It is important to present clearly for what and how the tax money is used.
- Facilitate the building of capacity of Ward Executive Officers (WEO) for presenting district plans to the village chairpersons. WEOs, appointees of the district councils and secretary to the Ward Development Committee are in key positions to link the districts and the villages.
- Guideline for District Planning: Capacity of districts very much differ from one another. Some districts lack capacity to prepare a district level plan. Guidelines for the district level planning are needed including those for scheduling and itemising work plans, and budgeting and accounting.

Regional Level:

- Redefine the roles of Regional Administration: providing technical supports for the district level planning based on the guidelines. LGRP has a component for this purpose.
- Monitoring implementation and accountability of district plans.

Exercise for Village-District-Region Links:

- There are various ongoing donor assisted training programs to strengthen LGAs. On top of them, the actual planning process itself has a potential to be an arena for "learning by doing training". As part of LGRP, there is a component to prepare a planning guideline (a guidebook in a sense) for the district and sub-district level administration.
- To use such a guidebook better in practice, relatively simple and straight-forward activities such as rural road construction could be earmarked as a focal sub-sector to exercise local-based planning in an integrated manner of Village-District Plans and monitoring by the Regions.

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5. Persons Interviewed

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Mr. Adam M. Swai, Regional Agricultural Advisor
- 3) Iringa District Council
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- 4) Southern Highlands Dairy Development Project, Iringa
Mrs. Vera Florida Mugittu, Project Monitoring Manager
- 5) Ilula Sokoni Village, Iringa District, Iringa Region
Mr. Athuman S. Kabedase, Village Chairman
Mr. John Nyoni, Village Extension Officer
- 6) Mwanza Regional Administrative Secretariat
Mr. Clemence Rutaihwa, Regional Administrative Secretary
Mr. N. S. Kulwijila, Regional Agriculture Advisor
- 7) Lake Zone Agricultural Research and Development Institute (LZARDI)
Mr. Peter Kapingu, Zonal Director
Mr. G. B. Tungu, Social and Economic Research Officer
Mr. Mongi, Social and Economic Research Officer
- 8) Misungwi District Council, Mwanza Region
Mr. Kachima, Acting District Executive Director/District Agriculture and Livestock Development Officer
- 9) Mwangala Village, Misungwi District, Mwanza Region
Mr. Peter Majo, Village Chairman
Mr. F. Mhala, Village Executive Officer
- 10) CARE Tanzania's Magu District Livelihood Security Project, Mwanza Region
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Ms. Pili Ndaki, Capacity Development Officer
Mr. Godfrey Paul Mkelemi, Economic Development Officer
Ms. Joyce J. Kulwah, Field Officer
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- 11) Magu District Council, Mwanza Region
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資料 2 4

農業背景調查：農業金融編

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

Rural and Agricultural Development Advisory Group of JICA Tanzania Office
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**Discussion Paper on Rural Finance in Tanzania
in the Context of Agricultural Sector Development Programme (ASDP)**

March 2002

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1. Introduction

In order to achieve the objectives of increasing agricultural productivity and farmers' income, the Agricultural Sector Development Strategy (ASDS) points out the necessity of supporting private sector initiatives to establish 1) short-term financial instruments such as credit for input supply, savings facilities and money transfer services, and 2) institutional arrangement for investment finance. Within the context, ASDS proposes a strategy of the development of rural and demand-driven "micro finance institutions" (MFIs), in expecting for them to work as an intermediary between formal / informal financial institutions and rural people.

This paper discusses the developing MFIs as a mean of improving rural people's access to financial services in a following way. Following the presentation of the present rural finance situation, case studies of both financial institutions' as well as rural people's various approaches for establishing rural finance systems are shown based on the field study. The idea of ASDS about developing "linkage banks" between financial institutions and rural people are then discussed taking into account of the case study. Finally, a set of strategies and action plans are proposed based on the findings.

This study was undertaken by following steps.

(1) Literature Survey

The RADAG Team reviewed existing papers related to policies and present situations of rural micro finance development.

(2) Interviews in Dar es Salaam, Dodoma and Morogoro

The team conducted interviews and exchanged opinions regarding MFI development with government institutions, private and public banks and researchers at universities. The visited commercial banks are the ones who show interests in extending their services to rural areas.

(3) Field Study

Field study took place between November and December 2001 in Mwanza, Kilimanjaro, Kigoma, Tabora and Dodoma Regions. Selection criteria were 1) different agro-ecological zones, and 2) existence of different types of MFIs. The team visited regional, district and village government offices, research institutions, different types of rural MFIs, branch offices of private and public banks, and NGOs that are engaged in micro finance.

2. Present Situation of Rural Finance

During the process of financial liberalization after 1991, rural people are faced with a problem of getting money for production activities, daily expenses, and emergency expenses such as funerals, especially before harvest. The lack of appropriate financial systems in rural areas prevents rural people from increasing their income. High interest rates charged by money-lenders or traders reduce their net income. Widely conducted suppliers credit forces farmers to sell their products at the lowest prices during the harvest that deprives an opportunity to sell at higher prices after the harvest. These problems could be solved if they could have enough access to financial services that meet people's request.

The financial sector has been liberalized since 1991, aiming at vitalizing private economic activities. It is still in the process of development and a gap between demand and supply of financial services still exists. Privatized banks have decreased the number of rural branch

offices, and provide mainly short-term credit. On the other hand, rural people demand very small loans with payment period adjusted to accommodate the pattern of income flows¹ either for: a) long-term and lump sum money for production purposes such as land preparation, input purchase, hiring labour and machinery; or for b) a short-term consumer or emergency type small amount of money. They also need a high quality saving services for very low balance accounts with relatively few installments. It is costly and risky for banks to provide such credit and savings services to rural people due to the asymmetry of information, high transaction costs and lack of collateral. Therefore, banks mainly invest their money in government securities and bond, rather dare to extend services to rural areas and the deposit amount tends to exceed the lending amount. As a result, less than twenty per cent of total population can benefit from formal financial services and majority of rural people has no means of access. Rural people in general solve their financial problems by using their informal means of savings both monetary (hoarding) and non-monetary (harvested crops and livestock), or by using informal lending such as borrowings from relatives and friends, or private money-lenders including shop keepers. The rotational savings and credit system widely observed especially in urban areas of Tanzania is not commonly taking place in rural areas.

2.1 Brief History of Rural Finance in Tanzania

Before independence, people established cooperatives with own capital and solved the financial problems in some rural areas. They were members as well as owners and managers of the cooperatives and interest of members matches those of cooperatives.² Therefore, there existed incentives for members to operate and manage cooperatives well.

After the independence, multi-purpose cooperative societies were encouraged by the government to provide credit facilities for the development of agriculture. The chain created by the loan distributive system through several intermediaries such as cooperative unions, marketing boards, district authorities, and primary societies made the system complex and inefficient.³ In most case, qualified staff members for management of loans were inadequate due to lack of trainings for credit officers. Also, the characteristics of cooperatives for marketing sometimes contradicted credit institutions and development of sound credit cooperatives were sometimes prevented. Moreover, unlike the pre-independent period, most seed money was not collected from members, but came from outsiders such as the government, donors and NGOs, people thought it as granted, which led to low repayment rates. The government introduced and abolished several credit schemes within a short period of time, without adequate consultation with rural people and related organizations. Consequently, the rural finance systems faced with a growing bureaucratic tendency and corruption. In 1993/94, the government requested the banks to write off non-performing assets equivalent to Tsh. 35 billion.

¹ According to the Tanzanian demand and supply of financial services survey conducted by the Bank of Tanzania in 1997,

² Ally M. Kimario, Marketing Cooperatives in Tanzania: Problems and Prospects, Dar es Salaam University Press, 1992, p.100

³ Gaudens P. Mpangala, Major Issues in Tanzanian Economic History II, Institute of Kiswahili Research, 2000, p.71

2.2 Government Policy on Micro finance Development

The role of the state changed from “direct intervention through promotion activities of rural financial institutions” to “setting up an adequate environment by offering support, guidance and advice”. The National Microfinance Policy gives the overall guidance of rural finance development and further detailed plans are to be prepared according to this policy. It places SASSOs as a key role in extending financial services to the rural majority of Tanzania. The Cooperative Societies Act and the Banking and Financial Institutions Act set the stage for the resurrection of rural SACCOs in the context of a liberalized financial sector.

The Ministry of Cooperatives and Marketing (MCM) now supervise SACCOs as they are registered as “cooperatives.” However, they can also be considered as “financial institutions” taking into account the deposits taking characteristics. Therefore, the Act established a tire framework for rural financial services with definition of minimum capital requirements and prudential standards for Community Banks.

The Bank of Tanzania (BOT) is now preparing for a comprehensive guideline of a “legal, regulatory and supervisory framework of Microfinance Institutions” in collaboration with other related organizations including MCM, with funding from the World Bank. This framework is going to clarify the supervision issue of SACCOs.

2.3 Financial Institutions' Expansion to Rural Areas

Some banks have started to provide financial services to rural individual people, under the strategy to be a retail bank in Tanzania. CRDB Bank is an example. It has been implementing a pilot project of extending financial services to rural people through existing SACCOs since 2000. National Micro financeBank (NMB) has also started a pilot project that extends small credit to individuals for the purpose of expanding clients' base.

Some of the attempts are introduced based on our field study.

2.3.1 CRDB Bank

CRDB Bank (hereinafter CRDB) has strategy to expand their business into rural areas. It studied more than 2,600 areas in a country to find appropriate intermediaries from 1999 to 2000 and identified SACCOs as a MFI through which CRDB could extend financial services to rural people. It is now conducting a Microfinance Pilot Project in Iringa, Mbeya, Dodoma and Morogoro, where deposits taking and lending services are provided to selected SACCOs. For some cases of SACCOs, also refer to 2.4.4pg 11.

The selection criteria of SACCOs are: 1) already established; 2) having a premise and at least one full time worker; and 3) having own constitution. After signing the Memorandum of Understanding (MOU), CRDB provides practical training to the SACCOs permanent staff (chairperson, accountant and secretary), committee members and all the members, respectively. It also provides equipment such as safe, cabinet, accounting books and so on. All the costs are born by CRDB as an initial investment at present. The total number of people who were trained was 2,000 from 43 SACCOs in 2000.

Although it is still in an initial stage, the project is implemented well so far. The average repayment rate of SACCO is 100 per cent whereas that of normal lending is about 85 per cent. The total amount of loan outstanding to SACCOs is Tsh 15 million, which is negligible,

compared with CRDB's total assets of Tsh 190.5 billion. Therefore, it has an intension to increase the loan outstanding to SACCO up to five percent of total assets in the future.

2.3.2 National Microfinance Bank (NMB)

NMB is a government owned bank in charge of micro credit. It started lending activities in August 2000 and now has about Tsh 850 million outstanding for 2,700 customers. Having a large branch network, NMB has strategy to expand micro credit throughout the country. It is providing micro credit between Tsh 50,000 and Tsh 750,000 to those who are engaged in small business in urban areas at 17 branches out of total 102. The lending period is six months with an interest rate of 2.5 per cent per month. The repayment rate is 100 per cent without any arrears so far.

After the completion of the one-year pilot stage in August 2001, NMB is now expanding the micro credit business to rural areas. In 2002, it will increase the number of branches providing the micro credit by 16 including rural districts. At each newly opened branch, a loan officer would be engaged in micro credit. It plans to increase the total lending amount of micro credit up to Tsh 6 billion in 2006.

In order to expand the micro credit business, training of loan officers is crucial. It provides 90 days training, consisting of one month classroom training and 2 months on-the-job training, to new loan officers every year. Their average age is 23 to 24, as it prefers young staff members who can easily absorb what they are trained for. Training costs are expensive, but it considers the costs as initial investment inevitable for future expansion of the business.

NMB considers onlending to SACCOs in the future. What NMB makes reluctant to on-lend money to SACCOs is lack of accountability. Some SACCOs do not audit their financial statements (F/S) for more than three years, which is out of question as financial institutions. NMB has criteria for selecting SACCOs as follows: 1) clear leadership; 2) no government influence; and 3) accountability / regular audit.

2.3.3 Kilimanjaro Cooperative Bank (KCB)

KCB is a regional bank that was established by small farmers through their cooperative societies in 1995. KCB was owned by 170 societies, out of which SACCOs account for one third. These SACCO are located in rural areas and act as a kind of "branch offices" of KCB. SACCO officials conduct credit screening of loan applications from the members, follow-up and supervision of projects during implementation, and repayment evaluation. KCB has an easy withdrawal system of membership, which has imposed discipline on the leaders and makes them consider members' opinions. This element of people's ownership is crucial in the success of the KCB-SACCO model of a rural financial institution.⁴

However, there are some constraints of this scheme.

- In the nature of agriculture, climatic changes and price fluctuations easily affect the profitability of member SACCOs. It is difficult to diversify the portfolio of KCB operating in areas where most people are engaged in coffee production. These producers are vulnerable to price fluctuations of coffee.
- While SACCOs have played an important role since KCB's outset, the system by

⁴ Andrew E. Temu, "The Kilimanjaro co-operative bank: a potentially sustainable rural financial institution model for Sub-Saharan Africa", *African Review of Money and Banking*, vol 1999, pp. 49-74.

which KCB inspects SACCOs is not adequate. Many SACCOs are faced with problems of mismanagement, which affect KCB's operation.

2.3.4 National Social Security Fund (NSSF)

Being a parastatal social safety fund, NSSF has mainly provided social safety services to employees who earn at least Tsh 30,000 a month. The services cover retired pension, maternity leave, school fees, funeral grants, medical cares and so on. Both employers and employees have to pay 10 per cent of monthly salaries to NSSF, respectively. Those who have stable and regular incomes can be registered and benefit from the social safety services and no agriculture producers and organizations are registered so far, except for private plantation and agro processing companies such as tea and sugarcane estates.

However, NSSF has an intension to extend their services to rural people, taking advantage of its nationwide branch network⁵ in the future. NSSF currently conducts a study on extending social safety to the informal sector and the agriculture sector with its own budget. The study result will come out after NSSF finalizes a comparative study in the Philippines, Sri Lanka and Tunisia. NSSF will make a formal decision after screening the study result, but it considers the following possibilities at present.

- NSSF does not provide services to individual farmers, but it could be possible to use organizations such as agricultural and marketing cooperatives that can collect money from members regularly, either monthly or even in a lump sum basis at the harvest season on behalf of each member farmer.
- NSSF provides services to groups of people that have income and cash flow enough to contribute to NSSF regularly.
- Income sources of the group of people are reliable enough to contribute to NSSF.

2.4 Emerging Rural Micro financial Institutions: Case Studies

The past experiences of failed "top down" type savings and credit-schemes imply necessity of creating schemes that are simple and based on people's initiatives. This principle is being utilized now in the process of formulating village-based savings and credit entities and works well when it comes to implementation. People have learned from the past experience that a "supply-led" micro finance system where members just follow a lending condition set by seed money suppliers (the government, NGOs, etc.) can hardly work. As a result, members themselves decide about lending conditions based upon their needs and can even borrow money for a longer period, reflecting their repayment ability based on agriculture production.

This "people's initiative" approach has become popular and many rural micro finance institutions make their constitutions by themselves. As an NGO staff member implies, it is important for people to have a chance to think, implement, fail, and rethink by themselves. It takes some time to pursue this approach. However, it is highly likely that people operate and manage the system in the long run even after the completion of external assistance. In this sense, it is noteworthy that many attempts are being made in order to find / build a mechanism suitable for Tanzanian conditions, instead of just replicating a successful model implemented in Asian countries such as Bangladesh. The followings are such examples obtained from the field study.

⁵ At present, there are 23 regional branches and some braches at district level. Total employees are 1,300.

2.4.1 Voluntarily Formed Organizations

Case 1 Ilolwansimba SACCO, Tabora Region

This SACCO was established within a tobacco primary cooperative society that was engaged in sales of tobacco. Mobilization for the formation of this SACCO started in 1993/94 by a present chairman who used to work at the Tobacco Board. Presently, it has 118 members from 5 villages within a radius of 6 km. The majority (110) lives in the same village. Members increased from 25 to 118 after May 2001, when some members attended a workshop on raising awareness of people about formulating a savings and credit cooperative organized by SCCULT⁶ by paying a participation fee of Tsh 15,000 plus fares by themselves. Of the 118 members, 102 members have already bought 5 shares at Tsh 50,000, which is necessary for official membership.

Main activity is to provide loans for local preparation such as hiring labour and purchasing of fertilizer. Fertilizer is sold to members with a small margin.⁷ They have their own formula of interest charged on loans, but no interest is charged in case a loan is taken for family problems.

The SACCO does not require any collateral at present. Instead, it screens loan applicants at the credit committee. Normally, it takes 2 to 3 days for approving loan applications and another 3 days for an account to go to a commercial bank in Tabora, which is 40 to 50 km from the SACCO's office. Loan applicants pay the cost of return tickets of Tsh. 2,000 from the village to Tabora. So far, it does not take any deposits from members but has an intension to do so.

Both the chairman and accountant are working as volunteers as the SACCO cannot afford to pay the salaries at present. The FTC (full technical certificate) holding accountant has worked since 1994 receives members every day at his house and keeps records for every transaction. He goes to the Tabora district cooperative office for regular inspection, but only Tsh 3,000 a day is paid to him from the SACCO for food and accommodation.

The following problems were found from the field study.

- Since farmers normally repay their loans from May to August, their bank account is almost empty during the months of November to February, even though funds are needed for preparation of fields and purchase of agricultural inputs. Shopkeepers lend money to members during the time, upon request. This impedes the SACCO from expanding activities, and it is now applying for a credit at SCCLUT in Dar es Salaam.
- Fertilizer sale to members is one of the important activities of the SACCO. However, this year, tobacco companies purchased the fertilizer allocated to the region and the SACCO was told to pay higher prices than TFC (Tanzanian Fertilizer Company)'s normal selling price.
- All members except for two shopkeepers are engaged in tobacco production. Therefore, members have the same demand for credit at the same time, which makes the SACCO difficult to meet members' demand all the time. At the same time, it is highly likely that SACCO is affected by climatic conditions.
- Operation within a primary society, the SACCO cannot be engaged in tobacco sales

⁶ In 1992 SCULTT was formed as an umbrella organization of SACCO and has 373 members out of the total 883 SACCOs, mainly in the urban areas and very few in the rural. SCULTT has strategic plans of assisting the SACCO in providing them with loans for different development activities. The sensitization of people through SACCO by the NBC and CRDB was mentioned to protect the interest of the banks. MCM is studying the whole issue on how farmers can benefit from this.

⁷ SACCO buys 1 bag of fertilizer from Tanzanian fertilizer Company (TFC) at 11,500 and sells it to members at 13,000 including transportation costs and administration fees.

activity, which prevents it from expanding their activities for increasing the incomes.

The following lessons are learned:

- Strong leadership with business experiences is a driving force to establish a people-initiated SACCO and to expand its activities. It is very important to train leaders of SACCOs.
- A knowledgeable accountant who makes financial situation transparent is crucial in order for members to trust the SACCO.
- Raising awareness of people regarding the formulation of a SACCO has a strong impact on increasing the number of members.
- The fact that members know each other well enables a SACCO to lend money without collateral.

Case 2 Mwangala Village, Mwanza Region

In Mwangala village, people have created credit schemes by themselves in order to solve their daily financial problems without any external intervention. There are two types of such credit schemes: one is *sungusungu*, which is a wise utilization of money collected by the village self guard (*sungusungu*) as fines for various local offences; and the other is *Ifogong'ho*, which is private lending groups started by village individuals who used own money earned outside the village as a seed capital.

Regarding *sungusungu*, fines are used for development activities such as the construction of a school building. Village people decide what the money should be used for. As for *Ifogong'ho* three lending groups are currently in operation. One is in charge of both savings and credit activities and the other two are regarded as a rotational saving system, where people used the saved money. They are women's group (ten members) and a fruit and vegetable growers group (twelve members). The savings and credit group (six members) has a bank account at a commercial bank in the nearest district capital and saves deposits. It lends money to anybody in need at high interest rates and by taking collateral such as bicycles, radios, and cows. However, the number of its members has decreased due to the high interest rates of 30 per cent per month.

What made village people start these credit schemes was the existence of seed money. A village chairman started to accumulate fines in a proper way, which was not implemented before him. In the case of *Ifogong'ho*, there were some people who earned lump-sum money outside the village and decided to use it as seed money for lending, instead of just consuming all.

This case has many implications to Tanzanian policy-makers, in the sense that neither seed money nor technical assistance was injected into the creation of the credit schemes.

2.4.2 Village Banks Established with Support from NGOs

Case 3 CARE International, Mwanza region

This project was implemented from 1998 to 2000 for Phase 1 for the purpose of providing assistance to the vulnerable people⁸ whose food availability is insecure. During the period,

⁸ As the degrees of vulnerability vary among the people, the project used the following criteria for selecting the vulnerable.

- Person who owns land less than 20 acres.
- Person who eats less than three meals, mainly food crops such as maize, cassava, sweet potatoes and

total beneficiaries amounted to 5,000 households in 5 wards in Magu district. Total estimated money that was lent to people was about Tsh 4 to 6million. The repayment rate was 100 per cent and the repaid money was used for training of people. From January 2001, Phase 2 has started and will be continued till 2005. In this phase, the number of beneficiary households is planned to increase to 15,000 in 15 wards out of 27 in the district.

Main activities are: 1) technology transfer to ensure increased or adequate use of agricultural inputs; 2) economic development to train people for on-and off-farm activities; and 3) capacity building in order to facilitate activities 1) and 2).

CARE stations project officers in targeted villages, promotes community-based organizations consisting of 5 to 15, and considers ways to solve problems in consultation with other organizations such as research institutions, other NGOs and farmers. Then, it encourages savings in order to implement activities necessary to solve their problems. It also provides training for starting income generating activities such as retail shops, selling clothes and so on. It also provides a training course about bookkeeping and marketing on a cost-sharing basis.

In order to start project activities, 50 cent of total costs are lent by CARE, whereas beneficiaries must pay the remaining 50 per cent. The maximum amount of money lent to a group (CBO) was Tsh 400,000. The lending period was 1 year with interest of 25per cent per annum. Both CBO members and CARE decided numbers of installments.

Quantitative survey results are yet to be prepared, but there are some indications that project activities contributed to improve people's livelihoods such as: school enrollment of children; renovation of houses; increased income from horticulture production; and encouragement of women's participation in decision making processes.

The main problem is project sustainability after 2005. CARE considers either the government or a community resource person could lead this role. In addition, vulnerable people sometimes cannot meet the condition of paying 50 per cent of project cost. Finally, capacity building is a time-consuming process and needs money, which limits outreach of the project.

Case 4 TAKARE, Kigoma Region

The Jane Gooddall Institute started The Environment and Community Development Project in 1994 for the purpose of seeking ways to arrest the rapid degradation of natural resources, especially in the remaining indigenous forest in Kigoma Region with funding from the EU, UNICEF, and other donors. The community development project has a component of village banking that provides short-term credit for micro enterprises since 1998. Presently, seven village banks are in operation and another three are expected in 2002.

Before starting the project, a staff member visited and studied other micro-finance projects conducted or studied in Iringa (IFAD), Mbeya (A Zonal Bank), Morogoro (Sokoine University of Agriculture) and Singida (Christian Aid) in order to learn lessons from the experiences. Then, a method, which is based on Bangladesh's "Grameen Bank" system, was developed reflecting specific village needs after a pilot project. The NGO has clear strategies in its implementation: 1) credit must be used for existing business, not for daily expenses; 2) credit should be provided to those who can save first, and 3) village people should make their own constitution of credit scheme by trial and error.⁹

sorghum.

⁹ A village bank first set an interest rate of 20 per cent per three months, but later the members decided to decrease it. The general committee reviews the lending conditions every six months.

The NGO supports village people, especially women, taking into account their responsible for providing the basic requirements for their children. Activities are conducted in the following fields in collaboration with government cooperative officers. They are: 1) raising awareness of people in terms of savings and credit; 2) constitution building and book keeping; 3) formation of organizational structure for implementation; and 4) lending seed money that is twice as much as total savings amount by the village bank with interest rate of twelve per cent per annum and a lending period of eighteen months including a six-months grace period.

In order to make the credit system sustainable, strong emphasis has been put on village institutional building and savings mobilization. To build a sustainable institution, it is necessary for people in the villages to feel that they own the institution and are responsible for any failure or success.¹⁰ People are expected to have knowledge about making decisions on how to run the scheme after they attend training.

As the condition that was formulated by village people reflects real borrowers' needs and repayment ability,¹¹ the loan repayment rate by village banks¹² to the NGO is as high as between 85 to 100 per cent.

2.4.3 Independent Credit Institution of A Primary Cooperative Society

Case 5 CHAWAMPU Savings and Credit Association (CSCA), Kilimanjaro Region

CHAWAMPU Savings and Credit Association (CSCA) is a savings and credit association (SACAs) established in 1999 by its sister society CHAWAMPU rice primary cooperative society. The rice primary cooperative is located in Moshi, Kilimanjaro region where the Japanese government has cooperated for irrigation since 1981. The main purpose of establishing CSCA was to provide sufficient credit to members for purchasing fertilizer and hiring tractors. Total members of CSCA are 30, out of 2,000 rice producers in the project area.

Presently, member producers use CSCA mainly as "safe" even though they do not receive interest on the deposits. Lending activity has been in operation since January 2001 and members have a right to borrow money from CSCA twice as much as a summation of entrance fees and shares. It is still in its initial stage and a few loans were provided only for purchasing of fertilizer now. However, potential demand for safe deposit and timely credit are high in the villages where no informal rotational credit and savings system exist, and CSCA is now publicizing their activities.

One of the reason membership of CSCA is limited seems to lie in a past fraudulence. There was a robbery and public confidence in savings and credit functions was lost and people have been reluctant to join in such a society. Under such a circumstance, a Tanzanian accountant is now building a transparent saving and credit system in collaboration with a Japanese

¹⁰ TAKARE Annual Report 2000.

¹¹ For instance, there is a tendency that the repayment period of credit for agriculture is longer than that for fisheries. This is because fisheries can generate income almost on a daily basis, whereas agriculture requires longer maturity before generating income at the harvest season.

¹² Village banks repay the loan to the NGO on behalf of all groups consisting the banks. Each group repays loan from the village bank according to the constitution. A group says that they do not include relatives in the same group in order not to take the relative to court if he or she fails to repay the loan. As this case implies, group members monitor the repayment record closely and strictly.

cooperative expert in order to fill the gap between demand of and supply for financial services that can be provided by CSCA. He publishes a brochure regularly including financial statements of CSCA. It is noteworthy not only the reliable operational activity of the accountant who studied cooperative accounting at Cooperative College at Moshi for three years, but also the thorough collaboration of the Japanese expert contributes to a gradual increase in the membership of CSCA.

2.4.4 Commercial Bank Initiated SACCOs

Case 6 KIFISSACOS Ltd., Dodoma Region

CRDB has started to provide financial services to rural people through SACCOs in Southern four regions for the purpose of expanding their business into rural areas. Some of these SACCOs were organized with support given by CRDB loan officers who visited them for raising awareness in terms of savings and credit. During the selection process, CRDB gave high priority to a SACCO's independence from external agents, based on a belief that a financial institution should have own value, a mission, and leadership. KIFISSACOS Ltd is an example.

KIFISSACOS Ltd. (Kibaigwa Financial Service Savings and Credit Cooperative Society Ltd.) is a rural agricultural SACCO located in Dodoma Region. It consists of 493 individuals and 23 groups (5 to 10 members per group) from six villages within a radius of 20 km. It was registered in September 2000, four months after a CRDB loan officer's first visit. It has increased the number of members rapidly from 110 in June 2000 to 493 in November 2001.

There are four reasons for the rapid increase. First and foremost, before the SACCO was established, the village people suffered from the extremely high interest rates as high as 300 per cent¹³ for three to six months charged by traders. Second, the SACCO has a premise at the open market for grains located along a paved road between Dodoma and Dar es Salaam, which attracts the village people. Most of the village people have a chance to come at least during the harvest season by themselves and, therefore, they can feel it convenient to use the financial services offered by the SACCO. The premise is facilitated with a counter, a safe, and a cabinet. It is opened five days a week from 7:30 to 15:00. Third, initially, one person from each village was trained to be a promoter of the SACCO and he/she encourages other village people to join in. Fourth, various types of loans are provided to meet different demand for credit. There are three types of loans: 1) agriculture production loan with an interest rate of 5 per cent per month for a repayment period of 8 to 9 months; 2) business loans with an interest rate of 5 per cent per month for three months; and 3) social loans at 5 per cent per month for 1 month. The business loans account for 77 per cent of total loans, whereas agriculture 15 per cent and social 8 per cent¹⁴. The social loan was utilized for school uniforms, medical services and purchase of food.

CRDB started lending to the SACCO in August 2001, after it confirmed the SACCO's regular saving record for about a year. Now CRDB lends money at 14.5 per cent per annum, which is far below CRDB's normal lending rates between 19 to 25 per cent per annum. Then the SACCO on-lends the money to the members at 5 per cent per month, which enables the

¹³ Before they were to borrow from businessmen around the village who were charging them high interest rates, such 1 bag of maize for 3 bags and Tshs. 100,000/= for Tshs. 300,000/=.

¹⁴ This is partially because of the maximum lending amount of Tsh 3 million allowed for business loans, while those of agriculture and social are Tsh. 1.5 million and Tsh. 30,000, respectively.

SACCO to retain some interest receivables.

2.4.5 Lessons Learned from Various Types of Rural MFIs

Table 1 summarizes the studied financial institutions and a scheme described in sections 2.4.1 to 2.4.4 above. It is worth noting that various types of MFIs such as SACCOs, community banks, SACAs, are currently emerging either spontaneously or under support from external sources. Different actions need to be taken for different types of organization.

(1) The regular access to financial institutions enables SACCOs to diversify their financial services, which meet rural people's demand.

The SACCO supported by CRDB (Case 6, column 5 of Table 1) provides various types of loans in response to members' need throughout the year, because of CRDB's one-year term loan. On the other hand, the tobacco growers' SACCO (Case 1, column 4 of Table 1) takes a prudent lending policy by setting the maximum lending equivalent to each member's share capital, which is the most conservative credit policy the RADAG Team observed during the field study. This implies that the regular access to financial institutions is crucial for SACCOs to adequately meet the requests from members and become financially sustainable.

(2) Village banks can work as a "promoter" among rural people.

Compared with SACCOs, operational scales of village banks (Cases 3 and 4, column 2 of Table 1) are too small to attract financial institutions. They rather operate as a mutual cooperation system within a limited area (village) that provides financial means among villagers for small credit. Village banks therefore are expected to work as a "promoter" of MFIs among village people in terms of raising awareness of people to use their limited / unused resources more effectively.

(3) Voluntarily formed organization improve the usage of limited resources

The voluntarily formed organization (Case 2, column 1 of Table 1) has great potential to use existing village resources effectively. It is worth considering the way to disseminate such experiences of using fines for development purposes, or encouraging savings among people, just like urban people's rotational savings and credit systems.

(4) Strong motivation should exist first to establish SACCOs

In order for rural people dare to start savings and credit activities, they should have strong motivations first. For instance, extremely high interest rates charged by crop traders encouraged people to organize themselves into a SACCO with support from CRDB in the case of KIFISSACOS Ltd. (Case 6, column 5 of Table 1). The case implies that SACCOs could be materialized in areas where people have already used another credit under unfavourable conditions.

Table 1 Comparison of Different Microfinance Institutions

	1	2	3	4	5
Types of MFI	Informal MFI	A Village Bank	SACA, having a close relationship with a rice primary society	SACCO, a member of primary society	SACCO, having a close relationship with a commercial bank
Name of Region	Mwanza	Kigoma	Kilimanjaro	Tabora	Dodoma
Date of establishment	---	2001	1999	1995	2000
No. of members	3,980	35	30	118	493 (23 groups)
Profiles of Borrowers	---	people already engaged in business	rice producers	tobacco producers	maize producers
Geographical coverage (km)	1 village (7,640ha, 3980 persons)	1 village	4 villages	5 villages within a radius of 6 km (110 come from a village)	6 villages within a radius of 20 km
Initiatives					
Entrance Fees (Tsh)	---	2,000	2,000	2,000	
Mini. share (Tsh) for membership	---	5,000	5,000	50,000	30,000
Obligatory savings	---	1,000/month	none	none	none
Total savings and shares (Tsh)	230,000 (fines)	220,000	1,465,000	2,000,000	12,819,500
Average lending amount per person (Tsh)	---	10,000-15,000	Max 2 times of (entrance fees + shares)	Max.50,000	1) Agriculture (max. 1.5 mil) 2) Business (max. 3 mil) 3) Social (max 30,000)
Usage of money	building 2 class rooms	petty trade	fertilizer purchase	1) Purchase of fertilizer 2) Daily expenses	1) Agriculture (15%) 2) Business (77%) 3) Social (8%)
Lending period	---	2 months	1 crop season	1) Production: up to 12 months 2) Others: 3-6 months	1) Agriculture(8-9 months) 2) Business(3 months) 3) Social(1 month)
Interest rate (%)	---	3 % per 2 months	2 % per month	P (1 + i) r/200 (note)	5 % per month
Penalty of arrears	---		no	no	5 % → 10 %
Differentiation of interest rates for good and bad customers	---	---	---	---	---
Collateral	---	group guarantee (5 members)	n.a.	No collaterals	(to CRDB) 1) Deposits & shares 2) Guarantors 3) Mobile assets
Repayment rates	---	none (just started)	2 persons failed to repay on time (lending started in Jan. 2001)	1 person failed to repay and disappeared	100 % (afraid of being charged as twice as high as the normal interest rate)
Area Profiles	Village producing mainly for self consumption.	An NGO started cooperation upon request. Several types of cash crops are grown in small plots.	The Japanese government has long cooperation history of rice production.	Initiated by a worker who used to work at the Tobacco board.	The SACCO premise is located near the grain market along the trunk road between Dar es Salaam and Dodoma.

Source: JICA RADAG Team

Note: P = Principal, t = time in months, r = interest rates ranging between 0.6 ~1.0 set by SCULTT.

1. Informal MFIs: *sungusungu* at Mvagalala village
2. Village Bank: TAKARE village bank project (Mkongoro Village, Kigoma Region)
3. Credit arm of primary society: CHAWAMPU
4. SACCO (tobacco): Ilolwansimba SACCO, Tabora Rural District: Tabora Region
5. SACCO (maize): Kibaigwa Financial Service Savings and Credit Cooperative Society Ltd.

3. Problems in the Context of ASDS

The Team observed the following problems in the context of ASDS¹⁵.

(1) Rural MFIs are still in the early stage of development

While various types of MFIs are emerging spontaneously or under the external support, most of them are still financially and institutionally weak. Therefore, they are not attractive enough to have linkages with formal financial institutions. The weak points are described as follows.

- Most of them have weak capital base, sometimes depending heavily on seed money provided by external sources, therefore cannot respond to members' need adequately.
- Those who can collect savings from members hardly proceed to "credit" activities in the fear of losing money.
- Most members are engaged in the same economic activities (or same crops), which make MFIs vulnerable to external effects such as price fluctuations and weather conditions.
- The number of MFIs that keeps records of daily transaction properly is very limited. In addition, the audit and inspection of the financial statements were not properly done in accordance with the government regulation.

(2) Reluctance of rural people to join any MFIs

In order to establish the "linkage bank" systems in rural areas, it is crucial for rural people to organize themselves in order for financial institutions to reduce transaction costs associated with extending their financial services to rural areas. However, in many parts of Tanzania, rural people have bad experiences of losing their money saved at the former multi-purpose primary society savings and credit schemes, especially during the period from 1976 to 1991. The experience of embezzlement and /or discontent regarding leaders' accountability discourages them to join MFIs. It needs certain period of time for people to understand the benefits of joining MFIs that are purely owned and managed by members by themselves.

(3) Non single supervisory and monitoring system of MFIs

Presently, different administrative bodies supervise MFIs according to their activities: MCM supervise SACCOs; and Ministry of Home Affairs and Prime Minister's Office supervise MFIs engaged in poverty reduction related activities. However, no standard regulatory, monitoring and supervisory framework for MFIs exists. As a result, rural people are easily affected by problems such as high interest rates. It further loses people's trust in MFIs.

Besides, there is a problem of dual regulation of SACCOs. There is ambiguity in the 2 laws related to SACCOs' legislation and supervision: namely, the Cooperative Societies Act 1991; and the Banking and Financial Institutions Act 1991. At present, all registered SACCOs are

¹⁵ This section was written based both on the literature survey and the field study.

regulated by MCM according to the Cooperative Societies Act 1991. At the same time, the Bank of Tanzania (BOT) formulated the National Microfinance Development Policy that regulates deposit-taking rural micro-finance institutions for the purpose of protecting depositors pursuing for sound financial sector development. Currently, operational scales of most SACCOs are too small to disturb confidence in national financial markets, therefore, MCM and BOT agree that SACCOs are regulated and supervised by MCM, taking also into account of BOT's limited ability to inspect SACCOs located in dispersed areas in the country. However, once a SACCO reaches a certain level of operation, it should be supervised by BOT in order to protect depositors. This issue of supervising SACCOs is currently under review and BOT is going to finalize "a regulatory, supervisory and monitoring framework for rural micro-finance institutions" in 2002.

(4) Inadequate quality and quantity of MFIs inspection and auditing system

It is important for MFIs to have transparency in its operation in order to enhance people's confidence in the organization. The proper inspection and auditing can ensure this. However, even in the case of SACCOs, whose inspection and auditing¹⁶ are stricter than the other forms of MFIs, the inspection of SACCOs and scrutiny of the audited financial statements are not properly done. For example, 1) the quantity¹⁷ of cooperative officers are inadequate to fulfill the jobs; 2) the lack of communication facilities including telephones, fax, motorcycles, and cars prevents them from visiting SACCOs for inspection, therefore, they ask SACCOs to send financial statements to cooperative officers instead; 3) inspecting only documents at office prevents cooperative officers to understand the situation correctly compared with visiting and asking managers of SACCOs directly; 4) the low salary paid to cooperative officers not only discourages their motivation to work, but threatens fair inspection; and 5) many SACCOs do not even send such documents, nor can they afford to pay for annual audit, which resulted in the increase of SACCOs that are not properly inspected and audited for a long time.¹⁸

(5) Government officers' inadequate knowledge about micro-finance

ASDS proposes that MFIs in rural areas be to be promoted by local government authority (LGA), in collaboration with BOT, MCM and the private sectors. However, while new knowledge and skills are crucial to disseminate a new concept and technology of rural micro-finance scheme, LGA staff members are not well trained in the field. In the case of cooperative officers of MCM, SACCOs related issues are taught as an option in addition to standard cooperative management, accounting, and supervision issues at the Moshi Cooperative College. On the other hand, commercial banks, which have strategy to expand into micro-finance business, have invested a significant amount of money in training of loan officers, especially to young staff members taking into account of their absorptive capacities of new knowledge and skills.

¹⁶ Each SACCO has an obligation to submit their accounting records quarterly to a district cooperative officer and audited financial statements annually to a regional cooperative officer.

¹⁷ There has been a retrenchment in the numbers of cooperative officers since 1991 and existing officers are aging. On average, there is one regional cooperative advisor at a regional administrative secretariat, and about 2 to 3 cooperative officers including cooperative inspectors at district level, according to the district council's decision.¹⁷ According to MCM, there is a shortage of 300 cooperative officers so as for 1 officer to serve at least 7 primary cooperative societies.

¹⁸ According to COASCO, numbers of SACCO that are audited by COASCO has decreased rapidly from 420 in 1995/96 to 104 in 1999/2000. Most of the SACCO are urban-based. The government has a policy that each SACCO should pay for audit with its own budget, instead of using government budget. The role of COASCO itself is to be replaced by private auditing companies.

(6) Structural problems associated with lending to rural people without collateral

While it is not avoidable for most MFIs to lend money to members without collateral, lack of an effective repayment enforcement mechanism sometimes hinders financially sound development of MFIs.

4. A Set of Strategies and Action Plans

ASDS points out the necessity of establishing “a mechanism to facilitate and promote formal linkages between MFIs and the formal financial institutions,” which “will enable smallholder crop and livestock farmers to access to the financial services.” For that purpose, ASDS recommends “LGAs, in collaboration with the BOT, MCM and private sector organizations will promote the gradual establishment of a variety of MFIs including SACCOs, community banks, SACAS and other informal savings and credit groups on the demand driven basis.”

Based on the proposal, the RADAG Team conducted the field study and found the concept of “linkage banking” is practical taking into account of the high transaction costs associated with providing as well as receiving the financial services in rural area. However, there are some points that need to be considered during the implementation stage (ASDP), as summarized below.

- From the practical points of view, it is rather difficult for smallholder producers who have no experiences of using credit facilities for production purposes. They are not viable enough to repay loans to be a member of such MFIs. Instead, viable producers who have already used credit at unfavourable conditions could be members of such MFIs, in the sense that they know how to use and repay the credit.
- LGAs including district cooperative officers are not adequately facilitated in terms of human and financial resources to be a promoter of MFIs. It should be a facilitator respecting for the initiatives of private sectors (financial institutions, rural people, NGO, etc.) rather than a promoter, in line with BOT and MCM.
- The lack of clear regulatory framework of MFIs impedes the sound development of the linkage banks, even though different actors such as LGA, BOT and MCM are supposed to be engaged in the promotion of MFIs. In addition, the lack of proper inspection and auditing of MFIs prevents people from believing and becoming a member of such MFIs.

Based on these findings, the Team proposes the following sets of strategies and action plans for sound development of rural finance in Tanzania.

4.1 A Set of Strategies for Development of Sound Rural MFI.

(1) Respecting for private, viable initiatives

The private sector initiative of development of MFIs that link rural people with financial institutions should be respected. The government, including LGA, is requested to facilitate such activities by providing necessary information and formulating a practical regulatory framework about MFIs.

In order to develop and strengthen rural MFIs, it is crucial to provide facilitators to villages in order to raise awareness on having “savings and credit cooperative societies” and to provide

necessary information and technology upon request in the process of implementation. MCM suggests that cooperative officers should play the role, however, it is rather difficult for them to meet village people's demand timely under the limited financial and human resources.

Therefore, it is proposed that the role should be entrusted to practitioners such as NGO staff members and micro-finance loan officers of commercial banks. As commercial banks pursue their profits, it is important for the government to consider a regulatory framework, including protection of rural people's deposits from being siphoned from rural areas to urban areas. The role of cooperative officers should be limited in registration. Monitoring, inspection and audits need to be done by private firms in the long run.

Under the limited budget, it is not feasible to develop MFIs all over the country simultaneously. It is necessary to select those who can repay the loans, or the areas where people can generate enough income for the repayment, so that rural MFIs become financially sustainable. Therefore, the Team recommends that ASDP should focus on viable producers, instead of covering all smallholder producers, at least in the short term. Feasible areas are places where: 1) rural people have sources of regular income to repay loans either from agriculture production or non-farm activities; and 2) the physical access of MFIs to formal financial institutions and villages are relatively good.

Action Plan

(1) Cost-Shearing Professional Consultation

(2) Disseminating experiences of various types of MFIs

In Tanzania, it is less feasible for commercial banks to extend financial services directly to rural areas due to high transaction costs derived from poor conditions of link-roads, low population density, small demand for credit, and lack of collateral. It is therefore practical either to have people's organization among a village or to establish rural MFIs covering several villages, as proposed in ASDS.

Different actions are needed for different level of development of MFIs, as described in 2.4.5. In order to overcome the rural people's negative images about savings and credit institutions, and encourage savings among themselves, it is necessary to disseminate the experiences of various types of MFIs through the government channels.

The Tanzanian government is now in the process of trial and error in developing practical and sustainable rural finance systems. It should not just replicate various successful models imported from other countries, but should try to develop systems that are suitable for Tanzania's rural situation.

Action Plans

- (1) Cost-Shearing Professional Consultation
- (3) Social Security for Rural Areas
- (4) *Sungusungu* (short term)

(3) Promotion of demand driven MFIs

In Tanzania, many "supply-led" credit projects have failed to achieve the expected objectives,

due mainly to the imposed lending and repayment conditions without inquiring to users. Therefore, the government tries to develop demand-driven MFIs, in particular, in the form of SACCOs, which has considerable autonomy in setting their financial operations policy by laws. However, most SACCOs still do not aware of this and adopt the minimalist model set by laws offered by MCM. Therefore, it is necessary to provide rural people with opportunities to understand the real meaning of “demand driven” with support from practitioners, hence, to mitigate the negative images about SACCOs.

When demand-drive MFIs are developed, it is also important to consider how to establish effective repayment enforcement mechanism that is identified in the informal finance where close interpersonal transactions make the transaction costs lower.

Action Plan

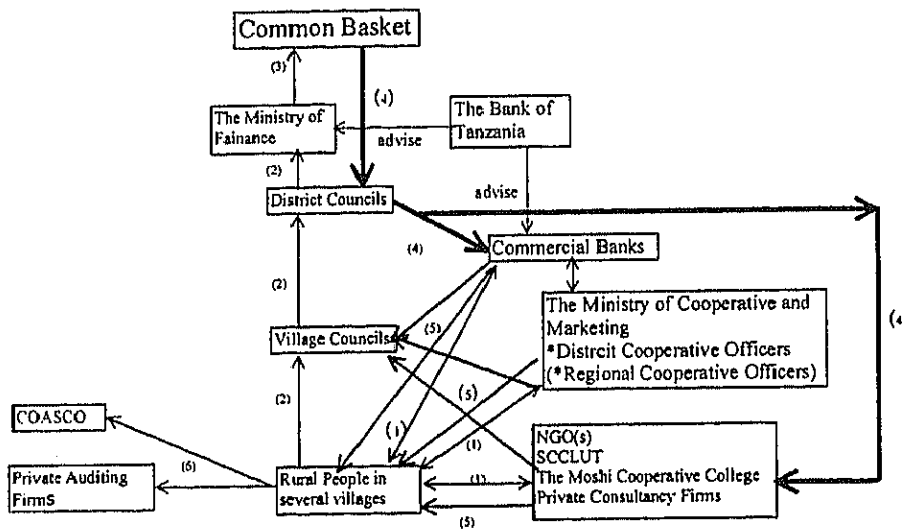
- (1) Cost-Shearing Professional Consultation
- (2) MFI Network Development (long term)

4.2 Action Plans

(1) Cost Sharing Professional Consultation (short term)

Location	Selected villages
Time to be implemented	2002 - 2005
Institutions Responsible for Implementation	District councils, in collaboration with BOT, MCM and selected private entities including commercial banks, NGO, SCCULT and consultancy firms.
Objectives	To assist rural people with professional consultation so that they can develop their micro-financial institution in a village which has a formal linkage with financial institution(s).
Concrete Actions to be Taken	<ol style="list-style-type: none"> (1) Publication of "Cost Shearing Professional Consultation" through regional and district cooperative officers. (2) Village people who want to receive the "cost shearing professional consultation" contact with a district cooperative officer. The village should clearly express their availability of bearing a part of the total consultation cost. (3) The district cooperative officer and village people contact with commercial banks, NGO, SCCULT and consultancy firms working in the district or region and explain about the village profile and the request. (4) The private entity (ies) that has an interest in the requested village visits the village and help drafting application forms. (5) The Village sends a final application to a district council. The district council then select promising villages for which the council can provide assistance in the form of sending cooperative officers occasionally. The council sends selected applications to the Ministry of Finance (MOF) for approval. (6) MOF makes screening of applications from whole districts in consultation with BOT, then select. Important selection criteria will be: 1) viability of people who can repay loans; and 2) district government's strong commitment expressed in proposed budget allocation for staff members' salaries and allowances. (7) The budget for implementing the consultation is allocated for the selected districts from the common basket. The district councils conducts open bit (if necessary) and entrusts the selected private entity (ies) to provide professional consultation according to terms of references (TOR) upon which both parties agree. The final goal of providing professional consultation is to establish a SACCO that has a formal linkage with formal financial institutions. (8) Consultation between rural people (with village councils) and the private entity for establishing a linkage bank is held. (9) Village people make a provision of future auditing fees according to the consultation. (10) The district council provides staff members with salaries and allowances necessary for facilitation of consultation. District cooperative officers will provide necessary technical cooperation and information. (11) The commercial bank provides professional consultation after listening to needs of village people. Basically, the consultation will cover the following issues: 1) importance of organization of the SACCO based on savings mobilization; 2) constitution building including lending conditions based on village people's seasonal ability to repay (not necessary to follow the model proposed in the law); 3) internal monitoring; 4) rights and obligation of village people and the bank when making a loan agreement; 5) simple book-keeping; 6) marketing strategy; and 7) accounting, financial management and auditing.

	<p>(12) A district cooperative officer teaches government regulations on the establishment, registration, inspection and auditing of a SACCO. Necessary transportation costs and lecturing fees for a cooperative officer at the seminar are born by the budget allocated by MOF.</p> <p>(13) Regular consultation by the private entity (ies) will continue for a certain period according to the agreed TOR. If a SACCO is not established within a predetermined period, the private entity should either bear the extra costs to provide consultation, or repay the predetermined amount of technical fees back to district council.</p> <p>(Remark)</p> <ul style="list-style-type: none"> • MOF does not provide seed money to rural people. Instead, it pays fees to professional services that strengthen rural people's capacity to formulate professional financial intermediaries. The basic principle underlined in this approach is "The God helps those who help themselves." • The existing results of baseline surveys conducted by these commercial banks can be used for selecting pilot sites. • NSSF may be included as a financial institution in the future, according to their rural expansion policy.
<p>Expected Effects</p>	<ul style="list-style-type: none"> • The number of SACCOs that have formal linkages with commercial banks increases. • Village people can save money by reducing high interest paid to traders and moneylenders.



- (1) Consultation between rural people (with village councils) and commercial banks/NGOs for establishing a linkage banks. District cooperative officers provide available information to the related entities upon request.
- (2) Village councils on behalf of rural people apply to district councils for budgets necessary for implementing the "cost sharing professional consultation."
- (3) MOF, referring to technical advice from BOT, makes screening of applications from districts.
- (4) Budget from common basket is allocated to selected district councils. The district councils then entrust the selected private entity(ies) to conduct the consultation. The private entity is selected by open bid.
- (5) The selected private entity(ies) organize a cost sharing professional consultation at the selected promising village(s). District cooperative officer will attend as a lecture upon request.
- (6) As a precondition to receiving the professional consultation, the village people (then village MFIs) contribute a certain percentage of total consultation costs as a provision of future auditing expenses, which will later to be paid to COASCO or private auditing firms.

Fig. 1 Flowchart

(2) MFI Network Development (long term)**a) Objective**

To prevent an increase in defaulters who borrow from MFIs to repay to another MFIs.

b) Implementation Agencies

The Bank of Tanzania, in collaboration with Ministry of Cooperative and Marketing, the Ministry of Home Affairs, Prime Minister's Office, district governments and existing NGO-MFIs.

c) Implementation Period

2005 ~ 2010

d) Activities

- To make a database of MFIs-customers with outstanding lending amounts at a newly created MFIs organization. Probably at least one in each region.
- To promote usage of the database to avoid lending too much money beyond the person's repayment ability.

e) Funding

All MFIs and common basket fund.

(3) Social Security for Rural Areas**a) Objective**

To provide social security services to rural people who can earn at least Tsh. 30,000 per month.

b) Implementation Agencies

NSSF, in collaboration with SACCOs.

c) Implementation Period

To be determined according to NSSF's survey result.

d) Activities

- A SACCO that can generate stable income consults with NSSF about possibility of receiving NSSF's services, especially emergency insurance for medical care, funerals, etc.
- NSSF and the SACCO agree on MOU that reflects rural people's payment ability such as admitting a lump-sum payment instead of a monthly payment as normal NSSF's customers.
- The SACCO can provide social safety services to its members.

e) Funding

NSSF and SACCO

(4) Sungusungu (short term)**a) Objective**

To disseminate ideas of using fines for village development.

b) Implementation Agencies

Village chairmen, ward committee, and district committee (DC).

c) Implementation Period

2002~ 2005

d) Activities

- The DC encourages the village chairman to save fines correctly.
- The DC provides a safe to the village chairperson.
- The village chairperson collects fines and saves them at the safe.
- The village council decides the usage of accumulated fines.

e) Funding

District councils

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6. Persons Interviewed (specifically related to rural finance)

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- 7) National Microfinance Bank, Mwanza branch
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- 10) Misungwi District Council, Mwanza Region
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- 11) Mwagala Village, Misungwi District, Mwanza Region
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- 12) CARE Tanzania's Magu District Livelihood Security Project, Mwanza Region
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- 13) Magu District Council, Mwanza Region
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- 15) The Bank of Tanzania, Mwanza Branch
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- 16) Kilimanjaro Regional Administrative Secretariat
Mr. P.O. Chikira, Regional Administrative Secretary
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- 17) Kilimanjaro Agricultural Development Project
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- 18) Kilimanjaro Cooperative Bank
Mr. Alois Kittau, Chairman, Managing Committee
Mr. John Kullayar, General Manager
- 19) CHAWAMPU Savings and Credit Association
Mr. Emmanuel S. Moshi, accountant
- 20) Chekereni Consumers Cooperative Association
Mr. Chonjo, Vice chairman
Mr. Daniel S. Moshi, shop Keeper
- 21) Kigoma Regional Administrative Secretariat

- Mr. Adamu Ahmad Kyama, Acting Regional Administrative Secretary/Principal
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- 26) Rusesa Village, Kasulu District, Kigoma Region
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- 27) Nyumbigma Village, Kasulu District, Kigoma Region
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- 28) Titye Village, Kasulu District, Kigoma Region
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- 29) Anglican Church of Tanzania, Kasulu
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- 36) CRDB Dodoma Branch
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- 38) Majengo Sokoni SACCOs
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資料 25

農業背景調査：インフラ編

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

Rural and Agricultural Development Advisory Group of JICA Tanzania Office
(RADAG)Discussion Paper for
Agricultural Sector Development Programme (ASDP) of Tanzania

National Land Development and Infrastructure

March 2002

George Terahara / Rural Infrastructure

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1. Introduction

1.1 Background

After the formulation of agricultural Sector Development Strategy (ASDS) and Rural Development Strategy (RDS), the preparation of Agricultural Development Programme (ADSP) is the most important and immediate issue in agricultural development in Tanzania. As the ASDP is prepared by the agricultural ministries, some of the important issues emphasized in RDS will not be included in ASDS. One of such important issues is rural infrastructure and rural roads.

1.2 Objective of this Paper

Based on the above background, this paper is prepared to contribute to JICA's operation to support ASDP. Especially, it is important to consider current JICA's cooperation to road sector in conjunction with agricultural sector.

JICA has been cooperating many road projects around Dar es Salaam and other areas. Its approach has not been decided by the donor coordination or master plans. This paper is intended to reconsider the role and function of rural infrastructure from the agricultural side. It will revise the priority of rural infrastructure in the context of the agricultural development.

2. Current Situation of National Land Development

2.1 Geographical Outlook and Rainfall Patterns

Tanzania holds area of 939,361 square km, which is the 13th largest among the African Countries.

The topography is determined by the Great Rift Valley, which runs the middle of the country from north to south. The terrain of mainland Tanzania is mostly flat with exceptional areas of Mt. Kilimanjaro, Livingstone Mountains and Rubeho Mountains. Livingstone-Rubeho Mountains act on seasonal rainfall pattern. In January, the north wind brings rain in on the south of mountains. In June, the south wind brings rain in the north of mountains.

Inland lakes delineate the western border of Tanzania. Although Tanzania is surrounded by inland water, the water shortage has been a common problem. The drainage basins are also complicated and the rivers run outwards from the central semi-arid region.

2.2 Distribution of Population

The average population density is 36 persons per square km. This is average level in Africa. The population is concentrated around several economic centers and fertile rural area. Three major economic centers with population agglomeration are as follows:

- Dar es Salaam
- Arusha - Moshi
- Mwanza
- Mbeya

Figure 1 shows the population density at district level. The population density and fertile areas have a close relation. The northern area of Livingstone-Rubeho Mountains consists of

an important fertile agricultural corridor, TANZAM Corridor. Contrarily, the districts with population density less than 15 persons per square km are mostly sparse and less fertile areas.

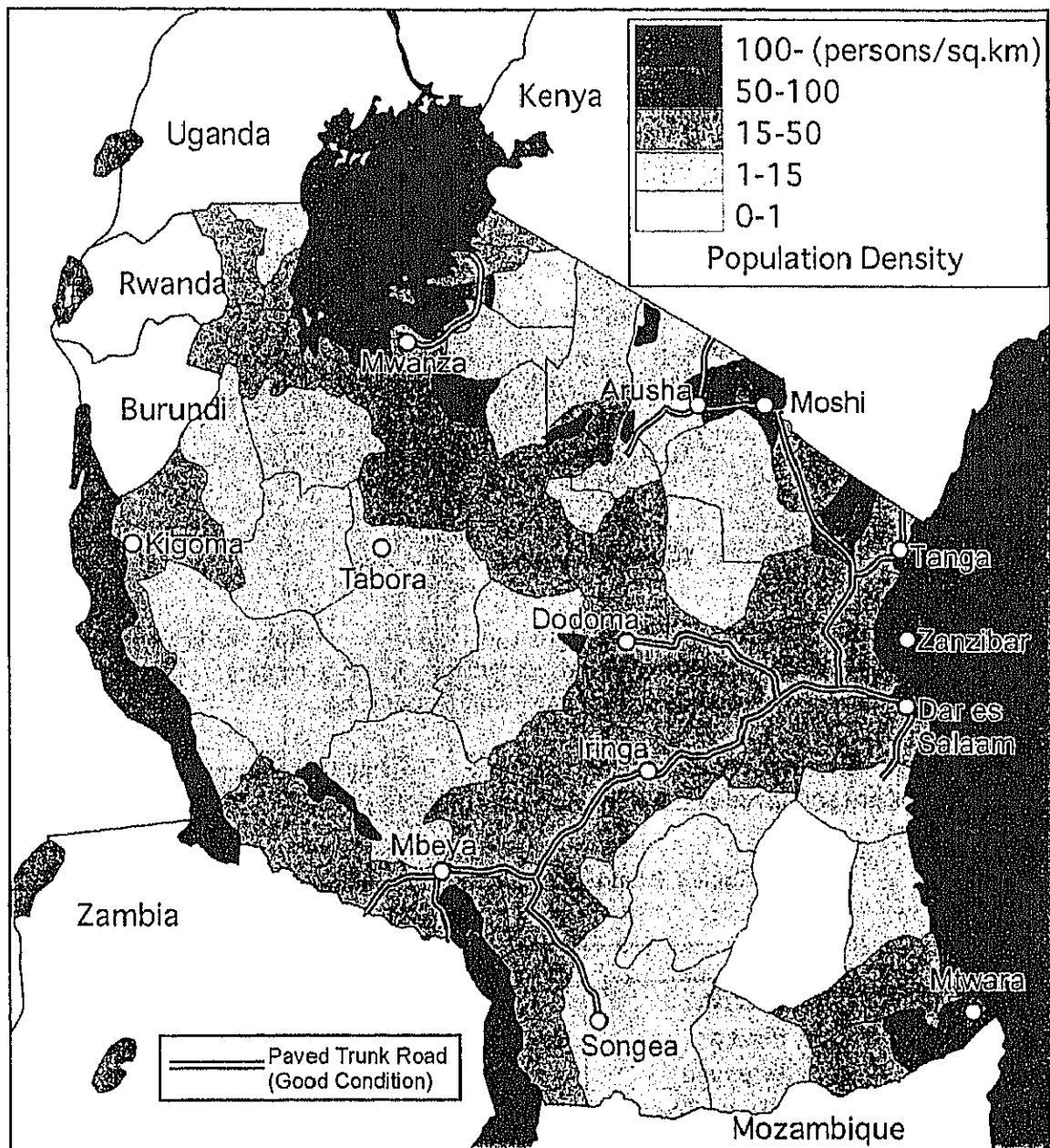


Figure 1 Population Density and Paved Trunk Road Networks

2.3 National and International Transportation Networks

The road transportation is the most important mode in Tanzania. The GDP share of road transport is about 5%, while the share of transport equipment in gross fixed capital information is about 37%. The road sector carries 70% of the domestic freight traffic and 64% of the transit cargo. Because Tanzania has many urban centers in border region such as Mwanza, Mtwara, Mbeya and Arusha, smooth connection among such centers is strategically important for national economic integration of the economy.

The Tanzania Development Vision 2025 prioritizes the development of road networks as

"absolutely essential for promoting rural development." Poverty Reduction Strategy Paper (PRSP) also emphasizes the road development.

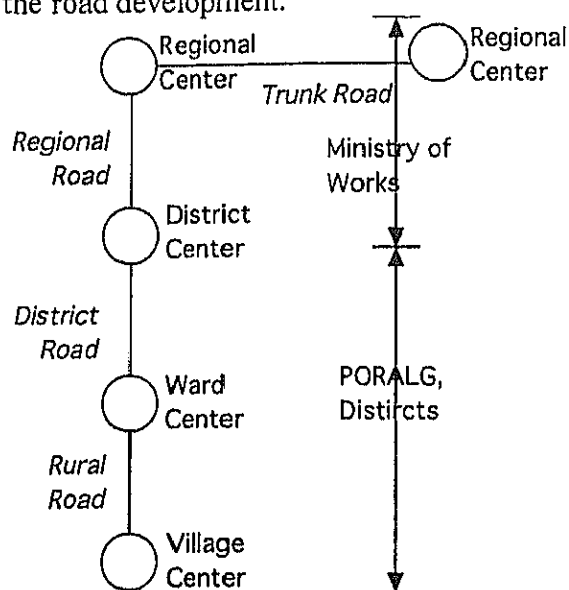


Figure 2 Classification of Roads

In principle, the roads are classified as shown in Figure 2. Trunk roads connect regional centers. Regional roads connect regional centers and district centers. District roads are within each district. Feeder roads are smaller than district roads.

Table 1 outlines the road conditions and category. Except some sections of trunk roads, almost all roads are not paved and not in good condition.

Table 1 Road Classification and Condition

	Unit Km			
	Good	Fair	Poor	Total
Trunk Roads				
Paved	2,400	1,100	404	3,904
Unpaved	900	2,800	2,441	6,141
Total Trunk Roads	3,300	3,900	2,845	10,045
Regional Roads				
Paved	25	175	45	245
Unpaved	3,700	7,300	7,220	18,220
Total Regional Roads	3,725	7,475	7,265	18,465
District Roads				50,000

Source: MOW. 2001.

Currently, the Ministry of Works (MOW) prioritizes the existing corridors in the following order.

1. TANZAM Corridor	1,328 km
2. Central Corridor	1,584 km
3. Lake Circuit Corridor	1,019 km
4. North-East Corridor	950 km
5. Great North Corridor	1,019 km
6. Southern Corridor	1,326 km
7. Western Corridor	1,286 km
8. Southern Coastal Corridor	508 km
9. Mid-West Corridor	1,201 km

Most parts of the TANZAM and North-East Corridors are in good condition. The Central Corridor, which connects between Dar es Salaam and Mwanza, has some sections in bad condition. Other corridors are largely in bad condition.

Trunk roads are connecting regional centers. Even on trunk roads, the traffic volume is not so large.

Figure 1 above expresses the paved trunk road networks and population density. Clearly, the trunk roads serve the densely populated areas only. In addition, the section between Dodoma and Mwanza is under construction.

2.4 Institutional Reform of Road Sector

In addition to the trunk road development, the institutional reform in the roads sector has been a significant issue.

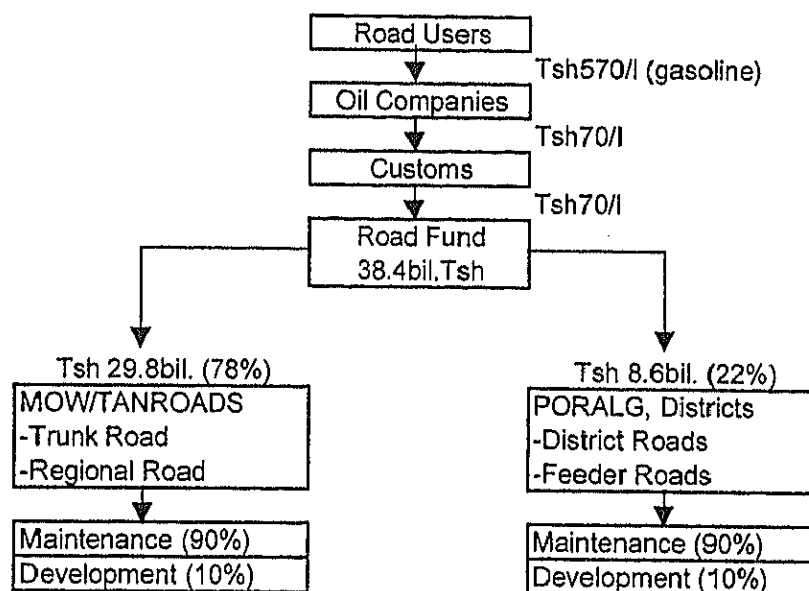


Figure 3 Collection and Distribution of Road Fund

Source. Ministry of Works, 2001.

Figure 3 above expresses the collection and distribution of the Road Fund based on the actual allocation of FY1999. The collected amount, Tsh 38.4 billion, is much lower than the original budget guideline estimates of Tsh 58.2 billion.

Currently, the 70% of the Road Fund is to be distributed to TANROADS and the remaining 30% goes to Districts directly. Up to 10% of each can be used for development purposes. The allocated maintenance fund for TANROADS is not enough to cover the all existing trunk and regional road networks. For example, the Tsh 26.9 billion is enough only for the maintenance of 3,246 km¹. This implies that the current system narrowly finances the maintenance of the paved trunk roads.

The financial situation of road development is also not promising. The fund allocation from the Road Fund is so limited as shown above, most development operations depend on foreign aid. By IRP-II, the Coordination Office for Donor Assisted Projects (CODAP) under MOW coordinates donor assisted projects in light of road sector policies.

2.5 Electricity and Telecommunications System

As the road development progresses, the electricity and telecommunications system will penetrate all over the country. Both services will follow after the road development. Because Tanzania Electricity Supply Company (TANESCO) and Tanzania Telecommunications Company Limited (TTCL) are currently in dynamic transition for privatization, it is unlikely to expand their services to rural areas in the near future. The Rural Telecommunications Fund will not function because of its nature of cross-subsidies.

Contrarily, both sectors adopted the service expansion strategy by more market-oriented policy. Then, their service provision will be decided on a commercial base. In other words, the price of the service should be reduced by technological innovation such as mobile phone system or satellite telecommunications system. On the demand side, affordability of such services should meet the price

¹ Tsh 29.8 billion / Tsh 900 /US\$ / US\$10,200/km = 3,246 km. The maintenance cost of \$10,200 /km includes the routine and periodic maintenance for paved trunk roads.

3. Implications and Issues of Infrastructure Development for Agriculture

3.1 Trunk Road Network for Market Activities and Food Security

The current trunk road network structure is so segmented that it does not integrate the national land. It represents an incomplete star network as shown in Figure 1. The active corridors are limited only to the TANZAN Corridor and the Dar es Salaam -Arusha Corridor.

Transportation corridors are essential for national economic development. For the agricultural sector, reduction in transportation costs will reduce agricultural input and increase producer prices. Moreover, the physical road network will sensitize farmers towards more market-oriented behavior. Thus, it will eventually increase farm income.

At the same time, the road development will secure food distribution within Tanzania. As the cropping patterns vary by region and season, the developed road network will enable food transportation from abundant areas to scarce areas. Not only domestic trade, it will also improve the distribution of imported food and food aid.

The RADAG Team proposes to the Tanzanian Government that it should develop the road network by the following target years.

-By 2010, Tanzania will complete a star network from Dar es Salaam. This means that 20 regional headquarters are connected by paved trunk roads in good condition.

-By 2015, Tanzania will complete a national web network: All regional centers are connected by trunk roads with adjacent regional centers. In addition, the regional roads are developed in good condition.

3.2 Rural Roads for and by District-level Planning and Development

Not only trunk roads and regional roads, but also the district and feeder roads are locally significant for rural areas. Although each district should be responsible for the construction and maintenance for these roads in principle, villagers are also encouraged to participate in development and maintenance activities.

The rural road development and maintenance are considered to be suitable planning practice for district level planning by the following reasons:

First, the rural roads, as public goods, influence all areas of economic activity. They will greatly improve the distribution of the agricultural inputs and outputs, as well as market information.

Secondly, the participatory process is possible in planning and implementation because the rural roads are usually not paved and thus consist of mostly locally available materials. Village people can maintain the roads by their labor force.

Thirdly, it is necessary to coordinate local priority and district plans. District Development Plans (DDP) should be consistent with national plans and programs of each sector. Through the planning process of rural roads, villagers' needs will be incorporated into the DDP. This will lead to build the capacity of both the district and local people.

Although the current availability of foreign aid resources is limited to the trunk and regional

roads, donors should encourage this capacity building process through rural road planning and development at district level. The agricultural sector assistance should be allocated to such effort that will increase overall farm income.

3.3 Electricity and Telecommunications System to Promote Market Information

To orientate farmers towards the market, the provision of agricultural information is important. Especially, market information is the most essential for farmers. Appropriate and timely information on the market will improve the bargaining power of farmers against middlemen and thus increase farm income. At the same time, market information will help farmers to optimize their planting/ cultivation pattern.

The market information system is not limited to telecommunications or a computer-based data communications system. In current Tanzania, the broadcasting system is the most effective way to provide market information to all rural areas. The surface-wave broadcasting system² reaches too short to provide its services to all area. Additionally, satellite television broadcasting is too expensive for rural areas.

Then, agricultural market information should be provided by shortwave radio transmission. One shortwave radio station is enough to cover all areas of Tanzania. For rural listeners, hand-winding radios are useful because batteries are probably not affordable.

Specifically, some existing short-wave programs of the Radio Tanzania should be reorganized to provide agricultural market information. The program contents include daily or weekly market information in major cities. Information on international prices of cash crops, such as coffee or cotton, is also useful. The program can be for fifteen or thirty minutes per day during night.

² VHF and UHF television system and MW and FM radio system.

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