

PRIME MINISTER'S OFFICE
RURAL FINANCIAL SERVICES PROGRAMME (RFSP)



Pre-Review Study of Rural Financial Services Programme

Report Submitted to the Prime Minister's Office

by

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Abbreviations

BoT	-	Bank of Tanzania
CHAWAM	-	Chama cha Ushirika cha Wawekaji Akiba na Mikopo
CHAWIMA	-	Chama cha Ushirika cha Wawekaji Akiba na Mikopo Chalinze, Wilunze, Mandali
CRDB	-	Cooperative and Rural Development Bank
DALDO	-	District Agriculture and Livestock Development Officer
DAS	-	District Administrative Secretary
DC	-	District Commissioner
DCDO	-	District Community Development Officer
DCO	-	District Cooperative Officer
DED	-	District Executive Director
DMFIS	-	District Micro Finance Institutions Supervisor
FI	-	Financial Institutions
IFAD	-	International Fund for Agricultural Development
MFI	-	Micro-Finance Institutions
MUCOBA	-	Mufindi Cooperative Bank
MUKAMA	-	Muungano wa Wawekaji Akiba na Mikopo Majereko
NGOs	-	Non-Governmental Organisations
NMB	-	National Microfinance Bank
OPEC	-	Organization for Petroleum Exporting Countries
PMU	-	Planning Management Unit
PRIDE	-	Promotion of Rural Initiatives and Development Enterprise
RAS	-	Regional Administrative Secretary
RFSP	-	Rural Financial Services Programme
SACAs	-	Savings and Credit Associations
SACCOs	-	Savings and Credit Cooperative Societies
SCCULT	-	Savings and Credit Cooperative Union League of Tanzania
SELF	-	Small Entrepreneurship Loan Facility
TASAF	-	Tanzania Social Action Fund
TSPs	-	Training Service Providers
UWAI	-	

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Executive Summary

1. Introduction

The Rural Financial Services Programme (RFSP) commenced in January 2002 with a general objective of enhancing incomes and livelihoods of rural based population in Tanzania. The programme is organized in five programme components, which are implemented in three phases with a completion date of December 31, 2010 and an official closing date of the programme on June 20, 2011. The total cost of the programme is estimated at USD 23.77 million as of 2001, when the agreement was signed.

2. Pre-review Objective

The objective of the pre-review was to prepare a report that shall constitute one of inputs to the terms of reference and guidance for the programme review of Phase One RFSP.

3. Methodology

The methodology used in this pre-review commenced with the review of programme documents followed by selection of study districts, MFIs and beneficiaries. This was followed by interviews with RFSP management teams, government authorities and other partners using appropriate interviewing instruments. The methodology adopted herein has enabled the writing of this report including the proposed way forward and the sustainability concerns.

4. Implementation Efficiency

The implementation efficiency of the programme objectives as measured against Phase One milestones show a positive trend as indicated below:

4.1 Total MFIs Vs Phase One Target

By June 2004, a total of 124 MFI had been registered against the planned target of 110. All of them are working and are networked to RFSP.

4.2 Capacity Building at MFI Level

By June 2004, an operational framework of MFI had been developed, training needs assessment conducted, trainers identified and effective training carried out.

4.3 MFI Coordination with Zonal Offices

RFSP MFIs are now well linked to the district and Zonal Offices, which ensures smooth coordination and cooperation.

4.4 MFI Linkage with Banks

A number of MFIs are either under consideration or have secured loans from commercial banks such as CRDB, NMB, MUCOBA, etc. Two MFIs in Mufindi and two in the Central Zone are linked to FIs. Phase One had planned to link at least one bank with RFSP MFIs.

4.5 Loan Disbursement and Employment Creation

By June 2004, about 34% of MFIs members had received loans. Notwithstanding the credits, the MFI loans had also created enormous employment at the village level. These employment opportunities benefitted most the poorest members of the community.

4.6 Regulatory and Supervisory Framework

Regulatory and supervisory frameworks have been developed at both MFI and Zonal level. Efforts are underway to operationalize the same from the Bank of Tanzania.

5. Cost Effectiveness of the Programme

The total spending in Phase One is 20% of the total RFSP budget. However, a number of activities including the operationalisation of the Micro Finance Facility has not yet taken place. In this regard, it is not timely to make concrete assessment on cost-effectiveness of the programme.

6. Impact of RFSP on MFIs' Development

The impact of RFSP on the development of MFIs can be observed in the following areas.

6.1 Organization and Management

Most MFIs are registered and have constitutions and regulatory frameworks for activities. They also have improved managerial and organizational capacities to oversee the activities and performance of the institutions.

6.2 Members and Gender Composition

- (a) Total membership increased by 66%, from 9,384 to 25,172. Central Zone had the highest increase and Southern Zone the lowest.
- (b) By June 2004, female membership was 38%, which was close to the target programme of 40%.
- (c) In some MFIs, females have even acquired leadership positions.

6.3 MFIs Stocks

In the last three years, growth in stocks of MFIs has been outstanding as indicated below:

- (a) shares have grown by more than 167%
- (b) savings have grown by 1619%.
- (c) By June 2004 the volume of loan disbursed reached Tsh. 829,933,371.
- (d) Deposits increased by 6633% in the Southern Zone. However there was a total deposit of Tsh. 1422,980 in the Central Zone and a negative growth in the Northern Zone.

6.4 Networking with Financial Institutions and NGOs

- (a) By June 2004, two MFIs in the Southern Zone had been linked to MUCOBA, two MFIs in the Central Zone had signed an MOU with CRDB (Dodoma) and two MFIs in the Northern Zone had started negotiations with CRDB (Moshi).
- (b) There are also contacts with SCCULT and initial contacts have started with SELF, PRIDE and TASAF.
These achievements exceed Phase One target that had planned to network at least one FI with MFIs.

6.5 Graduation of MFIs in Stages 1,2 and 3

By June 2004 the distribution of MFIs by stages as compared to phase one target was as follows:

	Stage 1	% Achievement	Stage 2	% Achievement	Stage 3	% Achievement
Phase 1 Target	25		60		25	
By June 2004 Achievement	44	176.0	44	73.3	15	60.0

This assessment is based on data collected in February 2004. It is expected more will graduate before the end of Phase One in December 2004.

6.6 Beneficiaries

The impact of MFIs on beneficiaries can be assessed by examining the following:

- (a) *Access to Credit*
 - ➔ MFIs management of savings and credit has improved significantly. Depending on the nature of the loan, it takes less than a month or even a week to secure a loan. This indicates that loan committees are effectively working to ensure timely disbursement of loans to applicants.
 - ➔ About 34% of RFSP MFIs members received loans

- ➔ The average loan per member ranged from Tsh. 135,663 in the North, Tsh. 89,787 in the South, and Tsh. 79,400 in the Central Zone.
- ➔ Interest rate ranged from 3% for short term to 10% for long-term loans.
- ➔ Loan repayment period ranged from less than one month to 12 months.
- ➔ Loan recovery rate is reasonably high (95-98%).

(b) Employment Creation

MFIs loans create employment opportunities at village level especially for the poorest households who fail to access MFIs services.

(c) Economic Activities

MFIs loans have increased economic activities at the village during the dry season. Loans have also enabled households to cultivate more land which translates into more income and poverty reduction in the communities.

(d) Investment Management Skills

As people apply for loans, they also plan their investment activities that shall enable them pay back the loan.

7. The Way Forward for Sustainable Development of MFIs

In order to enhance sustainable development of MFIs, the following issues have been identified to be critical:

7.1 Legal Status of MFIs

All MFIs should be registered as SACCOs. The Cooperatives law applies only to SACCOs and not SACAs.

7.2 Training of Audit Committee

The audit committee should be trained so that it performs internal auditing at regular basis before external audit is carried out.

7.3 Preparation of a Business Plan

Each MFI should have a business plan that guides timely implementation of its activities.

7.4 Internalization of RFSP

The process of internalising the programme should begin soon for sustainability purposes.

7.5 Government Credit Facilities

Women and youth credit facilities would be more effective if managed by MFIs through RFSP.

7.6 Sustainability Concerns

In order to ensure sustainability and further growth of MFIs, the following support services from RFSP will be pertinent:-

- (i) continued capacity building activities
- (ii) introduction in all MFIs the system of setting aside “*Special Funds for Training Needs*”
- (iii) continued coordination of MFIs activities at all levels
- (iv) operationalization of the Microfinance Facility Fund.

1. Introduction

The government programme on Rural Financial Services (RFSP) commenced in January 2002 with a general objective of enhancing incomes and livelihoods of rural based population in Tanzania. The RFSP, under the auspices of the Prime Minister's Office, aims to achieve sustainable increase in incomes, assets and food security of poor rural households through enhancing their capacity to mobilize savings and investment in income generating activities. This is planned to occur through development of a viable financial system, well suited for the rural environment, and capable of networking with the existing financial institutions. Towards this endeavour, RFSP is organized in five programme components, which are implemented in three phases with a completion date of 31st December 2010, and an official closing date of the programme on 20 June 2011. The RFSP is a co-funded project by the Government of Tanzania and a Loan Agreement from the International Fund for Agriculture and Development (IFAD), Swiss Government and Organisation for Petroleum Exporting Countries (OPEC). The total cost of the programme is estimated at USD 23.77 million as of 2001, when the agreement was signed.

RFSP aims to sustainably increase incomes, assets and food security of poor rural households.

The programme entails five specific objectives:

- (i) To support the design, development and implementation of sustainable rural financial services
- (ii) To improve the institutional and managerial capacity of the grassroots micro finance institutions (MFIs)
- (iii) To develop a sustainable rural financial network infrastructure, which is capable of linking grassroots MFIs with the rural poor.
- (iv) To empower rural poor households to benefit from financial services by reducing institutional barriers and providing a Micro Finance Facility Fund.
- (v) To assist the Bank of Tanzania in its efforts to develop legal, regulatory and supervisory framework for MFIs and establish MFIs national data bank.

The RFSP is a nine-year programme, which is being implemented in three zones, the Northern, Central and the Southern zone. Table 1 below shows distribution of programme districts by zones and phases.

Table 1: Phasing of Programme Implementation by Zones, Regions and Districts

Zone	Region	Phase	Districts
South	Mbeya	I-III	Mbeya Rural, Rungwe and Mbarali
		II-III	Mbozi and Kyela
	Iringa	I-II	Mufindi
		I-III	Njombe
		II-III	Songea Rural and Mbinga
Central	Ruvuma	II-III	Sumbawanga and Nkansi
	Rukwa	II-III	Dodoma Rural, Kondoa, Mpwapwa
	Dodoma	I-III	Singida Rural, Iramba and Manyoni
	Singida	II-III	Moshi Rural, Mwanza, Same and Rombo
North	Kilimanjaro	I-III	

Source: RFSP Annual Progress Report 2003.

Phase One of RFSP covers twelve districts in five regions in Mainland Tanzania. Phase One comes to an end in 2004, and before Phase Two is triggered, an external review will be undertaken to assess the performance of the programme, particularly against its milestones set for the first three years, or Phase One of the RFSP. As the Programme management team looks forward to the Programme Review, this report has been prepared to provide guidance to the preparation of the terms of reference for the planned evaluation, and also guide the review work. Thus, the results of this pre-review impact assessment constitute pointers for Phase One programme review.

2. Objective of Pre-Review Impact Assessment

The objective of this study is to prepare a report that shall constitute one of inputs to the terms of reference and guidance for the programme review of Phase One RFSP.

3. Tasks of the Assignment

Six tasks have been put forward for the assignment as follows:

- (i) To assess the effectiveness of the RFSP
- (ii) To assess the efficiency of the programme operations
- (iii) To assess the cost-effectiveness of Phase One of RFSP
- (iv) To assess the impact generated by the programme in Phase One
- (v) To identify issues, which indicate sustainability of the programme
- (vi) To assess the overall programme performance in Phase One.

4. Methodology

4.1 Review of Programme Documents

Since the RFSP management team has carried out several internal evaluations of the programme, both at zonal and national level, these reports constituted a major source of literature for this study. A number of annual and occasional reports were reviewed to establish the baseline information and bench marks for conducting interviews at various levels.

4.2 Sample Selection of Study Districts

Basing on cost effectiveness criterion and the review of the various RFSP reports, we selected three programme districts, one from each zone; and fourteen MFIs from the three zones. The selection process observed districts and MFIs inclusion in Phase One of the project. Thus, Mbeya Rural, Dodoma Rural and Moshi Rural were identified as sample programme districts for the study.

4.3 Selection of MFIs

Selection of MFIs for field work visits and interviews was based on performance as per internal zonal evaluation reports. From each selected programme district, except for Mbeya, four MFIs were selected; the best two and the least performing two MFIs. Mbeya has proportionally the largest number of MFIs in the programme; we therefore picked six MFI's, the best three and the least performing three MFI's. The consultants visited all the fourteen selected MFIs for in depth interviews with their management teams, physical observation of their operations, records and office premises. The sample MFIs are Kindi, Leghomulo, Muungano and Tujikomboe from the Northern zone; MUKAMA, CHAWIMA, CHAWAM and Kisima cha Ndege in the Central zone; and Mkombozi, Iwala, Juhudi, Jiendeleze, Swaya and UWAI in the Southern zone.

4.4 Selection of Beneficiaries

Among the targeted interview respondents, were beneficiaries of MFIs, both female and male members. Selection of these respondents observed membership to the RFSP MFIs, access to loans, purpose of loan, availability for interview and gender. About 8-10 beneficiaries were selected from each MFI visited, making a sample of 124 beneficiary respondents for the study.

4.5 Interviews with RFSP Management Teams and Government Authorities and Other Partners

In addition to interviews with MFIs and their beneficiaries, the following were visited and requested to give their views and opinion on RFSP: Regional Administrative Secretary (RAS), District Administrative Secretary (DAS), District Commissioner (DC),

District Executive Director (DED), District Community Development Officer (DCDO), District Cooperative Officer (DCO), and District Agricultural and Livestock Development Officer (DALDO). Consultations were also conducted with banks and NGOs dealing with microfinance activities (See Appendix 3).

4.6 Interview Instruments

The field work interviews were administered in three different instruments: RFSP/Regional/District management interview guide form, MFIs interview guide form, and the beneficiaries' questionnaire.

4.7 Data Handling and Analysis

Both quantitative and qualitative information was compiled and analysed. The information from the beneficiaries' questionnaire was computerized in SPSS and thus giving option for detailed analysis in cross-tabs. Much of the information collected from the reviews and interviews is analysed in tabular form and presented as Appendices to this report.

5. Findings and Discussions

The discussion of the findings of this study is organized in four sub sections: implementation efficiency, cost effectiveness, RFSP impact on MFIs and the impact on beneficiaries. Thereafter, a comparison is made between the overall performance and the milestones set for Phase One. Issues of sustainability of the programme achievements are also discussed after pointing out areas that need further effort. However, much of the information collected during the field work has been compiled and analysed in tabular form and presented as Appendices 1, 2, 3 and 4.

5.1 Implementation Efficiency

Implementation efficiency refers to the timing, completeness, level of effort and cost effectiveness of accomplishing an implementation schedule of programme activities. RFSP has five major programme objectives for which Phase One milestones were set. Below, we assess implementation efficiency in each objective against the milestones set for Phase One.

- (i) ***Programme Objective One.*** *To support the design, development and implementation of sustainable rural financial services.*

Phase One of the RFSP sought to register and develop about 110 MFIs in the three programme zones. By June 2004, a total of 124 MFIs were already working and networked to the RFSP. The achievement of the programme in this objective is more than the target set for Phase One.

(ii) **Programme Objective Two: Improvement of the institutional and managerial capacity of the grassroots MFIs.**

By June 2004, an operational framework for MFIs had been developed. Training needs and trainers had been identified and effective training had been carried out as indicated in Table 2.

Table 2: Planned versus actual training for MFI's Staff

<i>Name of Courses</i>	<i>Planned</i>	<i>Actual</i>	<i>Total</i>		<i>% Achievement</i>
			<i>Female</i>	<i>Male</i>	
Book keepers and accounting	338	338	132	206	100
Governance for committee and ordinary member	735	540	189	351	73
Total	985	718	321	557	73

Source: RFSP (2004), Pre-Review Implementation Status Review

Overall, training activities have been implemented by 73%, and the gender balance seems to have been observed though male dominance persists. The training included Book keeping, Accounting, Governance, etc.

(iii) **Programme Objective Three: Development of a sustainable rural financial network infrastructure, which is capable of linking grassroots MFIs' with the rural poor.**

By June 2004, the national and zonal coordination of MFIs was well networked. Zonal RFSP management teams work in close cooperation and monitoring with the RFSP head Office. Zonal and district coordinators are appointed through a competitive system of applications and screening. The RFSP offices at zonal and head quarters are now linked through the electronic rural system. This not only enhances their performance but also their effectiveness and efficiency.

Many MFIs are in remote villages, where electricity and internet services have not yet been extended. Operations between the district office and MFIs are carried out through physical contacts, which involve time, energy and financial costs. The means of transport provided at district level are mainly motorcycles, which are not conducive for use for team work of more than 2 people and in areas where the terrain is difficult. However, RFSP MFIs are now well linked to the district and zonal offices, and thus ensure smooth coordination and cooperation. A number of MFIs are either under consideration or have secured loans from commercial Banks such as CRDB, NMB, MUCOBA etc. Two MFIs in Mufindi are now linked to FIs, i.e. Mkonge and Kibao. In the central zone, there are also two MFIs that have been formally accepted and formally linked to CRDB. This achievement is more than that planned for Phase One, i.e. linking at least one bank with RFSP MFIs. Several NGO's like SELF and TASAF have also indicated interest of being

linked to MFIs. SCCULT has already agreed to provide two MFIs in Dodoma rural, five million each as loan advance. Other MFIs are under consideration.

The electronic network between zonal and district offices is still weak partly due to lack of internet connections and basic MIS training at the district level. However, the two offices are physically well connected and work together on a daily basis.

(iv) ***Programme Objective Four: Empowerment of rural poor households to benefit from RFSP***

As will be indicated later in this report, about 34% of MFIs members had received credit by June 2004. However, empowerment of the rural poor to benefit directly from the RFSP is a long term objective of the programme. Notwithstanding the credits, this study has observed that employment creation from MFIs' loans at village level is enormous. This benefits primarily the poorest, as MFI's membership remains dominated by the middle income households at ward level.

(v) ***Programme Objective Five: To assist the Bank of Tanzania in its efforts to develop legal, regulatory and supervisory framework for MFIs and establish a data bank for the same.***

Regulatory and supervisory framework has been developed at MFI and zonal level. Efforts are underway to operationalize the same from the Bank of Tanzania.

In general, many of the aspects of the RFSP have been implemented. But there are a number of detailed activities that have not been implemented or rescheduled for the year ending December 2004. The incompleteness of these activities is largely associated with performance of external institutions outside the programme. For example, operationalization of the RFSP Micro Finance Facility Fund has been delayed for sometime because of the slow process of identifying an appropriate institution to handle the Facility and the modalities to put the system in place. Likewise, operationalization of the BOT Regulatory and Supervisory Framework is dependent on BOT appraisal tours to MFIs.

5.2 Cost Effectiveness of Phase One RFSP

Cost effectiveness analysis relates the outputs of a programme or project to its expenditure on inputs in order to determine programme adherence to budgets, financial sensitivity and discipline.

RFSP has five cost-input components as follows:

- (i) Improvement of the Managerial Capacity and Performance of Grassroots Micro-finance Institutions (MFIs)
- (ii) Rural Financial Systems Development
- (iii) Empowerment of the Rural Poor
- (iv) Monitoring and Evaluation; and
- (v) Management and Coordination

The total programme cost inclusive of physical contingency was estimated at US \$ 23.77 millions over the nine-year programme period.

Phase One of the RFSP is expected to end in the next five months (December 2004), this suggests that the analysis of cost effectiveness presented in Table 3 does not include all programme expenditures for Phase One.

Table 3: RFSP Cost Effectiveness in Phase I

S/n	Programme Component	Budget Composition by item (Base Cost)		Phase I actual expenditure as % of total component budget	Component share of the total expenditure (Jan 2002-June 2004)	Implementation status by June 2004
		'000 Tshs	Percentage of total costs			
1.	Improvement of Managerial Capacity	5,932,992	26	27.5%	36.2%	73% of Phase One target has been accomplished
2.	Rural Financial Systems Development	2,281,920	10	4.1%	2.1%	Close to Phase One target except for the micro-finance Facility Fund
3.	Empowerment of Rural Poor	9,127,680	40	9.4%	19.0%	Not completed (i.e. long term activity)
4.	Monitoring and Evaluation	1,825,536	8	3.85%	15.6%	Not yet electronically linked, on-going
5.	Programme Management and Coordination	3,651,072	16	33.5%	27.1%	28% of the project time already spent
6.	Total	22,819,200	100%	20%	100%	

Source: RFSP (2004): Pre-Review Implementation Status Review, PMU, Mbeya July 2004.

On improvement of managerial capacity it is noted in Table 3 that improvement of managerial capacity is the second largest cost component next to empowerment of the rural poor. The total budget for this component is 5.9 billion Tsh. of which the programme has already spent 27.5% in Phase One. Obviously, much of the training will be carried out in the first few years of the programme, and this explains why training has absorbed the lion share of the costs in Phase One. However, the achievement on the component is more than 73%, which matches fairly well with the budget outlays for Phase One of the RFSP.

On Rural Financial Systems Development, RFSP PMU has utilized 4.1% of the total programme component budget. This component has the lowest expenditure, partly because the Micro Finance Facility Fund is not yet operational. However, with the exception of the Fund, achievements in Phase One are close to target.

The programme components on empowerment of the rural poor and Monitoring and Evaluation are long term activities. Up to June 2004, RFSP had already spent 9.4% and 3.9% of the total programme budget for the two components, respectively. Many of the activities of these components are still in progress though their accomplishment depends on achievements in components one and two.

By June 2004, RFSP expenditure on the *Programme Management and Coordination* was 33.5% of its total budget on the item. The period covers 28% of the total programme period. The spending is higher by 5.5% than the projected budget for the period. Of course there should be some justification for the excess spending, but in the long term of the programme, budget adjustments will be necessary to accommodate the differences.

The total spending on the programme so far is 20% of the total budget. But since a number of activities, including operationalization of the Micro Finance Facility Fund, are still outstanding, it is not yet timely to make concrete observations.

5.3 RFSP Impact on Development of MFIs

In principle, the major activity of Micro Finance Institutions is to mobilize savings and extend credits to its members as provided by a verbal or written memorandum of understanding between the members. MFI's differ in membership size and composition, capital, activities and management.

Pre-RFSP MFIs were small, both in membership and capital. Many were unregistered and weakly managed without proper constitution, regulatory framework and office premises. MFIs management lacked basic skills in administration, book keeping, preparation of records, savings and credit management, and coordination skills. As a result, people had no confidence and trust in MFI's management teams, and thus there was a general stagnation in the growth of MFI's.

RFSP started with the assessment of MFIs to determine their weaknesses, and in particular their training needs. These were eventually identified and training for the following institutions and people was carried out: management committee members of the Programme MFIs, RFSP staff, and members of MFI's (SACCOs, SACAS and UPATU).

5.3.1 Impact on Organization and Management of MFIs

The post RFSP MFIs are officially registered with constitutions and regulatory framework for their activities. Managerial and organizational capacities have improved significantly. The new MFIs have standing committees that oversee the activities and performance of the institutions. For example, MUKAMA and CHAWAM SACCOs in Dodoma Rural have four committees each: the Executive Committee, Management Committee, Supervisory Committee and Credit Management Committee. In Mbeya rural,

MFIs have at least three committees, or more depending on the volume of activities. Likewise, in Moshi Rural, MFIs had five committees (See Appendix I).

MFI committees meet regularly; our examination of the records shows that minutes from committees' meetings are usually forwarded to the management committee, and finally to the executive committee. The supreme organ of MFI is the member's assembly, which also meets regularly.

The survey indicates that financial reports are well prepared, including balance sheets and income statements. Savings and credit are well managed with reasonable balance between financial stocks. Loan recovery rates are higher though loan advancement has increased tremendously after RFSP. For instance, Juhudi SACCOs in Mbeya Rural has a loan recovery rate of between 95-100%. Also, loan recovery rates for Kisima Cha Ndege SACCOs in Dodoma Rural is reasonably high (95%) as is the case for some SACCOs in Moshi Rural district (See Appendix 1).

RFSP MFIs have office premises and basic furniture, and books for record keeping. A number of MFIs have received money safe for keeping cash balances in office premises. For example, CHAWAM and Kisima cha Ndege in Dodoma Rural and Juhudi and Jiendeleze in Mbeya rural have already received money safes from RFSP zonal office for keeping cash balances.

Savings and credit management in RFSP MFIs has also improved significantly. A member of RFSP MFI's is an adult resident who has paid membership entry fee and bought at least one share in the respective MFI. Eligibility to loans is subject to membership and one's savings deposits in the respective MFI. These are regulations, which are made clear in every RFSP MFI, and are overseen by the committee of savings and loans, which regulates and manages credits.

A member gets a loan by filling a special application form, which is thereafter assessed by the committee of savings and credit, to make recommendations for credit. An assessment of the loan application form, recommendation and the actual loaning out by MFIs shows that it takes less than a month to secure a loan from MFIs (Table 3).

Table 4: Time disbursement of loans in RFSP MFIs

<i>Time</i>	<i>Percent of all respondents indicating</i>
Less than seven days	35.5
Between 7 and 30 days	50
30-90 days	3.2
90 – six months	0.8
Six months – One year	0.8
Not applicable*	9.7

*Had not applied for a loan.

Source: Field Survey, July 2004

Interest on both short and long term credits is well planned. For example, CHAWAMA in Dodoma Rural has a 10% interest on loans not exceeding one month, and 3% for other types of loans (See Appendix 1).

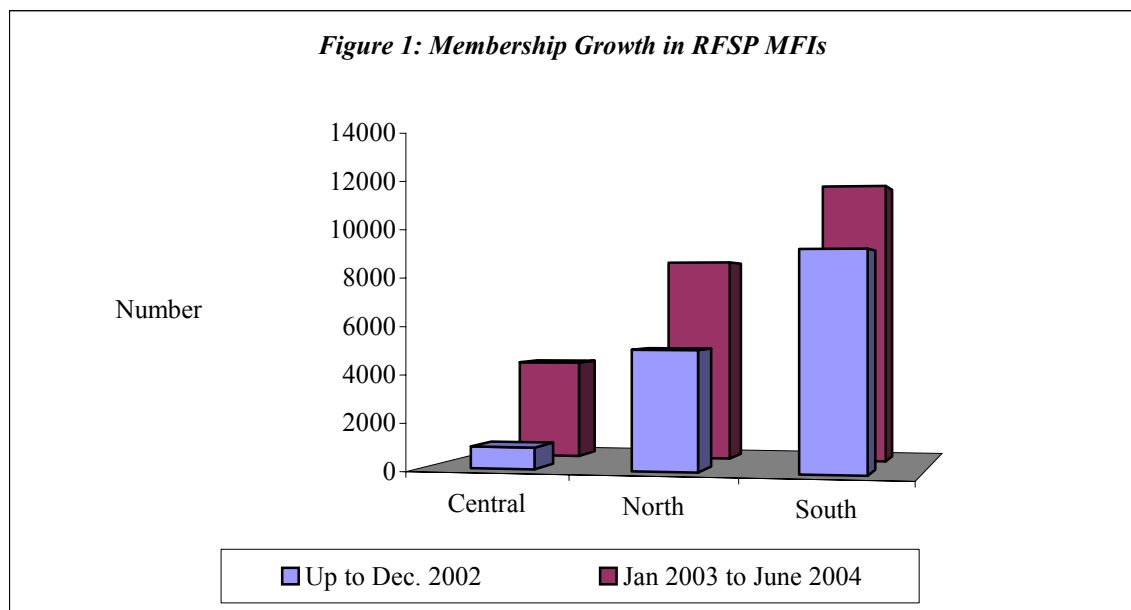
5.3.2 Impact on Membership and Gender Composition

The post RFSP MFIs increased total membership from 9,384, to 25,172; an increase by 66%. Remarkable and positive achievements are observed in the Central zone, where membership grew by 365%. The lowest growth rate was in the Southern zone. Of course membership base at the beginning of RFSP accounts for the differences though efforts by zonal management teams are acknowledged (See Table 5 and Figure 1).

Table 5: Membership Growth in RFSP MFIs

Zone	Dec 2002			May 2004			% Total increase
	Total	Male	Female	Total	Male	Female	
Central	915	2721	1531	4252	64	36	365
Southern	9174	6308	5823	12131	52	48	32
Northern	5034	6592	2197	8789	75	25	75
Total	15,125	15621	9551	25172	62	38	66

Source: RFSP (2004), Pre-Review Implementation Status Report.



Gender composition has improved. Female membership as of June 2004 is 38% in RFSP MFIs, which is close to the programme target of 40% (Table 5).

The Southern zone is particularly shining in gender composition as it has exceeded the programme target of 40%. The lowest achievement is in the Northern zone, where 75%

of membership is from the male cohort. The survey indicates that females have even acquired leadership position in some RFSP MFIs.

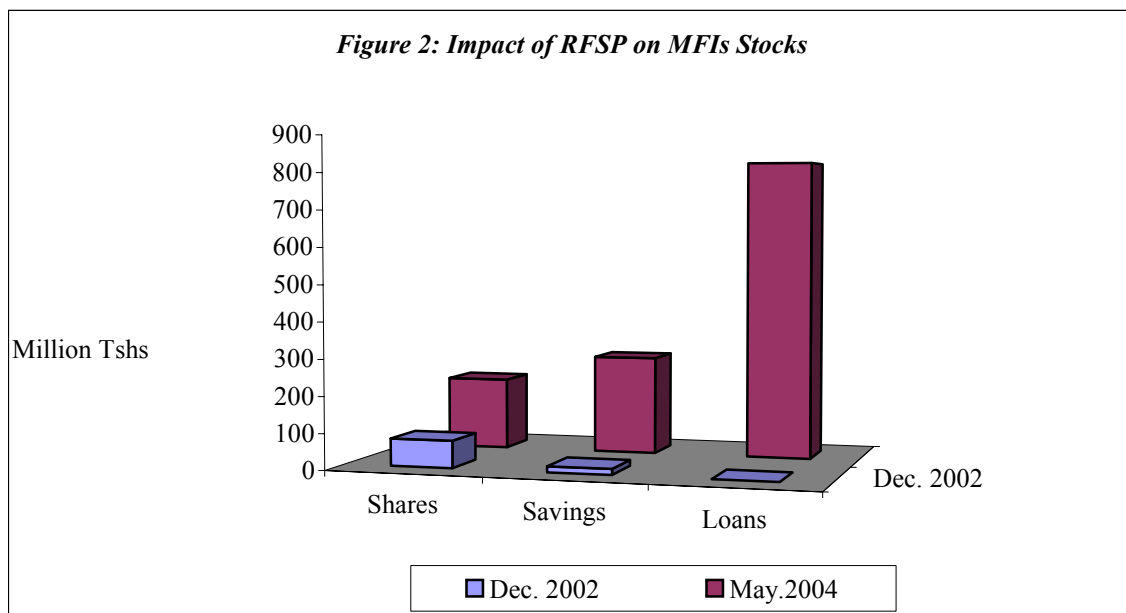
5.3.3 RFSP Impact on MFIs Stocks

One of the outstanding impacts of RFSP is growth in the stocks of MFIs (Table 6 and Figure 2). We note that shares have grown by more than 167%, savings by 1619%, deposits by –15%, and loans have reached 829,933,371 by June 2004. Clearly, this is the core impact of the RFSP, indicating not only a revival of MFIs, but also growth and benefits to members.

Table 6: Impact of RFSP on MFIs Stocks

Zones	SHARES			SAVINGS			DEPOSITS			LOANS
	Dec 02	May 04	GR	Dec 02	May 04	GR	Dec 02	May 04	GR	Total Loan Disbursement
North	11,467,400	21,100,890	84%	14,258,983	70,221,407	392%	182,842,349	31,326,368	-83%	189,113,754
South	58,874,300	141,671,541	141%	1,385,000	166,369,689	11912%	850,000	57,233,754	6633%	596,275,817
Central	4,455,500	36,971,400	729%	255,000	36,754,664	14314%	0	1,422,980	undefined	1,422,980
Total	74,797,200	199,743,831	167%	15,898,983	273,345,760	1619%	183,692,349	89,983,102	-15	829,933,371

Source: RFSP (2004) Pre-Review Implementation Status Report.



Savings have increased tremendously, reflecting quite well on the objective of the RFSP. Loans have also increased significantly; indicating that membership accessibility to credit has also increased. This also reflects well on the programme objectives.

Deposits declined, indicating that members prefer savings to deposits as the former increases eligibility to higher credits. Also, more people prefer to be members rather than customers; this reflects increased benefits from joining MFIs..

The Central zone has done well in growth of shares, savings and deposits. The Southern zone leads in loan advances followed by the Northern zone. Of interest, is the performance of the Central Zone. This is the relatively poorest zone, but its achievements are remarkable. (Also See Appendix 1).

5.3.4 *Networking MFIs with Other Financial Institutions*

Included in the RFSP objectives is networking of rural micro finance institutions to financial institutions and NGO's. This appears to be a long term objective, but specific targets are set for every phase of the project. Prior to the RFSP, none of the programme MFIs was linked to financial institutions. By June 2004, two MFIs in the Southern zone had already been linked to Mufindi Community Bank, two MFIs in the Central zone had signed memorandum of understanding with CRDB (Dodoma), and two MFIs in the Northern zone had started negotiations with CRDB (Moshi) for possible linkage to this commercial Bank..

In addition, SCCULT has already advanced two MFIs in the Central zone a total of Tshs. 5 million each. Also, SELF, PRIDE and TASAF have indicated interest to join the programme in the Central Zone.

The general performance in networking MFIs with FIs in phase one exceeds the target set of having at least one FI link with MFIs. We note that the impact is higher than that anticipated, particularly in the Central Zone (See Appendix 1).

By the end of Phase One, RFSP is expected to have graduated 25 MFIs in Stage 1, 60 in Stage II, and 25 in Stage III. By June 2004, the Programme had already graduated 44 MFIs in Stage 1, 44 in Stage II, and 15 in Stage III. Since this assessment is based on data collected in February 2004, about five months ago, it is expected that more MFIs have been upgraded since then and probably more will graduate before the end of Phase One of the Programme in December 2004.

5.4 *RFSP Impact on Beneficiaries*

The beneficiaries' questionnaire was administered to 23 groups and 101 individuals in the three districts of Moshi Rural, Mbeya Rural and Dodoma Rural. Of all the respondents, 91% are married, 5% single, 2% widowed and 1% divorced. Also, of the interviewed beneficiaries, 70% have primary education, 20% secondary education, and the rest have not been to school.

5.4.1 Access to Credit

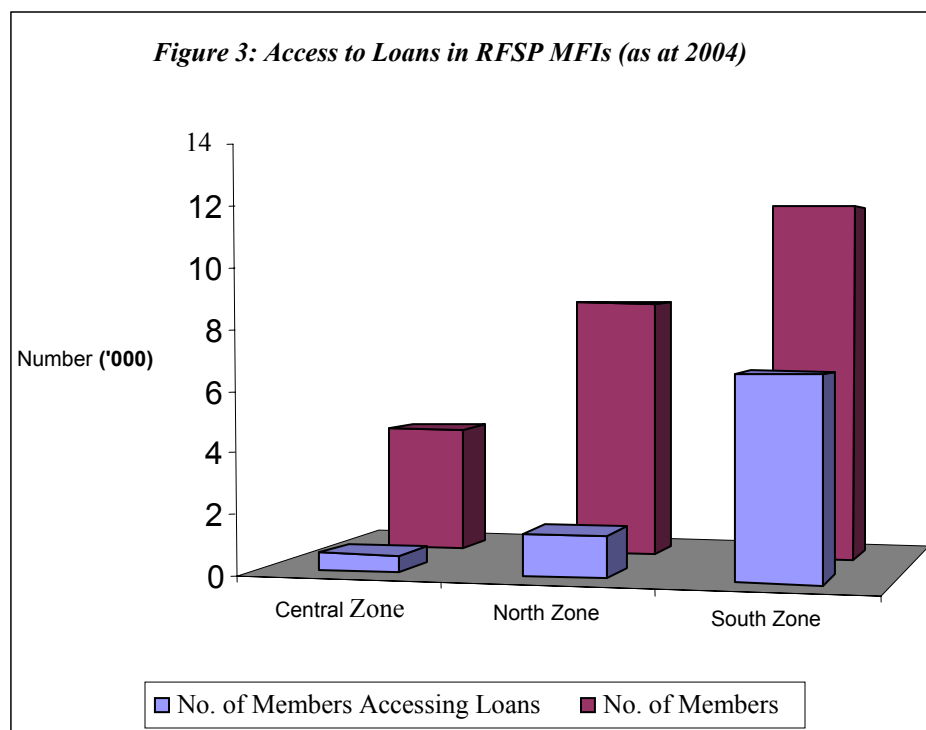
RFSP MFIs management of savings and credit has improved significantly. It takes less than a month, or less than a week, depending on the nature of the loan applied for, to secure a credit in RFSP MFIs. In fact, it is credit rationing rather than internal processing that increases the waiting time.

The results of beneficiaries' interviews indicate that 36% of the interviewed respondents obtained loans in less than 7 days and 50% obtained loans between 7 and 30 days. Proportionally, Mbeya has the shortest time in securing credits. In Moshi, 72% of the loans were obtained between 7 and 30 days. This shows that loans committees are effectively working to ensure timely advancement of loans to applicant members (Table 7 and Fig. 3).

Table 7: Access to Loans in RFSP MFI (June 2004)

<i>Zone</i>	<i>No. of members</i>	<i>No. of members accessing loans</i>	<i>% of Total</i>	<i>Average loan per member</i>
Northern	8,789	1,394	16	135,663
Southern	12,131	6,641	55	89,787
Central	4,252	561	13	79,400
Total	25,172	8,596	34%	96,549

Source:



A credit eligible RFSP MFI member is one who has savings of at least 10,000 shillings deposited with the respective MFI. An eligible member can apply for a loan up to twice or three fold of his savings, depending on the MFI loan policy. Interest rate is between 3% for short term loans, and 10% for long term loans. Loans repayment time ranges from less than one month to one year, but most loans range between 3-6 months (29%) and 6-12 months (23.4%). Short term loans of less than one month are also issued.

The results indicate that Mbeya rural had the highest proportion of loans that were repaid in less than one month (29%). Most of these loans were used for investment in crop-trading and purchase of farm inputs in Mbeya Rural. In Moshi Rural, most loans went to strengthening or starting small businesses. In Dodoma Rural, loans were either invested in agriculture or trade activities. Other activities were livestock keeping, purchase of land, food vending, local beer brewing, gardening and lumbering. An interesting feature of such loans is the purchase of a satellite dish by a beneficiary in Mbeya Rural for commercial services at his village. This shows that individuals are credit constrained and not necessarily lack micro investment opportunities. RFSP is determined to address this constraint. The survey found that about 8.9% of the loans were used to pay school fees, building, and other domestic services. This is an evidence of consumption smoothing at household level.

As Phase One of the RFSP comes to an end, 8,596 or 34% of the total RFSP MFIs members (25,172) have already benefited from loans totalling Tshs 829,933,371. (Table 7 and Figure 3). Many of these loans were advanced in the Southern Zone. The average loan per member ranges from Tshs 135,663 in the North, 89,787 in the South, to 79,400 shillings in the Central Zone.

5.4.2 Tangible Benefits

RFSP MFIs loans are generally profitable and thus recovery rate is reasonably high (95-98%). The study team investigated a few selected beneficiaries so as to reflect slightly on the impact or re-investment and assets at household level (Table 8). The survey noted that beneficiaries were careful in applying for a loan and investment in income generating activities.

Table 8: Tangible Benefits from RFSP MFIs

	<i>Name</i>	<i>SACCOS/SACCA</i>	<i>Amount of Loan</i>	<i>Profit realized</i>	<i>Profit invested</i>	<i>Other impacts</i>
1.	Kenneth Lugoey	CHAWIMA	35,000	136,000		
2.	Haruma Omari	CHAWAM	100,000	50,000	Yes	Bought a bicycle Have food security
3.	Jeni Ndaga	Kisima cha Ndege	50,000	50,000		Bought a bicycle
4.	Fabian Maguni	K. Ndege	200,000	100,000	Yes	Bought a plough
5.	Fatuma Athmani	CHAWIMA	150,000	120,000	Yes	Paying school fess Cash buy small things on my own
6.	Neema Hamis Kadoke	CHAWAM	50,000	8 120,000	Yes	Build a house Paid school fees for children
7.	Jackson Njobela	Swaya	150,000	On going	Yes	Mbeya Built a house Bought farm inputs Paid school fees
8.	Sofia George	Swaya	200,000	On going	Yes	Able to renovate house Bought a cow Bought 3 acre farm
9.	Asimbile Kapalele	Jiendeleze Iwindi	100,000	On going	Yes	Build a house in town – Mbeya Able to expand milk business School fees paid
10.	Frida Mhanzi	Jiendeleze Iwindi	300,000		Yes	Bought a car Bought a bike Build a house

Source: Field Survey, July 2003

The returns on the projects are reasonably high and re-investment in income-generating activities is noted (Table 8). Also, acquisition of assets for investment and domestic use is reported.

5.4.3 Other Impacts

(i) Employment Generation

MFI credit creates employment opportunities at village level. These are opportunities for the poorest households who fail to access MFI services. Few interviews conducted in the three zones indicate enormous opportunities for casual labour at village level. This reduces rural-urban migration (Table 9).

Table 9: Employment Generation in RFSP MFIs Communities

<i>Zone</i>	<i>No. of people employed</i>	<i>% of the total</i>
Central	197	79
Southern	37	15
Northern	16	6
Total	250	100

Source: Field Survey, July 2004

(ii) Increase in Economic Activities at Village Level

MFI loans increase opportunities to carry out economic activities during the dry seasons. This makes people more productive and innovative. Also, the MFI loans have made it possible to cultivate more land for commercial farming. These activities translate into increased incomes and poverty reduction in rural settlements.

(iii) Development of Investment Management Skills

As people plan to apply for loans, they also plan their investment activities that shall enable them pay back the loan. This is a challenge, and one is required to plan thoroughly, including consultation before he/she makes an application.

6. Problems and the Way Forward

6.1 On legal Status of MFIs

All MFIs should be legally recognized as SACCOs, which are registered through the Ministry of Cooperatives and Marketing, and are recognized in the National Microfinance Policy. The Cooperatives Law applies only to SACCOs and not SACAs whose registration is with the Ministry of Home Affairs. Registered SACAs should be elevated to SACCOs. This change may trigger resistance due to bad performance of cooperatives in the past. However, through imparting knowledge and advocacy to members, the change can be implemented.

6.2 *On financial mismanagement*

Introduction and training of an internal auditing committee would perform internal auditing at a regular basis before external audit is carried out. This internal control mechanism ensures that MFI accounts are monitored and thus reducing the chances of financial mismanagement in MFIs. The system has proved to be useful in the Northern Zone.

6.3 *On preparation of business plans*

In order to pursue a path that leads to achieving objectives of an MFI, it is important to have a business plan that guides the MFI to timely implement their activities. MFI as a financial institution, is undertaking a business, “biashara ya pesa”, it therefore needs to have a plan of operation to determine feasibility of their undertakings, so that they operate profitably (Also see Appendix 4).

6.4 *On District level support and internalization of RFSP*

The current structure of RFSP involves district level staff such as DCDO, DCO and DALDO who work together with DMFIS to implement the programme activities. However, the support could be stepped up so that the process of internalizing the programme begins. Under continued support to MFIs, executive agencies will be more effective in coordinating MFIs’ activities than government direct involvement.

6.5 *Consolidation of other Government Credit Facilities with MFIs*

MFIs are basically community owned, credit is more economically managed than elsewhere at the village/ward level. Availability of other cheap or free credits from other sources in the same communities may conflict with the objectives of RFSP. Thus, women and youths credit would be more effective if they are managed by MFIs through RFSP.

6.6 *On operationalization of the Micro Finance Facility*

RFSP Micro Finance Facility Fund for MFIs has been delayed for sometime now. This is largely because of the problems in the modalities to operationalize the Fund. More negotiations with Banks and NGOs are needed to effect the Fund.

7. *Sustainability concerns in RFSP MFIs*

The major inputs of RFSP to the programme MFIs are capacity building, coordination, advocacy and networking with FIs. As the RFSP MFIs grow, some of these support inputs will phase out. For example, once MFI is networked to FIs including NGO’s and probably other MFIs, the role of the programme on networking is automatically completed. Also, as MFIs mature in membership size and composition, the role of RFSP PMU in advocacy becomes minimal. However, support in terms of capacity building, supervision and coordination may be necessary in the long run to ensure sustainability

and further growth of MFIs. Also, proper credit management is necessary as every member wishes to apply for a credit while their MFI is not yet linked to financial institutions to boost their loanable funds. These are issues, which we discuss to underscore sustainability of RFSP MFIs.

7.1 Need for Sustainable Training

Training has been considered as one of the most effective components in Phase One RFSP. Capacity building for institutional growth and sustainability is a longterm activity. People come and go, and so with management teams, but institutions are there to stay. MFIs will take time before they are able to train their own staff. And thus, continued support from RFSP is necessary.

The importance of training Trainers for Local Training Service Providers (TSPs) cannot be underscored. By facilitating training of TSPs, RFSP will be developing capacity for providing training to MFIs and their members. RFSP has already developed training manuals in Kiswahili, which can be used for local training.

RFSP can consider introducing to MFIs the need to set aside “special funds for training needs”. This could be initiated by having the MFIs set aside some of their profits for the training fund. If this is done from the initial inception stage of the MFIs, the fund will grow and when RFSP phases out MFIs can afford to pay for training services of the TSPs. Leghomulo SACCO in Moshi Rural for example, is currently retaining 10% of its profits to pay for training services.

7.2 Need for Sustainable Supervision and Coordination

MFIs just like other financial institutions need monitoring and supervision. Banks are monitored by the Central Bank; who then should monitor activities of MFIs? Overtime, RFSP could graduate from a programme into a monitoring agency, directly under the Central Bank or the government. This would oversee the activities of MFIs and provide them with technical assistance as may be required.

MFIs management is an elected executive committee. There is a need to supervise and monitor their elections to avoid conflicts in MFIs. Coordination of MFIs activities at all levels is thus a necessary support for continued growth of the institutions.

7.3 Need for Manageable Demand for Credit

At the early stage, when MFI is not yet linked to financial institutions, demand for credit may be difficult to sustain with the internal level of savings. Many of the members have one share of 10,000 shillings and savings of around 10,000 shillings. Members are allowed to borrow up to twice their savings, but when the number of applications is too high, rationing is introduced. Proper management of the rationing process is important as this may compromise membership growth. We also see the need to operationalize the Micro Finance Facility Fund as part of the solution to this problem.

8. Concluding Remarks

(i) Implementation of the Programme activities

This study has found that many of the aspects of Phase One RFSP have been implemented though there are a number of detailed activities that have been rescheduled for the year ending December 2004. The incompleteness is largely associated with performance of external institutions or mechanisms outside the programme.

(ii) Cost effectiveness of the Programme

The total spending on the Phase One of the programme so far is 20% of the total RFSP budget. But as indicated, a number of activities, including operationalization of the Micro Finance Facility Fund have not been implemented. And thus, it is not timely to make concrete observations on cost effectiveness.

(iii) RFSP achievements and MFIs linkage to Banks

Phase One RFSP has recorded significant achievements in both MFIs and its members. Four MFIs are now linked to financial institutions, and several others are under consideration. This reflects well on the milestones set for Phase One. However, last assessment of RFSP MFIs, February 2004, shows that there were 44 MFIs in Stage I, 44 in Stage II, and 15 in Stage III. Of course this is below the target of 25, 60 and 25 MFIs in Stage I, II, and III, respectively. But the assessment is based on information compiled five months ago; a more recent assessment is needed before making concrete conclusions.

(iv) MFIs benefits to members

About 34% of the members of RFSP MFIs have already benefited from credits. And a good number of them invested the money in profitable income generating activities.

(v) Economic activities, employment creation and entrepreneurship skills

The pre review study has noted that economic activities and casual job opportunities have increased in rural RFSP MFIs catchment's settlements. Entrepreneur skills at the individual level have also increased.

(vi) Overall assessment of Phase One RFSP

Thus, Phase One RFSP is generally a success, except for the few areas that have been pointed out for sustainability concerns or further action.

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Northern Zone - List of People Interviewed

1. Mr. P. Chikira - Regional Administrative Secretary (RAS) Kilimanjaro
2. Mr. K. Ole Millya - District Commissioner (DC) Moshi Rural
3. Mr. R.M. Kitimbo - District Executive Director (DED) Moshi Rural
4. Mr. J.M.K. Kulaya - General Manager Kilimanjaro Cooperative Bank (KCB)
5. Mrs. Mwanaidi Mwanga- District Administrative Officer (DAS) Moshi Rural
6. Mr. B.A. Kimaro - District Cooperative Officer Moshi (Rural)
7. Mr. A.E. Kaaya - District Community Development Officer (DCDO) Moshi (Rural)
8. Mr. Issaya Kimaro - CRDB – Business Banking Department
9. Mr. F.K. Bee - Director of Research and Consultancy – Cooperative College Moshi
10. Dr. W.P. Marandu - Ag. District Agriculture and Livestock Officer (Moshi (R))
11. Mr. Mmbaga - District Micro Finance Institution Supervisor (Moshi (R))

Central Zone - List of People Interviewed

1. Edna Kimambo - Zonal RFSP – Coordinator – Central
2. Senyagwa - RAS – Dodoma
3. Monika Kwiluya - DED - Dodoma
4. Rehema Hamisi - CRDB Manager – Dodoma
5. Mr. Katunzi - M & E Coordinator Dodoma
6. Elizabeth Kitundu - DRFSP – Team – Dodoma
7. Chairperson - CHAWAM – Dodoma
8. Chairperson - MUKAMA – Dodoma
9. Chairperson - Kisima cha Ndege SACCOs – Dodoma
10. Chairperson - CHAWIMA – Dodoma
11. Management Committees - CHAWAM, Chawima, MUKAMA and Kisima cha Ndege SACCOs – Dodoma

Southern Zone – List of People Interviewed

1. Hon. Moshi Mussa Changa - District Commissioner, Mbeya District
2. Raphael Kimoleta - Director, Mbeya District Council
3. Leonard Muliahela - Acting DED, Mbeya Rural
4. Mr. Mwilima - Regional Cooperative Officer, Mbeya Region
5. Mr. M.S.N. Makillah - Branch Manager, CRDB
6. Mr. K. Ismail - Micro Finance Officer, CRDB
7. Mr. Shombe D. Mbarazi - Zonal Executive Officer, SCCULT Mbeya

8. Mr.Uswege Yesaya - Field Officer, SCCULT Mbeya
9. Mr. Rodgers L. Shipella - Project Manager, Mbeya Marketing Association Development Project, MEDA
10. Mr.John M. Mwanambeya - Microfinance Advisor, MEDA
11. Ms. Susan M. Hall - Microfinance Advisor, MEDA
12. Ms. Stella J. Kategire - District MicroFinance Institution Supervisor, Mbeya Rural
13. Mr. Josia Anyelwisye - Assistant District Cooperative Officer, Mbeya Rural
14. Mr. Manzi, F. - Zonal Programme Coordinator, RFSP Mbeya
15. Mr. Madalali, A - Zonal Programme Accountant, RFSP Mbeya
16. Mr. Shadrack, J - Zonal M & E Specialist, RFSP Mbeya
17. Mr. Sanga, S. - Field Attachment Student (UDSM), Mbeya RFSP Zonal Office

