

FARMERS' PERCEPTIONS OF THE PURPOSES AND CHALLENGES OF
MICROFINANCE CREDIT: A CASE STUDY OF THE PRIDE RFW CREDIT PROGRAM
FOR RICE PRODUCTION IN MVOMERO DISTRICT, TANZANIA

By

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ABSTRACT

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The aim of this study was to assess the contribution of PRIDE RFW microfinance credit in rice production in Mvomero district, Tanzania. The study covered four different villages in the district, namely Mkindo, Dakawa, Mbogo and Dihombo. Farmer groups who are engaged in smallholder rice production and who have taken loans from PRIDE RFW were interviewed. The specific objectives of the study were: (i) To identify the main purposes for which the loan is used by farmers in rice production, and (ii) To identify challenges faced by rice farmers in acquiring loans from microfinance institutions.

Data for this study were collected from farmer focus groups using a checklist of interview questions. Data were organized, coded, processed and analysed using MS Excel. The analysis was in the form of descriptive tables, charts and graphs.

Results indicated that farmers formed groups to obtain loans to improve living standards and to support both farm and nonfarm business activities. Loans provided to smallholder rice farmers in the study villages made a significant contribution to rice production activities as reported by farmers. Loans were used to support land preparation and planting, fertilizer purchase, harvesting and transportation of output to market. Challenges in acquiring credit from PRIDE RFW reported by farmers included the small size of loans available, delay in loan disbursement, short repayment period, high interest rates, fines for late payment, and lack of transparency by PRIDE RFW about loan availability and credit program procedures. The perspective of PRIDE RFW staff on these issues was also reported.

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KEY TO SYMBOLS OR ABBREVIATIONS

AATF	African Agricultural Technology Foundation
ACT	Agricultural Council of Tanzania
CGAP	Consultative Group to Assist the Poor
CRDB	Cooperative and Rural Development Bank
FAO	Food and Agriculture Organization
FGD's	Focus Group Discussions
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
LTD	Limited
MDG's	Millennium Development Goals
MFI's	Microfinance Institutions
MS	Microsoft
MSME's	Micro, Small and Medium Enterprises
NBS	National Bureau of Statistics
NEPAD	New Partnership for Africa's Development

NGO's	Non-Governmental Organizations
OSAA	Office of the Special Adviser on Africa
PRIDE	Promotion of Rural Initiative & Development Enterprises
PRIDE RFW	Promotion of Rural Initiative & Development Enterprises--Rural Financial Window
RLDC	Rural Livelihood Development Company
SACCOS	Savings and Credit Cooperative Society
SME's	Small & Medium Scale Enterprises
TAFSIP	Tanzania Agriculture and Food Security Investment Plan
TSHS.	Tanzanian Shillings
UNCDF	United Nations Capital Development Fund
URT	United Republic of Tanzania
VCF	Value Chain Financing
%	Percentage

CHAPTER 1: INTRODUCTION

1.1 Introduction

With low income levels and insufficient funds facing majority of farmers in developing countries, it is vital for these farmers to seek credit. Microfinance Institutions have proved to be significant in the provision of loans to these farmers (Robinson., 2001), (Kessy and Urio, 2006). Microfinance, is the provision of a variety of financial services to poor, low-income people and micro and small enterprises that lack access to banking and related services (Brau and Woller, 2004, OSAA and NEPAD, 2013) for example provision of insurance, micro credit, loans deposits, money transfers and payment services (Ali et al., 2013), (Morduch and Haley, 2002, Kessy, 2012).

The capability of microfinance sector to help poor households meet their basic demands has attracted donor funding which has in turn led to the rapid growth of the sector (OSAA and NEPAD, 2013). Hence this sector is perceived to be sustainable in supporting low income groups.

Agricultural income is generally considered to be volatile due to its dependency on production (weather, pests and diseases) and market (commodity prices) risks (Paxson, 1992, Barnett and Mahul, 2007, Heimfarth and Musshoff, 2011). This is evident among small-scale farmers in developing countries (Staib and Bever, 2011). With respect to this matter, the tendency of borrowers defaulting is higher due to insufficient disposable income available for loan repayment (Petrick, 2004, Simtowe et al., 2008).

In Tanzania, agricultural sector employs over 75 per cent of the population. This sector generated 29 percent of GDP in 2000, however due to poor performance of the sector compared

to other sectors its share of GDP fell to 25 percent in 2009 (TAFSIP, 2011). The poor performance of the agricultural sector could be a result of the above mentioned dependency.

1.2 Problem statement

Most regular banks in developing countries are still hesitant to channel funds to Micro, Small and Medium Enterprises (MSME's) due to high risks associated with lending to this type of borrowers (IMF, 2005). Instead, have only focused on large enterprises with low credit risks which by definition are outside the scope of the MSME sector and especially excludes small-scale agricultural producers (Holton et al., 2012). Thus the introduction of microfinance institutions is seen as the best alternative source of financial services to poor households (IMF, 2005, CGAP, 2010). This kind of financing is important in helping the households improve their livelihood.

Though MFIs can potentially provide significant benefits to farmers in developing countries (UNCDF, 2004), the evidence of their effectiveness is lacking, especially in poor countries like Tanzania (Kessy and Urio, 2006). This study addresses this issue of lack of evidence by focusing on the case for Mvomero district in Tanzania, and examines the effectiveness of microfinance credit on small-scale rice farmers in the district.

Findings from this study will inform policy and decision makers on how best microfinance credit has helped (or not helped) improve the lives of rice farmers in Mvomero district and how it could be further developed to enhance smallholder farmers' agricultural productivity in a sustainable manner.

1.3 Research objectives

The study will center on the following general objective. To assess the contribution of microfinance credit to small-scale rice producers in Mvomero district, Tanzania, through a case study of the Promotion of Rural Initiatives and Development Enterprises Rural Financial Window (PRIDE RFW), one of the MFIs active in the study district.

1.3.1 Specific objectives

To achieve the general objective, specifically the study aims to:

1. Identify the main purposes for which the loan is used by farmers in rice production.
2. Identify challenges faced by rice farmers in acquiring loans from microfinance institutions.

1.4 Scope of the study

In defining the scope of the study, this study was focused mainly on assessing the contribution of microfinance credit in small scale rice production in Mvomero district, Tanzania. Mvomero district was chosen as it is one of the prominent areas of rice cultivation in Morogoro region. Different groups of farmers have collectively taken loans from different microfinance institutions to help them in their rice production activities. Data was collected in four different villages in the district from the year the farmer groups started taking loans. This time frame was chosen in order to qualitatively capture the performance and efficiency of microfinance credit in rice farming activities within the district and how its allocation has been promoting economic growth around the area.

1.5 Organization of the study

The study is organized into five chapters, including this introductory chapter. Chapter two presents a literature review of relevant materials and works related to the research. The methodology and approach employed for the research are described in chapter three, which includes a description of the study area, types and sources of data, the study population, sampling and data collection methods and analysis. The analysis of primary data gathered from the field survey is contained in chapter four. Conclusions and recommendations are discussed in chapter five of the report.

CHAPTER 2: LITERATURE REVIEW

2.1 Microfinance

Microfinance is the provision of a broad range of financial services such as deposits, loans, savings, payment services, money transfers, and insurance to the poor and low-income households (OSAA and NEPAD, 2013). When credit is accessed, it is returned in small agreed instalments, this is partly because most lenders want to avoid the losses and high transaction costs associated with lending to the poor and also avoid the use of loan loss provisions to smooth the income of the financial institution (Fernando and Ekanayake, 2015).

2.2 Access to finance for agricultural MSMEs

Accessibility of credit to small businesses in developing countries is considered difficult due to heavy collateral requirements (Nawai and Mohd Shariff, 2011, Ali et al., 2013, Kira, 2013, George, 2014). In a study conducted in Tanzania on credit access and loan repayment, it was found that agricultural firms face higher obstacles to get credit than non-agricultural firms (Weber and Musshoff, 2012).

With unstable regulations towards access to financing in both formal and informal sectors in the past decades, governments and central banks in many developing countries have started to constantly improve the regulations in the financial sector (IBRD, 2010).

The improvements in regulations have largely helped agricultural MSMEs obtain funds from various financial institutions like regular banks and microfinance institutions, however the principal target clients of microfinance institutions are informal MSMEs who are normally neglected by regular banks (IMF, 2005). In the past years, agricultural income has contributed less than 50% to the household income of farmers in developing countries (Christen and Pearce, 2005), In 2007 the rural households in Tanzania earned 88.4% of their monthly income from

agricultural production but according to wealth quintile, the poorest households earned only 15.9% of all agriculture income (The Research and Analysis Working Group of the MKUKUTA Monitoring System, 2009). This is because the latter depend on agriculture as their main source of income. This shows that majority of farmers in Tanzania who fall under MSME's need financial support in their agricultural production activities and microfinance institutions can be their best source of credit (Mashindano et al., 2011).

2.3 Microfinance and its impact in development

Microfinance has a very crucial role to play in development as it is associated with improving household economic welfare (UNCDF, 2004). Microfinance is unique among development interventions as it has shown the possibility of attaining Millennium Development Goals (MDGs) through its contribution in eradicating poverty, promoting education, improving health and empowering women (Simanowitz, 2001, Littlefield et al., 2003, Simanowitz and Brody, 2004, IMF, 2005, IBRD, 2010)

2.4 The impact of microfinance on poverty

Though there are studies indicating that there is no clear evidence that microfinance programs have positive impact (Wrenn, 2007, Duvendack et al., 2011, Nothando, 2014, Yang and Stanley, Missing), MFIs can enable the poor manage their small businesses, improve their incomes and manage risks. There is an evidence of positive impact of microfinance in poverty reduction in some of the developing countries (Littlefield et al., 2003, UNCDF, 2004, Adams, 2010, OSAA and NEPAD, 2013, Morduch and Haley, 2002).

In Tanzania, MFIs have also positively contributed towards reduction of poverty in many ways. MFIs' clients have increased their incomes, capital invested and therefore expansion of their businesses (Randhawa and Gallardo, 2003, Kessy and Urio, 2006).

2.5 Impacts at a household level

Microfinance has also been argued to positively contribute towards improving wellbeing of individuals at household level through education (Morduch and Haley, 2002). There is an interaction between microfinance and education, studies have shown that microfinance clients tend to invest more in their children's education than non-clients (Littlefield et al., 2003). An access to microfinance services also helps individuals diversify their livelihoods, therefore increase their incomes and improve their living standards (Robinson., 2001, Parveza and Shakilb, 2015).

Other non-financial impacts of microfinance at household level include improved nutrition and health care (Morduch and Haley, 2002). Therefore, findings show that microfinance has largely contributed towards improving welfare at household level, a study in rural Bangladesh indicated that microcredit beneficiaries produce 15% more rice than that of non-beneficiaries group which is also statistically significant at 1% level (Hasan et al., 2013). A study conducted in one of the districts in Ghana showed that there is a significant relationship between microfinance and crop production (Nuhu et al., 2014).

2.6 Purposes for which farmers use their loans

Data on a survey that was done in Dera Ismail Khan district of Pakistan on the sources and uses of agricultural credit by farmers reported that 95.20% of the total credit disbursed during 2008 was used for buying for seeds, fertilizers and pesticides while 1.92% of the total credit disbursed was used for tractors. Data on the same survey indicate that 58.20% of the total credit disbursed in 2001 was used to purchase fertilizer pesticides and seeds (Saleem, 2008).

Another study on agricultural credit and its impact on farm productivity in Kailali district of Nepal reported that agricultural credit has helped improve agricultural productivity of the

farmers by better enabling them access improved seeds, fertilizer, pesticides and improved irrigation facilities which have made the farmers achieve a higher technical efficiency level. The study further insists that agricultural credit services should be made available especially in rural areas in order to enable farmers to access better inputs and mechanized techniques of production to subsequently achieve higher levels of technical efficiency (Bhatta, 2014).

A study on rural farmers source and use of credit in Nsukka local government area of Enugu state, Nigeria reported that 100% of the respondents used their credit for planting activities/operations like weeding, 89.2% used their credit for purchasing farm inputs like seeds and insecticides, 82% used their credit for hiring labor while 25% used their credit to purchase new lands (Matthew and Uchechukwu, 2014). Another study on the sources and uses of agricultural credit by small scale farmers in Surulere local government area of Oyo state, Nigeria reported that 90% of the respondents used their credit for paying labors (Adebayo and Adeola, 2008).

A report on African smallholder farmers with respect to rice production and sustainable livelihoods in Ghana identified three major uses of agricultural credit to rice farmers in the region which are hiring farming equipment, purchasing pesticides, high quality seed, fertilizer, small-scale irrigation equipment and paying for the usage of irrigation facilities for efficient water control (Norman and Kebe, 2004).

In their study of the rice value chain in Tanzania, Wilson and Lewis, (2015) argued that credit is a major determinant of technology adoption among farmers in Tanzania. Credit was found to have a positive impact on input use in farming activities. The inputs that were largely emphasized are fertilizers and seeds. It was also found out that limited credit services are a major

constraint in every stage of input chain and thus most farmers find themselves using the cash obtained from selling their produce to purchase inputs therefore competing with other important family needs like food and school fees.

2.7 Challenges facing farmers in their production activities

A paper addressing challenges of small-scale farmers' access to micro credit in Gassol LGA, Taraba State, Nigeria, reported that the problems of micro-credit accessibility in this state are high interest rates (mentioned by about 20% of respondents), a delay in government loan approval (mentioned by about 37% of the respondents), amount given being too small (mentioned by about 3% of the respondents), and defaults in payments (mentioned by about 6% of the respondents). Other respondents did not respond to this question. On the other hand, farmers mentioned several challenges of the micro-finance system in question: 28.6% of the respondents mentioned high interest rates, and 22.9% of the respondents mentioned difficulty in repayment in event of crop failure as one of the challenges. Other challenges that were mentioned include high risk and uncertainty, failure in meeting terms of agreement, litigation (courts/police cases) and poverty and illiteracy (Oruonye and Musa, 2012).

In another study that was conducted in Kangemi-harambee market in Nairobi city county, Kenya, on the challenges facing micro and small enterprises in accessing credit facilities it was identified that the key challenges hindering micro and small enterprises from accessing credit facilities are high cost of repayment, strict collateral requirements, not getting the exact amount applied for, unwillingness of people to act as guarantors, lack of enough collateral and short repayment period (Gichuki et al., 2014).

On a study that was done in Tanzania and five other African countries on creating access to agricultural finance it was reported that farmers fear the high interest rates charged by lenders

and lack suitable collateral. Farmers are also challenged with the cumbersome loan procedures and find themselves not demanding credit services because they fear that they will be denied it which in most cases it is true (Jessop et al., 2012).

Above are several challenges that African small-holder farmers are facing when applying for credit to assist them in their farming activities. However there are a number of major challenges facing the crop production sectors in most African countries hindering the development and growth of these sectors.

A report on the national rice development strategy of the United Republic of Tanzania under the Ministry of Agriculture, Food security and Cooperatives lists a number of major challenges that have been identified as limiting factors to the rice development sector in Tanzania (URT, 2009), described below.

(i) Development and availability of improved seeds

There has been a problem of inadequate varieties of seeds that are tolerant to drought, bad weather and infections. However there are many different rice varieties grown by farmers in the country which have a low yield and mature very late. The report also indicated that only about 10% of the farmers in Tanzania use improved seeds.

(ii) Water availability

This is another major challenge facing the rice sub-sector in Tanzania. Most rice farmers in the country depend on rainfall in their production activities. The annual variation in the amount and distribution of rain makes rain-fed rice production susceptible to floods and/or drought. On the other hand, irrigation services are very expensive for most farmers in the country.

(iii) Development and availability of improved post-harvest processing technologies and value addition

Most rice is processed by low-technology machines with an exception of large-scale producers, resulting in low-quality milled rice and thus poor market prices for the product.

(iv) Development of labor-saving technology

The report identified that 95% of rice farming operations in Tanzania are done manually. This means very high labor costs in production of rice. Planting, harvesting and threshing are all done by hand, paddy transportation from the farms to the field or storage facilities is sometimes done by head loading.

(v) Improved accessibility of credit to farmers

Rice farmers and processors have limited access to credit facilities in Tanzania. The commercial banking institutions are reluctant to supply credit facilities to small farmers especially in the rural sector because most of these farmers lack suitable collateral. Loans from the formal financial sectors have a very high interest rates too.

(vi) Development and rehabilitation of communication, transportation and marketing infrastructure

It is argued in the report that the rural infrastructure is poor and in need of improvement. Most roads are not passable during the rainy season, which contributes to an increase in production costs. There are also poor storage and marketing infrastructures which compel farmers to sell their produce at lower prices because of limited bargaining power.

2.8 Interest Rate (Pricing)

There is an assumption that low-income people are not very sensitive to changes in interest rates, so that they focus instead on how to get access to credit despite how expensive it is. In this kind

of situation, the lenders can raise their prices without being concerned that they will lose customers. MFI's could use this opportunity to charge borrowers prices that will cover their costs of operation and at the same time maintain their customer base. Researchers, however, still wonder why some borrowers selected one MFI and why other borrowers selected another. It could be possible to compare clients who have selected different MFI's and face different prices. However, in their results they concluded that borrowers are very sensitive to changes in prices and that low-income households are more sensitive to an increase in interest rate (Dehejia et al., 2005).

In 1970s and 1980s, the laws restricted interest rates on loans to low levels. Directions were even given on who should get subsidized loans and for what purpose. It was believed that high interest rates would consume a larger amount of surpluses generated by small-scale entrepreneurs leaving them with small profits. For example, in Brazil during the early 1970s, interest rates on working capital loans were fixed at 17 percent per year while inflation rates ranged from 20 to 40 percent a year. As a result, only low-quality financial services could be offered. Interest rates for most MFI's now range between 30 percent and 60 percent per year in places where inflation rate is below 10 percent per year (Dehejia et al., 2005).

Some authors argue that poor households are very insensitive to interest rates, so that institutions can therefore set high prices to generate profits. If so, microfinance can easily reach hundreds of millions of households that are currently excluded. However, raising interest rates could in turn worsen repayments and screen out the most reliable borrowers (Dehejia et al., 2005).

Money lenders on the other hand are seen as exploiters because they keep their interest rates high (above those charged by formal financial institutions) while borrowers are poor and have limited

options of getting capital. In a competitive market, interest rates should be equal to the marginal cost of lending (Aghion and Morduch, 2005).

One of the most crucial requirements for microfinance services to become sustainable is the issue of pricing. The price for loans (interest rate) has to be set by the microfinance institution itself with respect to the running costs of the organization and its own business strategy. It should not be set by the Government, Bank of Tanzania or donors (URT, 2000). By contrast, PRIDE RFW sets its own interest rates and changes them whenever it feels necessary.

A high interest rate may simply mean high costs of operations, including costs associated with screening the borrowers, monitoring loan usage, and repayment enforcement. Setting high interest rates is caused partly by the fact that lenders do not have full information about the riskiness of borrowers' business. It is therefore impossible to discriminate between safer and risky borrowers and the only solution is to charge a uniform high interest rate to deal with this problem of adverse selection. It is also because of the fact that one party, in this case borrowers, has more information about their actions and thus has an incentive to behave inappropriately from the perspective of the party with less information (lenders). This is a form of information asymmetry known as moral hazard. If lenders were able to discriminate, they would then charge low interest rates to safer borrowers and high interest rates to risky borrowers (Aghion and Morduch, 2005).

However, raising interest rates too high could eventually lead to 'market imperfection' since a great number of safer borrowers could be driven out of the credit market due to high interest rates charged by lenders. This means 'inefficiency' and that is why it leads to market imperfection. In the end, lenders find themselves losing money in the form of reduced profits.

PRIDE RFW has recently increased its interest rate from 2.5% a month to 3.5% a month, perhaps because of the above reasons.

Table 1: Response to interest rates by different types of borrowers

Interest Rate	Safe borrowers	Risky borrowers
Y	In market	In market
Y+P	Leave the market	Stay in market
Y+P+N	-	Leave the market

Note: Letters Y, P and N have been used to represent the amount charged as interest by lenders; they do not represent anything economically or otherwise.

2.9 Individual Lending Versus Group Lending

One way to address the issue of inefficiency is through group lending as opposed to individual lending. Group lending has a form of joint responsibility/liability and thus offers a chance for safer borrowers to distinguish themselves from risky borrowers and form a group. Lenders will therefore feel at ease with groups rather than individuals and they will reduce the average interest rates for both groups (safer and risky) and still make a profit. In that case, the problem of market failure caused by safer borrowers leaving the market will be solved (Aghion and Morduch, 2005). PRIDE RFW uses this kind of lending methodology.

Group lending is normally for individuals who do not have collateral but are in need of a loan. The loans are made individually to group members but the liability is also for each person in the group. All members are responsible in case of a late repayment/default. Group lending is seen to have other potential cost advantages apart from the joint liability aspect. The cost of screening and monitoring loans and the cost of enforcing repayments are both substantially reduced with group lending (Aghion and Morduch, 2005).

The main incentive for repayment in a group lending program is not the fact that group members would be forced to pay for defaulters in the group, but rather their concern that non-repayment would result in loss of access to future funds. Members have to bear in mind that if they do not want to lose access to loans, they should be at the same time ready to bail out a fellow group member in times of need (Aghion and Morduch, 2005).

2.10 Collateral/Security Problems

One of the most significant problems facing borrowers is lack of suitable collateral to offer as security to lenders. This is especially so with small farmers who are mostly poor. Joint liability/responsibility proves to be one of the best ways to help poor households borrow money (Ghatak and Guinnane, 1999). In joint liability, every borrower is responsible not only for his/her actions but with the actions of another borrower in the group as well. Due to this, the group is always very careful in its actions and members encourage one another to make repayments on time to avoid fines from the lender. This coincides with the farmer groups that were visited in Mvomero district. PRIDE RFW accepts two types of collateral, first is cash collateral equal to 25% of the approved loan amount and second an asset that is owned collectively by the group most preferably a plot, a farm or a house. Most farmers find these collateral requirements very difficult.

Some credits experts have warned against the provision of loans to low-income people who lack collateral to secure their loans. Banks and other financial institutions whether formal or informal are faced with serious problems associated with lack of collateral, adverse selection and moral hazard. With the case of commercial banks, there is always a tendency of avoiding markets where there is a scarcity in collateral and where the costs of transacting are high. The problem of adverse selection and moral hazard could be solved if borrowers are able to provide suitable

collateral for the loans. But the main issue is that low-income households do not normally possess suitable collateral, with the result that lenders will have to find a way to get more information on these type of borrowers, which is costly to them (Aghion and Morduch, 2005).

2.11 Repercussions on Loan Default

In joint liability, if a member defaults then group members will have to bear that cost. If they fail then they will be denied future credit, something which they do not want to happen (Ghatak and Guinnane, 1999). On the other hand, if a lender experiences a huge number of defaults it means that he/she will be driven out of business but with group lending at least the lender is assured of repayments to some extent. This is to say that defaults affect both parties (borrowers and lenders).

Performance assessment of borrowers is vital to lenders. Developed countries often use credit bureaus to share information on credit access and performance history of borrowers. Borrowers normally register to these credit bureaus with a known identification programme such as national identification numbers or social security numbers and therefore it is easier for lenders to address issues like over-indebtedness and defaults. This is, however, not a common practice in most poor countries where there are no or ineffective national identification systems (Aghion and Morduch, 2005).

2.12 Loan Repayment Plan

As opposed to regular banks, most microfinance programs require that payments should be made as soon as possible after loan disbursement and occur weekly thereafter. Micro-finance practitioners insist that this is very important in avoiding loan defaults while economists argue that more time will benefit borrowers and improve their repayment capacity (Field and Pande, 2008).

The nature of repayments, however, should consider what kind of business a borrower is involved in. With respect to rice farmers in Mvomero district, weekly or even monthly repayment is impossible especially for the first repayment because they have to plant and wait until rice is ready to harvest, which is about four months. PRIDE RFW therefore allows farmers the flexibility of paying the first instalment in five months.

The Grameen Bank's joint liability model is one of the most famous banking models. The model allows borrowers to start with very small loans and increase loan size as borrowers show reliability. The repayment schedule is, however unusual, as the first repayment is required just a week after initial loan disbursement and repayments continue every other week making the contract appear more like a consumer loan than a business loan. If borrowers are on time with the repayments, they are offered a larger loan during the next period and this continues to a point where the loans can enable clients to even build a house or send a child to a university (Aghion and Morduch, 2005).

2.13 The free riding problem

Despite all the advantages of group lending methodology, there are some setbacks involved in this kind of lending methodology. One of these setbacks is the issue of free riding whereby some people in the groups might not be performing to their best since the liability is for the whole group and not for an individual. Some of the borrowers might decide not to work as hard as other borrowers in their respective groups because they understand that the group members will pay for their debts once they cannot afford to pay. This lowers the incentive to work hard for other group members and slows down the group's performance. Borrowers will often ask themselves "Why should we work hard if in the end we are liable for actions that were done by someone else?" (Aghion and Morduch, 2005).

2.14 Review of MFI case studies in Tanzania

Various studies on microfinance have been conducted in Tanzania over the past several years. (Randhawa and Gallardo, 2003, Kessy and Urio, 2006, Girabi and Mwakaje, 2013, Kessy, 2012). Kessy and Urio (2006) carried out a study on the impact of microfinance on poverty alleviation and found out that microfinance has changed the life of poor people by helping them invest capital, increase their incomes, and expand their businesses. Kessy (2012) carried out a study to assess the impact of microfinance services on growth of micro and small enterprises and found out that the loan amount affected growth positively while the loan conditions (interest rate and repayment time) affect growth negatively.

Girabi and Mwakaje (2013), investigated the impact of microfinance on agricultural productivity by smallholder farmers in Iramba district, Singida. Results showed that credit beneficiaries realized high agricultural productivity compared to non-credit beneficiaries as they were better able to access markets for agricultural commodities, use inputs and adopt improved farming technologies. In a working paper by Randhawa and Gallardo (2003), they discussed how the overall regulatory framework affects the ability of microfinance institutions (MFIs) to become more market-oriented and integrated with the formal financial system.

In a study that was conducted by the Department of Agricultural Economics of the Sokoine University of Agriculture (SUA), Morogoro, Tanzania in Dodoma Rural and Kongwa districts in Dodoma region in 2007 aiming at examining the impact of micro finance institutions on poverty reduction among smallholder farmers focusing on Savings and Credit Cooperative Society (SACCOS) beneficiaries to see whether credit beneficiaries have actually helped the farmers move out of poverty and if so to what extent has that been achieved. A total of 160 respondents were interviewed; findings showed that microcredit services have positively impacted the

activities and lives of beneficiaries in a number of ways including ownership of valuable assets, household expenditure on basic needs, generation of income from farm and off-farm activities, and house ownership (Anyelwisye, 2007).

The researcher therefore argues that the Government has to set a favorable environment by subsidizing SACCOS and educating the community on their mode of operation. The study further argued that SACCOS play a significant role in improving conditions of smallholder farmers in the districts by helping smallholder farmers access financial services and invest in income-generating activities.

In research that was undertaken by the Development Study Institute (DSI) of Sokoine University of Agriculture (SUA) pertaining to the contribution of SACCOS to poverty reduction in rural areas with a focus on Mbozi district council in Mbeya region, Tanzania, a total of 160 respondents were interviewed, of which 80 were SACCOS members. Findings show that SACCOS perform different financial and non-financial services to its members including provision of shares, investment opportunities, savings, credit and training on entrepreneurship (Kwai and Urassa, 2015).

The analysis shows a significant difference between members of SACCOS and non-members on the income earned from agricultural activities, their household expenditures, and assets owned and therefore indicating a positive impact of SACCOS on income poverty reduction in the district. The research further concludes that SACCOS play an important role in improving conditions of smallholder farmers in the district and recommends that SACCOS be empowered in order to improve their efficiency in serving a large part of population.

2.15 Rice sub sector

Rice is the second most important food and commercial crop in Tanzania after maize (RLDC, 2009, ACT, 2010, URT, 2011). The cultivated area under rice production in Tanzania is about 18% of the total cultivated land. Most of the rice produced in the country (71%) is rain fed, the remaining 29% represents irrigated land. Rice is largely grown in three regions of Tabora, Shinyanga and Morogoro located in the central corridor where climate is favorable for rice farming. The central corridor holds about 48% of rice cultivated land in Tanzania (RLDC, 2009).

Table 2: Leading Paddy-Producing Regions in Tanzania

Region	Area under Paddy in Acres	Percentage of Total National Paddy Area
Morogoro	312,513	19.7
Shinyanga	293,723	18.5
Mwanza	215,461	13.6
Tabora	162,173	10.2
Mbeya	135,215	8.5

Source: National Sample Census of Agriculture Vol. II-Crop Sector National Report, 2006

Morogoro region is the leading paddy producer in the country with over 19% of the total national area under production (URT, 2007, URT, 2011). In terms of planted area, paddy is the second most grown cereal crop in the region. During the long rainy season, 49% of the total crop growing households in Morogoro region grow paddy (RLDC, 2009). Data showed that, only 4.4% of agricultural households in the region have access to credit out of which 68% were male-headed households and 32% were female-headed households (URT, 2007).

Morogoro region has a total of six districts which are Morogoro urban, Morogoro rural, Kilosa, Kilombero, Ulanga and Mvomero. Mvomero is among the paddy-producing districts in the

region and it has the highest number of crop-growing households per square kilometre of land by district. The major sources of agricultural credit in this district are NGO's and projects who are more involved in funding a relatively great number of households (URT, 2007).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was used during data collection and analysis stages. The research objective was to examine the contribution of microfinance credit in small-scale rice production in Mvomero district, Tanzania. This study's focus was on rice farmers at four different villages in Mvomero district, who have taken loans from PRIDE RFW microfinance institution. PRIDE stands for Promotion of Rural Initiative and Development Enterprises Limited which is a microfinance institution involved in the provision of credit to small and micro enterprises in Tanzania. It started its operations in January 1994 with its first branch and head office in Arusha. RFW stands for Rural Financial Window. PRIDE Tanzania LTD is a sister company to PRIDE RFW Tanzania LTD. The mission of PRIDE-Tanzania is to create a sustainable financial and information services network for micro and small-scale entrepreneurs to increase incomes and employment and stimulate business growth.

This chapter explains the strategies and the rationale behind the choices the researcher made during data collection. This research methodology was designed and conducted using a checklist to gather and systematically track clients' responses.

3.2 Overview of PRIDE (T) LTD business model

PRIDE (T) LTD uses Value Chain Financing (VCF) model with two lending methodologies;

- (i) Agribusiness-based methodology which aims at promoting VCF for commercial crops including sesame value chain, sunflower value chain, rice value chain, grapes value chain, chick peas value chain and dairy value chain.
- (ii) Community-based methodology, which aims at enhancing rural entrepreneurial spirit and covers aspects of business, irrigation and market farming loan.

3.3 About PRIDE RFW (T) LTD

PRIDE RFW (T) LTD is a for-profit NGO registered in 2012 and has about 14 branches across 12 regions in the country with two lending methodologies. First, they offer several loan products including business loans, farming loans, housing loans, and solar loans, and second they offer SME's loans for millers and agro-vets.

3.3.1 Basic profile of PRIDE RFW in Mvomero district:

Table 3: Distribution of loan amounts in Mvomero district

Period	Maximum Loan Amounts in Each Cycle
2008-2010	200,000Tshs
	300,000Tshs
	450,000Tshs
	600,000Tshs
	800,000Tshs
	1,000,000Tshs
	1,500,000Tshs
2011-2014	300,000Tshs
	450,000Tshs
	600,000Tshs
	800,000Tshs
	1,000,000Tshs
	1,500,000Tshs
	2,000,000Tshs

During the period 2008-2010, the maximum amount a group member qualified to borrow was 200,000Tshs but this amount changed to 300,000Tshs during the period 2011-2014. This amount could increase during the next loan season only if the borrower managed to finish his/her last repayment on time. For example, during the period 2008-2010 if a given borrower had managed

to finish his/her last repayment of, say, 200,000Tshs (the maximum amount he/she could borrow during the first loan cycle), then he/she could borrow a maximum of 300,000Tshs during the next loan cycle. This continues until the client is able to borrow a maximum of 1,500,000Tshs. During the period 2011-2014, the limit was raised to 2,000,000Tshs, but PRIDE RFW's Morogoro regional manager explained that very few people qualified to get 1,500,000Tshs and only one person qualified to get 2,000,000Tshs. This was because most individuals failed to make their payments on time and therefore they were disqualified to get more money in the future.

PRIDE RFW (T) LTD has three sources of capital: its sister company PRIDE (T) LTD, and other investment and commercial banks. This institution mainly offers credit services (loans) through the group lending (joint liability model) and individual lending. The constraints PRIDE RFW (T) LTD face include defaults, low liquidity on the part of lender, limited knowledge on financial literacy, very high costs of operation, fraud from staff, insufficient collateral and information/records to screen customers. An explanation of the above-mentioned constraints is given below.

3.3.2 Defaults

Up to December 2013, the default rate was 17%. The default rate is calculated as follows;

Default rate = (Value of loans in default/Total outstanding portfolio) x 100%. The default rate is calculated based on the actual amount that is still in the hands of borrowers (value of loans in default), as a percentage of the amount of funds that was disbursed and is in the hands of borrowers (total outstanding portfolio). The default rate is not calculated taking into account the number of borrowers who have not paid back their loans as a percentage of the total number of borrowers who actually received loans.

The 17% default rate applies specifically to Morogoro branch; other branches experienced lower default rates. In the year 2014, very few groups received funds from PRIDE RFW, due to low liquidity on the part of the lender. In 2015 and 2016, no group in the interviewed villages received loans from PRIDE RFW, because of lack of funds to disburse. In early years such as 2008 and 2009, the default rates were very low because little money was disbursed to group members. When the loan amounts increased gradually in subsequent years, however, default rates started to rise.

3.3.3 Low liquidity on the part of lender

As it has been explained above, PRIDE RFW's sources of capital are its sister company, PRIDE (T) LTD, and other investment and commercial banks. Most of the capital was borrowed from commercial banks as the other two sources were not very reliable. The senior staff at PRIDE RFW explained how the high interest rates charged by these commercial banks affected them in borrowing. In the year 2009, the organization was charged an annual interest rate of 19% by one of the local banks, at a time when it was charging an interest rate of 2.5% a month to borrowers.

Taking an example of the farmer groups in the interviewed village, PRIDE RFW used to charge them an interest rate of 2.5% a month, with interest to be paid in 9 months. This means that farmers were charged an interest rate of 22.5% over a 9-month period while PRIDE RFW was charged an interest of 19% annually. PRIDE RFW did not find this profitable. With the current interest rate of 3.5% a month, borrowers are supposed to pay an interest rate of 31.5% over a 9-month period. In the year 2010, another commercial bank imposed a condition that PRIDE RFW charge an interest rate of only 8% to clients, half of which (4%) to be given to the bank and the other half to remain with PRIDE RFW. PRIDE RFW did not agree with these terms and therefore they did not borrow the money from this bank.

3.3.4 Limited financial literacy

Most borrowers have very limited knowledge about how to handle cash and use it specifically for activities that the money was borrowed for. In the interviewed villages, most farmers had very little education. Some of the defaults have been due to this problem.

3.3.5 Very high costs of operation

The very high costs of operations are due to the following reasons;

(i) A large number of employees

Many employees are needed to serve the large number of clients. PRIDE RFW has many clients, since it channels funds to low-income people who normally qualify to borrow only very small loans, and this type of clientele is very common in poor countries.

(ii) Travel costs of employees

From time to time, employees have to travel and visit the clients to check progress. Since clients and employees are so numerous, the organization incurs huge travel costs. This goes hand in hand with provision of allowances to the employees while they are working outside the office.

(iii) Motivation to village leaders

Village leaders or area leaders in the areas that have clients have to be motivated by PRIDE RFW because of the extra work they do. First, all area leaders have to verify that a specific client really is from that area/village, they have to certify the assets of the borrower, and lastly they work together with group leader and PRIDE RFW to make sure that measures are taken against defaulters. There is no specific amount set as motivation to the village leaders but PRIDE RFW motivate them depending on the work that has been done.

(iv) Motivation to group leaders

Group leaders perform extra work to ensure that everything goes well in their groups and therefore they have to be motivated. They have to collect repayments from all members in their groups and submit it to PRIDE RFW on time. For this specific responsibility, group leaders are paid 1.5% of the collected funds and are also given a bus fare to and from their areas. Paying all group leaders in all groups adds considerably to PRIDE RFW's operating costs.

(v) Area offices

PRIDE RFW has area offices in places where their clients reside. They have to pay rent for these offices plus security. This also adds to the costs of operations.

(vi) Disbursement and Collection costs

When the money is disbursed or collected from clients in their areas, two important things are required. These are police escort and a hired vehicle. Clients are many and scattered and therefore it costs a lot to administer this. In other areas where a lot of money is collected and security is poor, PRIDE RFW has to provide a safe to store money until they come to collect it which is another cost to them.

For security purposes, PRIDE RFW had an agreement with clients that those who are close to the bank should deposit the money directly. They also had an agreement to use mobile money services (through cell phones) to submit their repayments but this has not been very effective since most clients are in the rural areas and network connection seems to be very poor in those areas.

3.3.6 Fraud from staff

Fraud is actually of two types, from staff and from group leaders.

(i) Fraud from staff

Fraud by staff occurred especially in earlier years when employees would misuse the collections from clients or would recruit ghost clients (non-existent clients) and use the funds for their private purposes. With the improved database now, this problem has been solved to a great extent.

(ii) Fraud by group leaders

Group leaders would at times misuse the money they collect from group members. They would at times work together with loan officers to recruit ghost clients. Again, with the improved database, this problem has been solved to a great extent.

3.3.7 Insufficient collateral and information/records to screen customers

PRIDE RFW requires three types of collateral from its clients. First is cash collateral equal to 25% of the approved loan amount. The client has to deposit this before he/she is given a loan. For example, if a particular client qualifies for 100,000Tshs in loan, he/she has to submit to PRIDE RFW 25,000 upfront. If it is a group then every member has to submit this amount before the loan is approved for the group. This has been very difficult for most clients, who therefore fail to get loans.

Second is asset collateral that is managed by the group itself and not PRIDE RFW. This has resulted in problems if a client defaults since most of these assets have a lower economic value compared to what a client has borrowed because the valuation of these assets is done by group members and their leader instead of a qualified person. The third one is known as group solidarity or joint liability where group members have to pay for any defaulters in the group.

This is not as hard to control as the other two types of collateral since the groups understand that if it does not pay for defaulters in their groups they will be denied future credit.

The cash securities provided by borrowers are held by PRIDE RFW and returned to members upon request if the group pays on time. The assets provided by borrowers are held by the group and returned to any member who requests them after finishing paying off their loans. If a member defaults, then PRIDE RFW will keep the cash collateral that was provided by the member and his/her asset will also be sold to recover the amount he/she was supposed to pay.

PRIDE RFW's Morogoro regional manager argues that their programme is more reliable than other programmes in the region because of two things. First, they set their repayment periods with respect to borrower's activity (business), and, second, they allow repayments to be done in instalments. He explained that most of the similar programmes in the region require a bi-weekly or monthly repayment and some require that all the entire loan be repaid in a single instalment.

3.4 Study site description

The study was conducted at Mvomero District in Morogoro, Tanzania. Mvomero District has 4 divisions, 17 wards and 101 villages, which cover an area of about 7,325km² of which 5,493.75km² is potentially arable land (AATF, 2009). The district has a total human population of 312,109, of which 154,843 are males and 157,266 are females (NBS, 2013). Major crops grown in Mvomero district include paddy, maize, banana and vegetables. The southern part of the district depends largely on agro-pastoralism, (Wassena et al., 2013). Dakawa, Dihombo, Mkindo and Mbogo are among the villages that have been selected in conducting FGD because they grow rice and have taken loans from PRIDE RFW (T) LTD.

3.5 Types and sources of data

Data were collected from two relevant sources: secondary (journals, textbooks, websites) and primary (Focus Group Discussions).

3.5.1 Primary research data

The essence of any data collection method is the ability to clearly answer the research questions. Primary data was obtained using a checklist in a form of a Focus Group Discussion (FGD). A focus group discussion is a qualitative research procedure in which a moderator leads a group of people through a discussion of a selected topic (Frank, 2015). The group needs to be large enough to generate rich discussion but not so large that some participants are left out. The moderator should try to ensure that maximum number of ideas are generated from as many participants as possible with respect to the time that was set up, and that all prepared questions are covered. The moderator normally works with an assistant moderator whose main responsibility is to write down notes and record what is being discussed. Usually the time set aside for a focus group discussion is 45 to 90 minutes, beyond that period of time the discussion tends not to be productive. In recruiting participants, homogeneity is very important (Eliot and Associates, 2005).

Participants do not have to agree with each other to reach a consensus; they should express what they have in mind. This will make the discussion more active by encouraging more participants to share their ideas (Patton, 2002).

Focus group discussions are usually made of participants who share characteristics relevant to the topic studied. Some of the most important characteristics include age and gender/sex; others could be the use of a particular product type, a similar health problem and same occupation (Esterberg, 2002). Esterberg puts it simply: “What’s most important in forming a focus group is

finding a group of people who will feel comfortable interacting with one another and who will express their opinions freely.”

Focus group data is analyzed with respect to the methodology that has been chosen by a researcher just like in any other type of qualitative research (Duggleby, 2005). In very few cases the analyzer could make quantitative statements but generally it is not fruitful to place an emphasis on that (Vicsek, 2010).

A checklist was used to capture farmers’ perceptions on the contribution of microfinance credit in their rice production activities. The discussion was conducted taking into consideration important aspects such as gender (men, women) and age (i.e., youth, middle-aged and elderly farmers).

3.5.2 Secondary research data

Secondary data was also used, including data obtained directly from key personnel working with the selected microfinance institution (PRIDE RFW, located in Morogoro municipality). The data included the number of clients who have obtained loans, the group in which each client belongs, their location and other information. In addition, secondary data on rice area, production, and other information was obtained as background information and to develop the arguments that serve as the basis for the study.

3.6 Population of the study

Population is defined as the total collection of elements about which we wish to make some inferences (Cooper and Schindler, 2001). The population of this study covered the officials working under PRIDE RFW as well as rice farmers in Mvomero district who received loans from PRIDE RFW since 2009 to support their rice farming activities.

3.7 Sampling

Sampling refers to a process of choosing some part of the target population to represent the entire/whole population (Kothari, 2004).

This study's sampling unit was therefore drawn from the rice farmers under the programme based in Mvomero district, in Morogoro region.

3.7.1 Sampling technique

Sampling technique is a method of choosing the sample for the study. It plays a crucial role in determining the size of the sample. Sampling technique helps to reduce the amount of data to be collected by taking into account only data from the selected units rather than the whole population (Kothari, 2004).

Respondents for this study were all farmers in all four villages that are clients of PRIDE RFW (T) LTD. This means that the respondents who participated in the FGD were self-selected in the sense that whoever from among the farmer groups that was available to participate came to the discussions.

The purposive sampling technique was also used to obtain the study district and villages. The main criterion for selection was the main crop grown (rice) by smallholder rice farmers. Mvomero District was purposively selected for the study. A total of four villages were purposively selected: Dihombo, Mbogo, Mkindo and Dakawa.

3.7.2 Sampling design

Sampling design denotes the method of selecting items to be observed for the given study (Kothari, 2004). The four villages were purposively selected because they are the only active villages borrowing funds from PRIDE RFW for rice farming in Mvomero district. All the farmer groups who are engaged in small-scale rice production in the selected locations and who have

obtained loans from PRIDE RFW were selected. The study also used a cross-sectional approach by collecting data at one point in time.

3.8 Data collection

3.8.1 Checklist design and administration

A checklist with a total of 24 questions for farmer respondents was developed and used to obtain information on stated objectives. Before going for data collection, an enumerator with experience was employed and trained on how to ask questions and record data, taking into account the importance and objective of the research. Face to face interviews were conducted in the field with the farmer groups. The interviews were conducted in Swahili despite the fact that the questions were in English.

3.8.2 Focus group discussion and key informant interviews

Focus group discussions and key informant interviews were used as a major source of data collection throughout the project. Focus group discussions were carried out in all four villages. The group participants and key informants were chosen with the intent of balancing social aspects such as gender and age in the targeted areas. During the discussion, a checklist with guiding questions was used. The data collected included important information such as the main purpose for which the loan is used by rice farmers, any major problems/issues encountered within the group (such as default, delay in repayments and fines), and major credit constraints rice farmers face in that particular area and how PRIDE RFW has helped in addressing them. A full list of guiding questions is available on table 2 in chapter four. Focus group discussion was useful as it allowed freedom of expression and maximum participation in respect to knowledge, experience, opinions and feelings.

Key informant interviews were used to gather greater depth of knowledge and additional information from knowledgeable and informed people on the subject matter under study. Key informants included agricultural officers and village chairpersons. The information collected included the seasons in which rice is typically grown in this area, other crops grown and some of the major challenges/drawbacks farmers are facing.

3.9 Data analysis

Primary data was organized, coded, processed and analysed using MS Excel. The analysis was carried out to achieve the study objectives as described below. The analysis was in the form of descriptive tables, charts and graphs. The data was displayed on the tables and highlighted in a pictorial form on the graphs/charts. In addition, the information on the graphs/charts as well as tables will be expressed in a more detailed form to facilitate a better understanding.

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter focuses on analyzing the data collected. Content analysis, a qualitative method of data analysis, was employed in order to address the study objectives. Qualitative content analysis is defined as a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns (Hsieh, 2005).

By using this method, the information collected through verbal discussions with the respondents was analyzed in detail and then synthesized into 20 key variables or themes, shown in Table 4.

4.2 Themes that were identified

4.2.1 Age of respondents

It was very interesting to see how all the groups had mixed age ranges, with farmers from 20 to 60 years old. This suggests that rice farming is attractive to both young and old people living in Mvomero district. Furthermore, it tells us how both groups are interested in microfinance credit to support their rice farming activities. Our focus group discussions also revealed that microfinance institutions prefer to give credit to farmers in this area because they do not have a higher tendency of defaults in payment. Other institutions providing microfinance services to farmers in this area include an institution called OPPORTUNITY, is an immediate competitor of PRIDE RFW. There were also other small microfinance institutions working on this area.

Table 4: Specific variables and themes identified in the study

S/N	VARIABLES / THEMES
01	Period in which each group was formed/established (year)
02	Number of members in each group and how many are males/females
03	Purpose of each group/organization
04	Criteria to become a member in a respective group
05	Average land size holding of the group members
06	Number of members who currently produce rice
07	An estimate of the average area cultivated to rice by each member
08	Season(s) in which rice is typically grown as a major crop in this village
09	The typical rice planting and harvesting time frame
10	Number of members in each group who have received credit (loan) from PRIDE RFW in the most recent year
11	The average amount of credit each member received
13	Number of years each group has received loan from PRIDE RFW,
13	The interest rate on loans received
14	Number of months in which members have to repay this loan
15	How is the loan contract signed?
16	The main purposes for which this loan is used by farmers in rice production
17	Any major problems/issues encountered within the group (such as default, delay in repayments, fines, etc.) in the last loan received from PRIDE RFW
18	The major credit constraints rice farmers in this area are facing
19	How PRIDE RFW has helped to address these constraints
20	More of what needs to be done to address the credit needs of the rice farmers

4.2.2 Names of groups and their location, number and gender of members in each group, and year in which each group was established

Farmer groups were interviewed from four different villages all located in Mvomero district. All these groups had some features in common, most importantly the fact that they all grow rice and have taken loans from PRIDE RFW for a couple of years (all groups started taking loans the year they were established). The villages visited were Dakawa, Dihombo Mkindo and Mbogo. There were multiple groups visited in every village (as expressed in Table 5), but in most cases all the groups gathered together for the focus group discussion. Discussions were not held unless there were at least five respondents.

It is clear that the majority of group members at Mvomero district engaged in rice farming and having taken loans from PRIDE RFW are males. Women would at times stay at home taking care of children and participating in other activities. The population described below is for farmers who are clients of PRIDE RFW microfinance institution and not the general population living in these four villages. Clients who are at the same time active. Table 5 shows names of each group, village in which the group is located, number of members and their gender and in which year each group was established.

Table 5: Names of groups, their location, number of members and their gender, participants in the FDG's and year they were established

Villages	Groups (Names)	Active Members		Total Enrolled	Gender		All Participants	Year Formed
		Females	Males		Females	Males		
Dihombo	1. Juhudi	13	8	21	5	4	9	2011
	2. Changamoto	6	13	19	2	3	5	2011
Mbogo	1. Harambee	15	17	32	6	5	11	2009
Mkindo	1. Mwanzo mgumu	28	22	50	2	4	6	2009
Dakawa	1. Azimio	18	20	38	3	6	9	2009
	2. Uwawakuda one	7	12	61				2009
	3. Muungano	4	12	16				2009
TOTAL		91	104	237			40	

4.2.3 Location of the villages

As explained above, all four villages in which data were collected are within Mvomero district in Morogoro Region. Mvomero district has been famous for rice farming activities for a long time. Farmers in this area however involve themselves with cultivation of other food crops like maize and bananas but they also produce vegetables in greater quantity, fruits on a smaller quantity.

4.2.4 The person providing information and his/her official role in the group

In general, the chairperson was the main person providing information in all the groups, a few times with assistance from the secretary. These positions are normally elected by the group members. Other group members seemed to be quiet in the first few minutes but the chairperson insisted that everyone has to participate in order to make the discussion fruitful.

It was surprising how everybody started expressing themselves when it reached to a question that was addressing the problems that they are actually facing. At this point a lot was said and much information was collected. The main role of these leaders is to make sure that group members get loans in a timely manner and follow up on how each member uses the loan so as to minimize chances of default. However, the leaders get support from each group member since it is very difficult for one person to do all of this. In each group/village there is an amount of money set aside just for the administrative duties. For example, if there is a delay in loan disbursement the group leader will make frequent visits to PRIDE RFW office, which is located in Morogoro municipality (about 70 kilometres away). This helps ensure that the group members are getting the money on time, since making a phone call is sometimes not sufficient.

Group leaders also organize meetings from time to time to discuss the progress of each member, since if one member in the group defaults, other group members will be responsible to pay the whole amount he/she owes. In that sense every member is responsible for the whole group and they work together to make sure nothing goes wrong, although it happens sometimes that a member defaults and the group pays for him/her. If a member defaults, he/she will be automatically terminated from the group.

Defaults happen in a number of ways as they are explained below,

(i) Market failure

This is mainly caused by low prices in the market especially during harvest season. PRIDE RFW's Morogoro regional manager explains that low prices occur every year, which they have no control over. For example, in season 2011/12, the price for a single 100kg bag of rice was 80,000Tshs at harvest season while in season 2012/13 the same bag was sold at 35,000Tshs at harvest season. The manager explained that this could be as a result of a lower output in season

2011/12 that caused scarcity in the product and therefore demand was higher than supply, causing prices to rise. It was also a result of a very high output in season 2012/13 that made supply greater than demand and therefore the prices automatically went down. It was very difficult for farmers to pay back their loans in season 2012/13 due to lower market prices.

(ii) Bad weather (floods and low/poor rainfall)

Bad weather is also experienced every year, in which case farmers may lose all their output and fail to pay back their loans. Too little/poor rainfall will also affect output leaving farmers with very little or no harvest at all. Or, too much rainfall may cause floods. However, the insurance policy under PRIDE RFW covers floods.

(iii) Government policies and regulations

At times the government prevents farmers from selling their output in nearby countries and when this happens farmers lose a lot of money since they could fetch far higher prices for their product if they sold it outside of the local market, including for export. When there is too much rice produced in the country, the internal market prices will be lower and farmers will have to sell their produce with a big loss. This affects repayments and leads to defaults at times.

(iv) Conflicts between farmers and pastoralists

This is a very common experience in the country where farmers and pastoralists fight for land. Conflicts normally occur in periods of low/poor rainfall when there is not enough pasture to feed the large number of animals. The animals may then go into farms and eat farmers' produce that is still in the field in order to survive. This leads to war between the two groups and affects farmers' repayment capacities if a significant part of the crop has been eaten by livestock.

A combination of the above factors causing farmers to default, will lead to organizational failure since there will be a great number of borrowers who will fail to pay back their loans, creating losses for PRIDE RFW.

As of 2012, PRIDE RFW had 14 branches across the country and had disbursed about 8 billion Tshs in loans country wide. In 2013, the organization disbursed a little more than 8 billion. In 2014, very little money was disbursed, and nothing at all in 2015 and 2016 due to lack of funds.

4.2.5 The purpose of each group/organization

Each group had its own purpose but they fall under the two main purposes listed below.

(i) Improving living standards

Most farmers were complaining about the hardships of life they are facing every day and that it's high time this changes. These hardships are common and it is not only in the rural areas but in urban areas too. They explained that they needed someone to support them. Every family in their villages is practicing farming, most of these only for subsistence. They want to produce more, have excess, sell and earn an income but with the limited resources they have this is almost impossible. The only solution for them was to think of a way to borrow money. PRIDE RFW does not channel funds to individuals; you have to be a member of a known group to receive these funds. They therefore formed groups so that they can borrow from PRIDE RFW. With the limited amount of funds (which they say they are not sufficient but better than nothing) they are able to produce more and sell the excess. In that case they are able to earn an income which helps them in their daily activities.

(ii) Ability to borrow money for farming

Ability to borrow was another factor that was mentioned as a purpose of farmers forming groups. Some of these farmers organised themselves into groups with a sole purpose of borrowing

money for business activities, farming and particularly rice farming. Since you cannot borrow funds from PRIDE RFW unless you are a member of a group, they decided to form groups and were able to borrow money. Some of the business activities these farmers are doing include small shops (kiosk) selling different consumer products, local cinema halls where people gather and pay a price to watch a movie or sometimes soccer, agro-vet shops where they sell agricultural and veterinary supplies such as animal feeds, seeds and herbicides/pesticides, and many other businesses.

The lack of suitable collateral is what disqualifies them from getting loans from commercial banks. Almost everyone living in these villages including borrowers themselves grow rice as their main economic activity, and a variety of vegetables as well. Again the borrowers are complaining that what they get in their business activities is never sufficient, and wish they could get more. It is, however, difficult for them to get as much as they want since most of them lack proper collateral that would enable them to get big loans.

Generally, both purposes seem to be highly important. Improving living standards was mentioned by the groups in Dihombo and Mkindo while ability to borrow money for farming was mentioned by the groups in Mbogo and Dakawa.

Table 6 shows purposes of forming groups by farmers in all four villages.

Table 6: Purpose of forming groups

Where 1= yes; 0 = no						
Purpose	Dihombo	Mbogo	Mkindo	Dakawa	Total	Percent Yes
Improving Living Standards	1	0	1	0	2	50
Borrowing Money for Farming	0	1	0	1	2	50

4.2.6 Criteria to become a member in the group

As much as there was a similarity in purposes for starting the groups that were mentioned by farmers so are the criteria for becoming a member in these groups. Below are the criteria that were mentioned by farmers;

(i) Residency

A person has to be a resident of that particular village if he/she wants to join the group. This was the most important criterion cited by the group members. It is easy to make a follow-up on your group if all your group members live in the same village. It becomes less costly to assess progress of each particular member and provide support in case one needs it. Communication becomes easy and each member is familiar with other members in the group since they live in the same village. In that case it is easy to exclude people who they think will bring the group down.

This criterion was mentioned by all groups in all villages.

(ii) Hardworking

Only the people who are hardworking are accepted in the group. Criterion number one (residency) makes it so easy to know which people are hardworking and which are not. The main point here is that if it happens that a person who is not really hardworking is accepted in the group then chances are the group will fail, leaving behind other natural causes like rainfall and diseases and pests of course will fail in the sense that if this particular person is not able to pay back the amount he/she owes then the whole group is responsible to pay for him/her. In reality no one is willing to pay an amount that has been spent by another person.

This criterion was mentioned by farmer groups in Mbogo and Dakawa.

(iii) Honesty

Residency as a criterion makes other criteria so easy and clear. If you reside in the same place with an individual particularly for a significant time then it is obvious to know if that person is honest or not as people communicate each and every day. Unless you are honest do not expect that there is a possibility of being accepted in any group. As explained above, no group wants to fail and no one is willing to pay for another person. Therefore, the groups only choose/accept people whom they have faith in.

This criterion was mentioned by all groups in all villages.

(iv) Collateral

A person must have collateral that acts as a security to get a loan, which will be assessed by the group and the entity from which the group will borrow money before he/she is accepted in the group. In case it happens a member fails to pay back the loan, the collateral is sold and the amount recovered is used to pay back that loan. It becomes much easier to run the group in that sense. There was a time a member under the group Juhudi at Dihombo village defaulted and the group had to pay for him/her but it is not clear whether the group sold his/her collateral to pay for the debt or they paid it from their own pockets.

This criterion was mentioned by farmer groups in Dihombo, Mbogo and Dakawa.

(v) Type of activity

Most of the groups that were interviewed prefer farmers, specifically rice farmers. All of the group members have joined the groups solely with one aim, to be able to get funds to support them in their rice farming activities. Therefore, if there are two people who want to join a group and they all meet the necessary conditions and they are both farmers, one of these a rice farmer and another a corn farmer and it happens that the group can only accept one of them at that

particular time, then it is very clear that the rice farmer will be the group's choice. If you involve yourself with a different activity, say you own a shop selling a variety of consumer products then automatically you are ineligible/unqualified.

This criterion was mentioned by the farmer group in Dihombo.

(vi) Confidentiality

Another criterion for membership is confidentiality. Members have to make sure that key and important issues stay within the group. No one should expose them no matter what and therefore it is a responsibility of group members to be careful when selecting people who wants to join them.

This criterion was mentioned by the farmer group in Mbogo.

(vii) Irrigation plot

Although not necessary, this criterion proved to be an advantage for someone who was interested to join a particular group. All of the farmers in the groups depend on rainfed rice production. In addition to that, a few of these also own irrigation plots making them safer. It happened a couple of times that farmers got low output because of shortage of rains.

This criterion was mentioned by the farmer group in Mkindo.

(viii) Sanity

The idea that no group will accept an insane person is not surprising, but this was one of the criteria cited by some farmers interviewed in Mkindo and Dakawa.

(ix) Owned land

You must own a piece of land if you want to successfully join the group, since that demonstrates your capability to cultivate rice. If you have land already then it becomes easier (cheaper) for you to do the farming. If you do not own land, then the group finds it so difficult to accept you

since your farming costs will be higher (that is without a doubt) because you will have to use some of the borrowed funds to rent a piece of land. All the group members realize that what they get from PRIDE RFW is so little (at times not enough to cover the other costs even for those who own land) and therefore accepting a person who does not own land is as much as failing the group.

This criterion was mentioned by the farmer groups in Mkindo and Dakawa.

(x) Presence of guarantor

Sometimes a person possesses all the other important features but does not really have a collateral and the group has faith in him/her. In that case he/she can find someone who will be responsible if it happens that this particular person is not able to pay back the loan. This makes sense since most/all of these farmers are poor and therefore it is crystal clear that they are in need of financial support; otherwise they will remain poor all their lives.

This criterion was mentioned by the farmer group in Dakawa.

Residency and honesty were mentioned in all four villages therefore prove to be highly important. Security as a criterion follows just after residency and honesty and was mentioned by farmer groups in Dihombo, Mbogo and Dakawa making this criterion moderately important. Hard working, sanity and owned land follow after security and each of these three were mentioned by farmer groups in two different villages indicating low importance. Hard working was mentioned by the groups in Mbogo and Dakawa, sanity was mentioned by the groups in Mkindo and Dakawa and owned land was mentioned by the groups in Mkindo and Dakawa as well. On the other hand, type of activity, confidentiality, irrigation plot and guarantor seem to be not as important as the other criteria since they were all mentioned by the farmer groups in just one village. Type of activity was mentioned by the farmer group in Dakawa, confidentiality was

mentioned by the group in Mbogo, irrigation plot was mentioned by the group in Mkindo and guarantor was mentioned by the group in Dakawa as well.

Therefore, to farmer groups in all the four villages that were visited, residency and honesty seem to matter the most. All the other criteria mentioned above follow after these two.

Table 7 shows the criteria to become a member by farmers in all four villages.

Table 7: Criteria to become a member

Where 1= yes; 0 = no						
Criteria	Dihombo	Mbogo	Mkindo	Dakawa	Total	Percent Yes
Residency	1	1	1	1	4	100
Honesty	1	1	1	1	4	100
Security	1	1	0	1	3	75
Sanity	0	0	1	1	2	50
Owned Land	0	0	1	1	2	50
Hardworking	0	1	0	1	2	50
Type of Activity	1	0	0	0	1	25
Secrecy	0	1	0	0	1	25
Irrigation plot	0	0	1	0	1	25
Guarantor	0	0	0	1	1	25

4.2.7 Range of land holding size of group members

In each village, farmers had their own estimate of land-holding size of group members. Dihombo, which was the first village to be interviewed the spokesperson, said that the range is between one and twenty acres. At Mbogo, the range was from two to five acres. At Mkindo, the range was from one to ten acres while at Dakawa the range was from two to ten acres. It seemed a bit

confusing to me because most members could not really say how much land they own, it was only the spokesperson who was giving out an estimate for the whole group.

Table 8 shows the range of land holding size of group members in all four villages.

Table 8: Range of land-holding size of group members

Village	Range of Land-holding Size among Members of the Farmer Groups Interviewed
Dihombo	1-20 acres
Mbogo	2-5 acres
Mkindo	1-10 acres
Dakawa	2-15 acres

4.2.8 Members currently producing rice and average area cultivated to rice by members

All members in all the groups were currently producing rice. They formed groups and went to PRIDE RFW to ask for funds specifically for producing rice. Each member was therefore obliged to undertake one particular activity, which was to produce rice. However, a member could be producing other crops at the same time or perform other activities but the loan was intentionally meant for rice farming.

Members also argued that most of the land they own was used to produce rice, this is especially so with those having small pieces of land, i.e., from one to five acres. With those having bigger areas, some of the land could be used to grow other crops as well.

4.2.9 Seasons in which rice is typically grown as a major crop and the typical rice planting and harvesting time frame (month/week).

There are two cropping seasons in which farmers grow rice. Most farmers practice rainfed rice farming; only a few can afford to pay for irrigation as it is very expensive for them. Those that

use irrigation also depend on rainfed rice farming. In other words, they do not depend solely on irrigation rice farming, but use irrigation rice farming as a substitute in case the rainfed farming fails due to poor rainfall. There are two seasons in which rice is grown, the first season is from January up to June and the second season is from July to December.

(i) Dihombo

Farmers at Dihombo claimed that they plant their rice in January and harvest it in May/June and sometimes up to early July. Then they start preparing their plots for the next planting season in which they start planting on the same month (July) and harvest in December.

(ii) Mbogo

At Mbogo farmers start planting in December up to January, and harvest in May. They plant again in June and harvest in November.

(iii) Mkindo

In this village the planting month is January and the harvesting month is June. The next planting and harvesting months are July and December respectively.

(iv) Dakawa

Rice farmers at Dakawa start planting in January and harvest in June. The next planting and harvesting months are July and December respectively.

Table 9 shows the typical rice planting and harvesting time frames in all four villages.

Table 9: Typical rice planting and harvesting time frames

Villages	Planting Time	Harvesting Time
Dihombo	January	May/June/July
	July	December
Mbogo	December/January	May
	June	November
Mkindo	January	June
	July	December
Dakawa	January	June
	July	December

4.2.10 Number of members in the groups who have received credit from PRIDE RFW in the most recent year

It should be noted that the groups were established in different years. An explanation for the above sub-heading will be given separately in each group starting from the year in which each group was formed.

(i) Dihombo

The groups in this village were formed in 2011. As a reminder, there are two groups in this village, Changamoto and Juhudi. All the members managed to receive loans each year since the groups were formed in 2011.

(ii) Mbogo

At Mbogo there was only one group that was established in 2009 known as Harambee. All the members managed to get loans each year since then.

(iii) Mkindo

Nguvu kazi and Mwanzo mgumu, the two groups at Mkindo village, were established in 2009 as well. All members under Nguvu kazi and Mwanzo mgumu have managed to acquire funds from PRIDE RFW each year since then.

(iv) Dakawa

There were three groups in Dakawa village, Azimio, Uwawakuda (i) and Muungano. Members claimed that they successfully got loans each year since their groups were formed in 2009.

It is only this year that farmers experienced problems in getting loans. Up to the time the interviews were carried (March 2015), they had not gotten anything and said even if they get the loans after the interview the money will be of no use since the season has passed. The loan would rather bring them harm because there is no possible way they will be able to pay it back.

4.2.11 The average amount of credit each member received and the number of years each group received a loan from PRIDE RFW

PRIDE RFW has a principle, which is that no member will be able to get more than 300,000Tshs in his/her initial year. Basically the loans start from 100,000Tshs to a maximum of 300,000Tshs in the initial year depending on farmer's needs. The amount could increase the following year based on repayments of the last loan. The maximum increase in amount the following year is 50% of the previous loan meaning that if a farmer got 300,000Tshs last year, he/she is entitled to receive a maximum of 450,000Tshs the following year. If the group did not pose any difficulties in the initial loan year then it is likely that the amount will be increased during the next. Therefore, the amounts that farmers get vary despite the fact that they could be in the same group. There is a maximum limit set by PRIDE RFW.

Groups at Dihombo have received loans three times since the year they were established (2011). The groups at Mbogo, Mkindo and Dakawa have all received loans five times since they were established.

4.2.12 Interest rate charged on the loan

For a few years, farmer groups have been charged an interest of 2.5% per month for the loans. This is an interest rate that they have been charged since they started taking loans from PRIDE RFW. An interest rate of 2.5% means that if a farmer borrows 500,000Tshs, he/she is supposed to pay an interest of 112,500Tshs at the end of nine months. That is principal (500,000Tshs) times (x) interest rate (2.5%) times (x) loan period (9 months) = 112,500Tshs.

Unfortunately, the interest was raised to 3.5% per month during the last loan received. Farmers are really complaining about this; they still want to borrow from PRIDE RFW though so they do not have much of a choice. So with the same example of 500,000Tshs it means that a farmer will have to pay an interest of 157,500Tshs at the end of loan period. That is a difference of about 45,000Tshs in interest. Farmer groups reported that they want to shift to another lender (OPPORTUNITY) because this interest rate is too high for them. No details were given though on how much this lender charges but it is for sure lower than what PRIDE RFW is charging and that is why they want to shift.

The maximum loan period is nine months. No one is allowed to pay beyond that period of time. The maximum number of instalments is three and the minimum is two and therefore during this period farmer groups decide on how they want to pay. PRIDE RFW gives them the freedom to choose since they are the ones doing the farming, so all farmers choose to pay the first instalment five months after taking the loan since rice is normally ready to harvest four months after it has been planted. The extra month is used to search for markets, and then two months later they pay

the second instalment. The last instalment (third instalment) is paid two months after the second one and that makes a total of three instalments. For example, there was a time when groups in Dakawa took their loans in December and said that they paid their first instalment in May. They then paid their second instalment in July and the third in September.

All the groups that were interviewed chose to pay their instalments three times; no group is paying two times though they have a flexibility to do so. The first instalment cannot be paid later than six months after taking the loan and not less than three months after taking the loan.

PRIDE RFW's policy allows the farmer groups to pay their instalments twice as they say that paying three times is like giving out a lot of money. With a maximum of nine months in which to repay the loan amount plus interest, they just choose to pay it in three instalments. They wish they could be given a maximum of one year (twelve months) to pay the loan so that they could pay the instalments every six months.

4.2.13 How is the loan contract signed?

The loan contracts between farmer groups and PRIDE RFW are signed with the group and individually. In every group, the chairman and the secretary have to sign but at the same time each individual is also signing. However, repayments are presented to PRIDE RFW offices by group leaders who are responsible to make the collections from their group members.

4.2.14 Main purposes for which this loan is used by farmers in rice farming

(i) Farm preparation

This is one of the main purposes for which farmers use their loans. Family labor is normally employed in doing farm preparation, therefore only a small portion of the loan is used for this purpose. The loan is used to purchase important farm implements that are used in preparing farms (clearing land) such as slashers, machete/panga, hand hoe and rake. Farmers store their

implements and use them again during the next farming season. They also have enough time to prepare their farms and therefore it is not as if they will need to employ people to clear their lands.

This purpose was mentioned by farmer groups in all four villages.

(ii) Purchasing of fertilizer

Fertilizer is the most important purpose for which farmers use their loans, since the application of fertilizer gives them a significant boost in their rice production despite small land size. However, farmers are complaining that fertilizer is really expensive for them. The average price of a 50kg fertilizer bag ranges from 48,000Tshs to 60,000Tshs and as a borrower you only receive a maximum of 300,000Tshs (all group members receive this amount) during the initial year so there is no possible way a farmer will be able to buy enough fertilizer to apply on his/her farm even if he/she only has an acre. Due to this, most farmers choose to use organic manure from the livestock they raise since they are not quite able to purchase enough fertilizer to cover the size of land they own. Farmers in Dihombo and Mkindo use the major part of their loans to buy fertilizer but farmers in Mbogo and Dakawa prefer using organic manure.

(iii) Planting

Since family labor is used in planting rice, it only accounts for a small share in total cost of production. However, during the initial year of farming it might prove to be somewhat important because some farmers will have to purchase implements like ploughs to prepare the soil before they actually start planting. However, in some cases where a particular farmer has a bigger piece of land he/she can employ people to help in planting, which of course adds to the total cost of production.

This purpose was mentioned by farmer groups in all four villages.

(iv) Harvesting

Harvesting is also an important purpose, farmers had explained that they normally want the harvesting period to be very short. They want to finish harvesting and sell their produce quickly to be able to present their repayments to PRIDE RFW on time. If they delay repayments, then it means a big problem during the next season. In this case they normally employ labor to do this work and make sure they have all the necessary implements that will fasten the process.

This purpose was mentioned by farmer groups in all four villages.

(v) Transportation of produce

Only farmers at Mbogo had mentioned that they use part of their loans for transporting their produce from the farms. They explained that they usually rent a pickup truck or a lorry to do this work.

Therefore, farm preparation, planting and harvesting are the most important purposes for which the loan is used, as they were mentioned by farmer groups in all four villages. Buying fertilizer on the other hand indicate moderate importance as it was mentioned by farmer groups in Dihombo and Mkindo whereas transportation of produce seems to be the least important purpose since it was mentioned by the farmer groups in Mbogo only.

Table 10 shows the main purposes for which the loan is used for in all four villages.

Table 10: Main purpose for which the loan is used

Where 1= yes; 0 = no						
Main Purpose	Dihombo	Mbogo	Mkindo	Dakawa	Total	Percent Yes
Farm Preparation	1	1	1	1	4	100
Planting	1	1	1	1	4	100
Harvesting	1	1	1	1	4	100
Buying Fertilizer	1	0	1	0	2	50
Transportation of Produce	0	1	0	0	1	25

4.2.15 Major problems encountered within the group in the last loan received

This is the part where my discussions with the farmers started to be very interesting and fruitful. Even the people who were not talking or those who were not active started participating with a great energy. Below is a discussion on the major problems encountered within the groups in the last loan received.

(i) Delay in loan disbursement

It turns out that a delay in loan disbursement has been a major problem that farmer groups encountered when they applied for a loan. This year it was even worse because up to the time of the interviews, which were carried in March 2015, they had not received anything and there was no hope that they were going to receive funds any time soon. Their main complaint was that even if they will be given the money, say after the interview, they will not be in a position to accept it because it will be a disaster to them since planting seasons have already passed.

Another big complaint was the fact that they had an opportunity to borrow funds from another institution which, unlike PRIDE RFW, is located right in Mvomero district (to some villages just a walking distance), but they refused because all their hope was with PRIDE RFW. This other

institution is known as OPPORTUNITY. At the time of the interview they were not in a position to borrow again from OPPORTUNITY since the planting seasons had already passed and therefore it is very clear that no one will be willing to lend you money because you will not be able to pay it or you will bring problems during repayments rather.

Farmers were really angry about the situation and they said all they want from PRIDE RFW is their securities (collateral) back so that they can use them to borrow from someone else. They also did not like the fact that PRIDE RFW had not given them a direct answer earlier that they will not receive any funds this season. Instead, they were told just to be patient every time a representative was sent to town to make a follow-up or through mobile phone conversations. They said PRIDE RFW has been 'dishonest' with them.

(ii) Floods

These particular farmers depend on rains in their rice farming activities but too much of it is also harmful. There have been periods of long rains that eventually lead to floods, in which case farmers normally lose all or most of their produce and do not have anything to sell, or they are only able to harvest a small amount of produce which eventually will be used to feed their families. This is serious because PRIDE RFW is doing business and therefore it is after profit, but it was not farmers' fault that the rains were too much during that period of time.

A good example is with the farmers in Mbogo. It happened that their farms were exposed to floods at a particular farming season. Most of them did not get anything; only a few were able to recover some rice. As serious as it was, PRIDE RFW had to send some people to go and assess the situation. After the analysis, sixteen of the members were told not to pay leaving the other sixteen paying just the amount they owed individually. It seems like the ones who were told to pay had a way better situation after the floods.

(iii) Delay in repayments

The fact that there will always be a delay in repayments if there has been a delay in disbursement is inevitable. When farmers are complaining that they need more time to submit the repayments, it seems like they are charged small fines in the end, which hurts them because to them it is not their fault. Farmer groups in Mbogo, Mkindo and Dakawa all talked about this. Some of them explained that it is too stressful when you think of the amount of money that you have to pay as a repayment and at the same time the amount of money that you have to pay as fine when you go and submit your repayment.

(iv) Defaults

People are never the same. In selecting people to join groups each group had their own criteria and therefore in the end people who are selected are the ones who have fulfilled each and every criterion but this does not mean that the performance of members will be the same. One of the members under the group Juhudi at Dihombo village defaulted and therefore the group had to pay for him/her in order to keep their reputation and be able to borrow again during the next farming season. Now if a person defaults, he/she is automatically terminated from the group, but it is not only the person who has defaulted that is affected by this, other group members are also affected because they have to pay for this particular person collectively. This fact really slows down group performance/efficiency.

(v) Fines from PRIDE RFW

As it has been explained in number (iii) above, levying of fines is one of the major problems encountered by group members especially when you have to pay a fine because of a late repayment that was caused by a late disbursement. Not all fines are caused by a late repayment that is a result of a late disbursement, however. At times, farmers submit their repayments a little

bit late because of their own reasons; it could be that they were waiting for other group members because no individual repayments are accepted by PRIDE RFW. It could be another reason but late repayment is a major one. Groups that have experienced fines so far are from Mbogo, Mkindo and Dakawa.

PRIDE RFW's Morogoro regional manager explains that fines imposed on farmer groups are not significant at all. He believes that one of the major reasons for late repayment by borrowers was the fact that the fines they are charged are very small and therefore it is more economical for them to use the repayments in other activities for a couple of days after the final repayment day because the profit they will make will offset the amount that they will be charged as fine and still remain with some money.

Basically farmer groups are charged 5% daily (after the loan period has passed) of the amount that they are supposed to pay as fine. The formula is as follows;

$\text{Amount defaulted} \times 5\% \times (\text{Number of days defaulted}/30 \text{ days}),$

For example, if a farmer was supposed to pay 100,000Tshs at the final repayment day and he/she is late by 20 days, he/she will be charged a fine of 3333.35Tshs after the 20 days, as determined by the following equation:

$$100,000\text{Tshs} \times 5\% \times (20/30) = 3333.35\text{Tshs}.$$

Fines are only paid when there is a late repayment.

(vi) Conflicts with pastoralists

Only the groups in Mkindo experienced this problem last year. These conflicts are normal in Tanzania but sometimes people die or get hurt when they happen. The source of this problem is

when pastoralists claim that the land in question is theirs while at the same time crop producers claim that it is theirs too. What happened is that livestock keepers started feeding their livestock on farms that had crops on them and this led to war.

Farmers had explained that they had to use most of the funds they borrowed from PRIDE RFW to help transport their families to other areas. Again, PRIDE RFW is doing business, it will not accept the fact that farmers from particular area are not able to pay back their loans because they experienced conflicts with pastoralists and therefore they had to use the funds for unintended purposes. The liability solely lies with these farmers.

(vii) Unstable/low prices

This is also a very serious problem for farmers that PRIDE RFW is not really considering taking into account. So there are times when farmers are able to harvest just enough to feed their families and sell the surplus but the real question is how are the prices out there? Are they really beneficial to farmers or they are just going to benefit the middle men which in real sense they do always? Farmers cannot store their produce until prices are high so that they get more money; instead they have to sell the produce at the prevailing market prices no matter how low they are so that they are able to submit their repayments on time.

(viii) High interest rates

The PRIDE RFW interest rate just rose from 2.5% to 3.5%. Some of the farmers complained that they are doing everything they can to pay the loans on time but then it seems that PRIDE RFW is taking this as an opportunity in the sense that lenders are seeing the groups submitting their repayments on time every season.

(ix) Short repayment periods

As it has been explained above, there are three repayment periods under PRIDE RFW policy. The first repayment has to be made exactly five months after taking the loan, the second repayment has to be made only two months after submitting the first one, and the third repayment has to be made again two months after submitting the second repayment. To farmers this is really difficult; they claim that at times they are unable to submit payments on time due to this and therefore they need more time. A good number of individuals suggested that they want to pay the loan in one year and not nine months; this means more time for them but at the same time more cost. They can even store their produce for some time until market prices are high. Second, they only want to make repayments twice, e.g., every six months, even though the total amount to be paid will remain the same irrespective of number of instalments.

Generally, a delay in loan disbursement is the biggest problem farmer groups encountered during the past loans they had received since it was mentioned by all the groups in all four villages. Fines from PRIDE RFW and a delay in repayments are also another big problems farmer groups are facing. Delay in repayments was mentioned by the farmer groups in Dihombo, Mbogo and Dakawa while fines from PRIDE RFW was mentioned by farmer groups in Mbogo, Mkindo and Dakawa.

Floods and defaults lie somewhere in the middle as they were mentioned by farmer groups in two different villages each. Each of these was mentioned by farmer groups in Dihombo and Mbogo.

Conflicts with pastoralists, unstable/low prices, high interest rates and short repayment periods are the least important problems farmer groups have experienced during the past loans received from PRIDE RFW.

Table 11 shows the major problems encountered within the group in the last loan received in all four villages.

Table 11: Major problems encountered within the group in the last loan received

Where 1= yes; 0 = no						
Major Problems/Issues	Dihombo	Mbogo	Mkindo	Dakawa	Total	Percent Yes
Delay in Loan Disbursement	1	1	1	1	4	100
Delay in Repayments	1	1	0	1	3	75
Fines from PRIDE	0	1	1	1	3	75
Floods	1	1	0	0	2	50
Defaults	1	1	0	0	2	50
Conflicts with Pastoralists	0	0	1	0	1	25
Unstable/Low Prices	0	0	1	0	1	25
High Interest Rates	0	0	0	1	1	25
Short Repayments Period	0	0	0	1	1	25

4.2.16 Major credit constraints rice farmers face

There are several major credit constraints that rice farmers face in Mvomero district. Below is a list of main credit constraints that were identified during the period of data collection.

(i) Low asset value

The farmer groups that were interviewed complained about the small loans they are entitled to get just because they do not possess high value assets. A typical family household in these villages owns just a small house (with a very low value) and maybe a few livestock and of course a small piece of land for growing crops, so they do not really own much. In that case they really are not in a position to borrow as much money, something which they really wish for.

(ii) Lack of collateral

Apart from farmers who have low-value assets, there are farmers who do not even have these low-value assets, these farmers would want to borrow too but there is no way they are able to do that. So with time they do not really experience any positive changes in their economic/social lives because they lack financial support. No one is willing to offer them this kind of support because of their condition. In that case they continue living a subsistence life.

The terms and conditions of loans by PRIDE RFW are as follows;

(i) Collateral

As explained in section 3.3.6, PRIDE RFW requires three types of collateral from its clients. First is cash collateral equal to 25% of the approved loan amount and a client has to deposit this before he/she is given a loan. Second is asset collateral that is managed by the group itself and not PRIDE RFW. The third is known as group solidarity or joint liability collateral where group members have to pay for any defaulters in the group.

(ii) Registration/membership fee

This is a one-time payment of 3,000Tshs and it has to be paid by each group member.

(iii) Loan application fee

The loan application fee is 1% of the approved loan amount. For instance, if a borrower qualifies for a loan worth 100,000Tshs, he/she will have to pay 1,000Tshs as a loan application fee.

(iv) Type of activity

Every member should use the loan only for the activity that has been specified by the group; group leader should make sure that every member abides by the rules set by PRIDE RFW and the group itself.

Of all the three types of collateral, PRIDE RFW collects only cash collateral and the value of this collateral should be 25% of the approved loan amount as it is explained above. The other two types of collateral are controlled by the group itself. The borrower will get his/her security back at the end of nine-month period but only upon request since other members would still want to borrow during the next season and prefer their collateral to remain with PRIDE RFW.

(iii) Delay in loan disbursement

A delay in loan disbursement is considered to be one of the major problems rice farmers face when applying for loans but it is also a major credit constraint. It really slows down progress if you qualify for a loan and it does not come on time and bad enough is the fact that farming seasons are not there waiting for you. So to farmers this is really a big issue.

(iv) Termination of loans

At times, PRIDE RFW will just terminate giving out loans without a prior notice. The effect of this to farmers is huge. If you inform your borrowers earlier that you will not be lending them any more money next season then it is easier for them to adjust when that season reaches, if you

just inform them instantly that there is no money this season while they have been waiting all that time, this becomes a serious matter. This year, farmers thought that maybe PRIDE RFW has ceased giving out loans because they had really waited for a very long time with no hope. That is why they were asking for their securities back. Since the season had already passed, there is no way farmers were able to grow rice.

(v) Dishonesty

For some years, PRIDE RFW has been very helpful to farmers that were interviewed, despite the small amounts of loans they were given. This year, it turned out to be just the opposite: farmers are angry because of the delay and they want to withdraw themselves completely and join another institution. They are complaining that PRIDE RFW has not been completely honest with them this year and that has caused them a big problem.

They were not able to grow rice during that season because they were not given any money and therefore they are collectively blaming PRIDE RFW for this. Their main concern was why did PRIDE RFW not tell them earlier that no loans would be available during that season? Instead they waited until the farming season has passed; how are they going to survive?

4.2.16.1 Summary on major credit constraints rice farmers face

There are five different major credit constraints that these farmer groups face in all the four villages that were **visited**. Delay in loan disbursement and low asset value were mentioned by farmer groups in two different villages, indicating high priority. A delay in loan disbursement was mentioned in Mkindo and Dakawa while low asset value was mentioned in Dihombo and Mbogo. Lack of securities, termination of loans and dishonesty were mentioned in only one village each, indicating low priority. Lack of securities and termination of loans were mentioned in Dakawa whereas dishonesty was mentioned in Mbogo.

Table 12 shows the major credit constraints rice farmers face in all four villages.

Table 12: Major credit constraints rice farmers face

Where 1= yes; 0 = no						
Major Credit Constraints	Dihombo	Mbogo	Mkindo	Dakawa	Total	Percent Yes
Low Asset Value	1	1	0	0	2	50
Delay in Loan Disbursement	0	0	1	1	2	50
Lack of Securities	0	0	0	1	1	25
Termination of loans	0	0	0	1	1	25
Dishonesty	0	1	0	0	1	25

4.2.17 How has PRIDE RFW helped address these constraints?

Two different answers for this question were given. The majority of the respondents said PRIDE RFW has not done anything to help them solve their problems. Groups in Dihombo, Mkindo and Dakawa strictly insisted that nothing has been done to address their problems, but they still continue borrowing money from the institution because they need it. However, the group at Mbogo had mentioned that they were once helped by PRIDE RFW during a period of floods by not paying back the money they owe. Therefore, in general, PRIDE RFW has not done much to address farmers' problems in the villages that were visited.

Table 13 shows how pride has helped address these constraints in all four villages.

Table 13: How has PRIDE RFW helped address these constraints?

Where 1= yes; 0 = no						
Help from PRIDE RFW	Dihombo	Mbogo	Mkindo	Dakawa	Total	Percent Yes
Nil	1	0	1	1	3	75
Non-repayment in Flood Affected Areas	0	1	0	0	1	25

4.2.18 What more do you think needs to be done to address credit needs?

What more needs to be done to address credit needs for farmers, according to the interviews with farmers, is explained below.

(i) Farmers should be given their securities back

The farmer groups want their securities back because it seems that PRIDE RFW is not doing anything to help them address their problems. They want to shift to another lending institution that they think will care for their welfare. However, they are saying PRIDE RFW is making this whole process very complicated and long. They asked for their securities back a few weeks before the interviews were carried but PRIDE RFW had not given them back and no proper reason was given as to why.

(ii) Modification of loan contracts

Farmer groups want PRIDE RFW to modify the loan contracts so that they are beneficial to both parties.

One of the most important things that the farmer groups want modified is the interest rate; they want PRIDE RFW to lower their interest because it really affects them during repayments. They find themselves paying a lot so they are saying they work so hard just to benefit someone else.

Second, the farmer groups want the loans to be available to finance all important farm inputs like fertilizer, improved seeds and pesticides. Funds for these inputs should be different from the funds they are being lent now. They are saying this will really help them get enough output, and repayments will not be so difficult. Currently the amounts that they get are too small to purchase all the important farm inputs.

Third, the insurance provider should explain more clearly how the insurance works. Most of these farmers have a very poor educational background but they know the importance of insurance. They are complaining that the insurance policy under PRIDE RFW is not straight forward, therefore they are worried about that and they insist that the insurer should elaborate clearly how it is going to help them in case of problems like floods, sickness and many others. PRIDE RFW explains that the insurance amount is 1.5% of the approved loan amount and it is determined on an actuarially fair basis and that it is not relatively expensive. If the borrower qualifies for a 100,000Tshs loan, he/she is entitled to pay only 1,500Tshs as insurance and the insurance covers floods, permanent disability, death of a client and it also pays 200,000Tshs as condolence if there occurs a death of spouse.

Fourth, the contract has to offer farmers more time to find a good market for their output. They are complaining that they normally get little money when they sell their produce because they do not really have much time to find better markets. They only have an average of a month before they submit their first repayment to PRIDE RFW and they do not want to miss this (be late) because they know the consequences.

Fifth, they want PRIDE RFW to reduce the fines. They know that they have to work hard and they do but these small fines really slow them down. As explained above, fines are normally

imposed to the whole group in certain circumstances. An example is when there is a late repayment which is sometimes due to a late disbursement.

Sixth, farmer groups want the contract to allow them to borrow money individually. They say group loans are good but they have major setbacks too. People are different in so many ways; there are people inside the group who do not work hard enough because they know that the whole group will be responsible in case something negative happens which is a free-riding problem. But with individual loans every man is for himself; if you are lazy then that is upon yourself and therefore most/all people find themselves working hard with individual loans. With PRIDE RFW this is very difficult, though. As explained earlier, PRIDE RFW finds it expensive to manage individual loans; farmers live miles away from them and therefore it will be very costly to do a follow-up on each farmer.

Seventh, they want PRIDE RFW to lend them money to do other businesses apart from rice farming. They simply want diversification which they say helps in case rice farming fails them. Some of them have ideas of opening small shops to sell different consumer products; some of them want to start livestock keeping. They have so many business ideas but they do not have start-up capital.

Eighth, the farmer groups are asking for longer repayment periods. It has been explained above that nine months is too short a period for them to pay their loans. They wish to get a whole year; this will also help them find better markets to sell their produce.

(iii) Timely loan disbursement

This is one of the most important, since delay in loan disbursement has severe effects on farmers and if the loan is received too late then it is no longer beneficial to farmers. They would rather

not take the money because they will not be able to pay, which of course means trouble. PRIDE RFW has been late in giving out loans several times and this year has been the worst. That is why farmers did not want the money anymore; all they want is their securities back.

(iv) Honesty

Farmer groups are saying that although PRIDE RFW has supported them for a number of years, PRIDE RFW has not been very honest with them. They are saying PRIDE RFW would promise to do something for them but it will not, or rather it will do it very late, which means it might not be useful again. All they want is for PRIDE RFW to be honest; if the farmers are asking for something and PRIDE RFW cannot provide it, then they should say it earlier and give farmers a chance to look for help somewhere else before it is too late rather than telling them to wait simply because they do not want to disappoint the farmers.

(v) Storage facilities

This goes hand-in-hand with farmers wanting longer repayments periods. They want PRIDE RFW to help them rent a storage facility for their produce which will enable them to keep their rice for some time until they find a good market for it. They want this incorporated in PRIDE RFW's policy. At Dakawa they showed me a couple of buildings which are available to rent for such kind of activity. Unfortunately, PRIDE RFW will not do this.

4.2.18.1 Summary on issues to be addressed in order to solve farmers' credit needs

There are five important issues that need to be addressed regarding farmers' credit needs. The most important of these is the modification of loan contracts, as was mentioned in all four villages. A specification of how these farmer groups want the loan contracts modified is explained above; there are about eight different ways in which they want their contracts modified.

The second most important issue that needs to be addressed concerns PRIDE RFW per se. Farmer groups want PRIDE RFW to be completely honest with them; if something cannot be done, then they want to be notified earlier and not be lied to. This was mentioned by farmer groups in three different locations, which are Dihombo, Mbogo and Mkindo.

Farmers' desire to have their securities back, timely loan disbursement, and financial help in renting a facility where they will be storing their produce, are the least important issues that need to be addressed. Each of these three was mentioned in just one village. Farmers at Dihombo want their securities back, farmers at Mbogo insist on a timely loan disbursement, while farmers at Dakawa give priority to a storage facility.

Table 14 shows more of what needs to be done to address farmers' credit needs in all four villages.

Table 14: What more needs to be done to address credit needs?

Where 1= yes; 0 = no						
What More Needs to be Done	Dihombo	Mbogo	Mkindo	Dakawa	Total	Percent Yes
Modification of Loan Contracts	1	1	1	1	4	100
Honesty	1	1	1	0	3	75
Farmers should be given their Securities back	1	0	0	0	1	25
Timely Disbursement of Loans	0	1	0	0	1	25
Storage Facilities	0	0	0	1	1	25

4.2.19 Costs and returns of rice in Mvomero District

In a recent research carried out by NAFAKA, it was reported that about 84% of respondents in rice-growing areas of Mvomero district are subsistence smallholder farmers who use mainly family labor in their farm operations. The productivity of most of these farmers is low, the

average amount of rice harvested per hectare as of August 2015 was 2940kgs or 2.94Mt, as shown in Table 14 below (ACDI/VOCA, 2015).

Table 15: Area, Production, and Gross Margins for Rice from 2012 to August 2015

	Unit	Baseline 2011	Dec-12	Aug-13	Jan-14	Aug-14	Mar-15	Aug 2015
Value Chain	Rice							
Average Price (USD/kg)	USD	0.21	0.43	0.346	0.297	0.346	0.37	0.31
Gross Margin	USD	357	555	545	884	682	771	459
Area Planted	Ha	893	7,461	26,041	26,041	34,079	34,079	64,783
Total Production	MT	1294	17,881	78,107	78,107	106,971	106,971	190,138
Yield	(Mt/ha)	1.449	2.37	2.999	2.999	3.139	3.139	2.94
Value of Sales	USD	159,874	3,654,687	5,931,022	14,361,653	7,059,441	19,347,406	19,000,036
Quantity of Sales	MT	471	8,435	17,096	31,222	20,498	51,899	61,372
Purchased Input Cost	USD	120,150	3,608,827	12,911,895	12,911,895	13,595,737	13,595,737	29,118,004

Source: ACDI/VOCA, 2015

Farmers' limited use of inputs was found to be a result of poor resources at their disposal. Farmers have to plan on how to effectively satisfy the competing farm demands such as fertilizer and seeds. Due to this, farmers depend on labor-intensive tools such as hand hoes and low-quality inputs such as the locally recycled seeds that produce low yields.

4.2.20 Calculations on costs and returns of rice in Mvomero district

The range of land-holding size of farmer group members in the villages that were visited was from one to twenty acres. Most farmers, however, reported that they own an acre, with a few

owning two acres and very few owning above two acres. Data from NAFKA indicate that for August 2015, the average yield of a farmer in Mvomero district was about 2940 kg per hectare which is the same as saying that the average yield of a farmer in this district was 1190 kg per acre. On the other hand, the average price of a kilogram of rice as per August 2015 was 0.31 U.S. dollars. If a particular farmer produced an average of 1190 kg per acre, then he/she would get 368.9 U.S. dollars by selling all the produce.

Observing the net profits of rice in terms of Gross Margin's (GM's) from the table it seems that all figures are positive with an average GM of about 608 from the period of 2011 to August 2015. This indicates that rice was profitable to farmers in all those periods. The GM was 357 for the survey that was carried in 2011, it was 555 for the survey that was carried in March 2012, it was 545 for the survey that was carried in August 2013, it was 884 for the survey that was carried in January 2014, it was 682 for the survey that was carried in August 2014, it was 771 for the survey that was carried in March 2015, and 459 for the survey that was carried in August 2015.

Total purchased input costs in Mvomero district for the year 2015 were 29,118,004 U.S. dollars whilst the total area planted was 64,783 hectares. This implies that the average input costs per hectare were 449.5 U.S. dollars, which is equivalent to 182 U.S. dollars per acre.

4.2.21 How credit-supported intensification can increase net incomes using the cost and returns information on different types of rice production

(i) How important are the high loan interest rates in terms of the cost of interest payments?

Farmers get a maximum of 300,000Tshs in their first loan cycle from PRIDE RFW which is equivalent to about 140 U.S. dollars. With the current interest rate of 3.5% a month, they are responsible to pay a total of 394,500Tshs at the end of nine months' period which is equivalent

to about 183.5 U.S. dollars. For a typical farmer in the district who owns an acre, the average production per acre for the year 2015 in the district was 1190kgs. This particular farmer would receive a total of 368.9 U.S. dollars by selling all the produce. By deducting the input costs of 182 U.S. per acre and an interest payment of 43.5 U.S. dollars at the end of the loan period from the revenue of 368.9 U.S. dollars, a farmer will remain with 143.4 U.S. dollars. Thus a farmer will realize a profit of 143.4 U.S. dollars per acre if he/she borrowed 300,000Tshs from PRIDE RFW in the year 2015.

The profit might increase with an increase in amount that a particular farmer can borrow (keeping the interest rate constant) but that depends on average input costs in that period and price of a single kilogram of rice. The profitability calculations above indicate that farmers realize profit from the loans they have been taking and therefore it is fair to conclude that credit-supported intensification can increase net incomes.

(ii) Yield loss associated with late planting or late application of fertilizer

Management of nutrients is a very important aspect for success in rice farming. It is of great importance that only the required amount of nutrients is applied to the crop since nutrients often require a large investment. This will enable realization of profitable and sustainable yields. Some soils have sufficient quantities of nutrients and others need to be supplemented by fertilizer; it is important that fertilizer is applied in right quantities and at a proper time. Fertilizer performs crucial functions in plant growth such as in enzyme activation, photosynthesis, protein synthesis (i.e., nitrogen use) and in the crop's ability to resist disease (Slaton et al., 2014).

Yields of rice receiving mid-season and late application of fertilizer have been found to be lower than yields of rice that have received on-time application of fertilizer, but they are higher than yields of rice that have received no fertilizer at all. Application of fertilizer and fungicide

together have also resulted in increased rice yield. Chances of rice being affected with diseases are also minimized through application of fertilizer in the early growing season (Slaton.N.A. et al., 2008).

Most farmers would agree that planting early is key to achieving optimum yields. However, in cold areas and areas with frequent rains, the weather might prevent early planting and if this happens then adjustments have to be made. Some farmers opt for crop insurance programs in order to be safe. Rice yields can be reduced either by planting too early or too late but planting too late is riskier. The yields of most rice varieties will decrease significantly by planting late since rice is easily affected by many diseases such as blast and insect problems with late seeding. Quality of rice is also reduced with late planting (Alejandro Plastina, 2014). These problems can be reduced by planting more resistant rice varieties, application of proper nitrogen, fertilizer, early planting and proper application of fungicide (Matt Shipp, 2003).

Farmer groups in the interviewed villages have experienced late planting due to late loan disbursement from PRIDE RFW and this has led to a decrease in rice yield during harvest season. If farmers experience a decrease in yield, or rather poor yields then this means the revenue generated from selling their rice will also be reduced. If the revenue is lower, repayments are also a big problem.

(iii) The cost of the insurance program

The cost for insurance programme is 1.5% of the approved loan amount. With the maximum amount of 300,000Tshs that farmers qualify to get in their first loan cycle, they pay an insurance of 4,500Tshs. This small amount of money they pay as insurance (relative to the amount borrowed) will cover floods, permanent disability, death of a client, and it will also pay 200,000Tshs as condolence if there occurs a death of spouse. It is therefore fair to conclude that

the insurance is determined on an actuarially fair basis and it is not relatively expensive and that the credit programme under PRIDE RFW can increase the net incomes of rice farmers in Mvomero district.

In section 4.2.21(i) above, we calculated that on average a farmer can achieve a profit of 143.4 U.S. dollars at the end of the loan period, assuming that yields are 1,190 kg per acre. Taking into account insurance costs of 4,500Tshs, which is equal to about 2.1 U.S. dollars, the farmer will realize a profit of 141.3 U.S. dollars. Of course, yields might be lower than 1,190 kg per acre, due to poor rainfall, pests or disease, etc. The break-even yield, at which revenues just equal costs, is the total cost ($182 + 43.5 + 2.1$, for inputs, loan interest, and insurance, respectively) divided by the price per kg (approximately 0.31 U.S. dollars). The resulting breakeven yield is 734 kg per acre. Therefore, participation in the PRIDE RFW loan program will be profitable providing that the yield is at least 734 kg per acre.

CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

The objective of this study was to evaluate the contribution of microfinance credit provided by PRIDE RFW MFI to support the profitable cultivation of intensified rice production by smallholder farmers. This was largely a qualitative study that sought to examine the contribution of microfinance credit on rice farming activities in four different villages in Mvomero district, Morogoro region, from the perspectives of the beneficiaries. This chapter thus summarizes the major findings from the analyzed data. The chapter also contains recommendations that are in accordance with the findings, and lastly, conclusions from the study.

5.2 Summary of Findings

A summary of the findings of this study is presented below:

- Respondents/beneficiaries had mixed groups with farmer ages ranging from 20 to 60 years, which suggests that rice farming is attractive to both young and old people living in Mvomero district.
- The two groups in Dihombo village were established in 2011 and started taking loans the same year. The groups in Mbogo, Mkindo and Dakawa were established in 2009 and started taking loans the same year too.
- The total number of active farmers in all four villages was 195 out of 237.
- Regarding gender/sex, the farmer groups had more males (104) than females (91).
- The purposes of forming groups in all four villages fell under three different categories: improving living standards, entrepreneurship, and ability to borrow money for farming activities. Improving living standards proved to be the most important purpose as it was cited by 50% of farmers.

- Farmers mentioned ten different criteria for becoming a farmer group member. These were residency, hardworking, honesty, security, type of activity, secrecy, irrigation plot, sanity, owned land and presence of a guarantor.
- The range of land-holding size of group members in the four villages ranged from one to twenty acres.
- All group members were producing rice by the time focus group discussions (FGDs) were carried, and most/all of the land they owned was used for rice production.
- Rice is grown two times a year in Mvomero district.
- The average amount of credit each group receives varies. It increases with an increase in performance of the group but in principle each member will receive a maximum of 300,000Tshs during the first loan period.
- Farmer groups were charged an interest of 2.5% per month for the loans but the interest rate was raised to 3.5% per month during the last loan received.
- The loans have to be repaid in nine months, in three instalments.
- The main purposes for which these loans are used by group members in rice production are land preparation, purchasing fertilizer, planting, harvesting and transportation of produce.
- Major problems encountered within the group in the most recent loan received were delay in loan disbursement, floods, delay in repayments, defaults, fines from PRIDE RFW, conflicts with pastoralists, unstable/low prices, high interest rates and short repayment periods.
- Major credit constraints that rice farmers face in the villages that were visited are low asset value, lack of collateral, delay in loan disbursement, cessation/termination of loans

and dishonesty on the part of PRIDE RFW. In addressing the above constraints, the majority of the respondents argued that PRIDE RFW has not done anything to help.

- Other measures to address the credit needs of these farmer groups that were suggested by farmers during the focus group discussions included modification of loan contracts to benefit both parties as they are explained in the recommendation section, timely loan disbursement, honesty from both sides, and storage facilities for farmers' produce.

5.3 Recommendations

In my opinion, MFI's and other interventions like PRIDE RFW would be more beneficial to borrowers if the efficiency of credit service delivery were improved. For MFI's that channel funds to farmers in Tanzania, there is still a very huge potential out there since majority of Tanzania's people are employed in the agricultural sector. In most cases, farmers whether small, medium or large scale need credit to expand their output, although not all credit expansion is necessarily good. Improving efficiency, however, would require support from the Government and other financial institutions like banks and different stakeholders, as is explained below. The following recommendations could help improve the microfinance sector and make it a useful tool for improving agricultural productivity in Tanzania.

5.3.1 Modification of Loan Contracts

This particular matter is very important to farmers. As explained in chapter four, farmers want the contracts to be modified in order to benefit both parties. The most important things that farmers want modified are;

- Interest rate: farmers want PRIDE RFW to lower their interest because it really affects them during repayments. However, the profitability calculations on the previous chapter indicate that intensified rice production is quite profitable even

with the cost of interest payments. PRIDE RFW raised the interest rate to 3.5% a month from 2.5% a month and farmers are thinking of moving to another lender.

PRIDE RFW's Morogoro regional manager explains that there is no way they will lower the interest rate since their operation costs are very high. This would be the most difficult recommendation for them to implement. The interest rate depends also on how much PRIDE RFW is charged as interest from their source of funds.

- Farmers are requesting additional loans, separate from what they are currently getting, to help them buy important farm inputs like fertilizer, improved seeds and pesticides, since they claim that the money they are getting now is too small. This will help them increase their production. PRIDE RFW management is working to address this matter and they have started lending out irrigation equipment (not money) to individual farmers in some areas. The management is willing to continue helping farmers by lending them more inputs in the future per farmers' requests.
- Fines are a major obstacle to farmers and therefore PRIDE RFW should restructure their contracts and make the fines a little easier for farmers (borrowers). PRIDE RFW management explains that fines are currently very low and therefore there is no way they will be able to reduce them.
- Individual borrowing should also be incorporated in the contracts. PRIDE RFW offers individual loans as well. As for instance they have given out rural housing loans to different people for a number of years, and have also lent out milling machines and irrigation equipment to several individuals in the past and therefore

if a particular farmer in a group wants to borrow individually he/she can go to PRIDE RFW and ask for an individual loan.

- Loans for other activities apart from rice farming are desired by farmers, and therefore they are asking PRIDE RFW to consider restructuring their contract with farmers. PRIDE RFW provides different types of loans such as housing loans, business loans, farming loans, solar loans and SME's loans for millers and agro-vets, and farmers are welcome to apply for these loans.
- Longer repayment periods is another important thing the farmers strongly desire. This would go hand-in-hand with the proposed construction of a storage facility that would enable farmers to store their produce for some time before they actually sell it. Currently they have only nine months to repay the loans and they want at least a year. PRIDE RFW's Morogoro regional manager argues that longer repayment periods will increase chances of farmers defaulting because they will increase interest rates that farmers will have to pay. With the current interest rate of 3.5% a month, farmers are paying an interest rate of 31.5% for the period of nine months. Farmer groups want at least a year to make repayments and that will increase the interest rate to 42%. PRIDE RFW is not willing to take this risk because even with a lower interest rate of 31.5% farmers some farmers are failing to make their repayments on time and others are defaulting. PRIDE RFW has built a storage facility for farmers to store their produce but in another region and they will continue with this programme if they see positive results.

5.3.2 Timely Loan Disbursement

No matter how small the loans are, the most important thing to these farmers is getting the money on time. For farmers, particularly in developing countries where most of the farming activities are carried depending on weather conditions, it is very crucial to take into account the issue of farming seasons. PRIDE RFW has not been able to give out the money on time and farmers are complaining about this. Therefore, PRIDE RFW should try as much as possible to address this matter. An employee working for PRIDE RFW told me that they were not able to give out the money on time this year because they had not received funds from their supplier. With respect to this particular matter, I think it is crucial for PRIDE RFW to consider finding another credit supplier if this problem persists. There is a considerable number of commercial banks in the country which PRIDE RFW can work with. The management is willing to work on this matter as they understand the utmost importance of it.

5.3.3 Openness

PRIDE RFW has to make sure that their actions are clear to farmers. They should not promise these farmers something they cannot fulfil. Openness will ensure that there will always be a good relationship between these two parties (lenders and borrowers). As of this year PRIDE RFW was supposed to tell the farmers earlier that they will not get any funds instead of waiting until the farming season had passed. Farmers on the other hand should also be faithful with PRIDE RFW. If they are not satisfied with something they should speak out about it despite the fact that PRIDE RFW is their lender. PRIDE RFW management is willing to work on this matter in order to maintain good and sustainable relationships with its clients.

5.3.4 Proper Education on PRIDE'S RFW Policies

PRIDE RFW should make sure that they give farmers proper education on how they operate before giving them loans. Most farmers are just eager to get the money and therefore they will not care so much about what the policies are. This has a significant impact to both parties. For example, some of the interviewed respondents claimed that the loan contracts are signed individually while others said they are signed in a group. To my knowledge the procedure is the same to all farmers and therefore it was a big surprise to hear two different answers. The PRIDE RFW Morogoro regional manager explained that farmers want to hear only two things from their credit supplier. First is whether they will get credit and second how are they going to pay it. The management has spent time and resources educating farmers about their policies in the past and they still do so.

5.4 Other Suggestions

5.4.1 Government Support

The Government of Tanzania needs to offer a supportive and favorable environment that will promote the development of the microfinance industry. Support on socio-economic and legal issues would be a great help in the development of microfinance sector. For example, the government could offer support in terms of infrastructure, particularly improvement of roads in rural areas where most of the farming activities take place. This will enable easy delivery of microfinance services in those areas.

As far as legal issues are concerned, the government could review the existing policies and address matters that need special attention. Involving the private sector and other non-governmental actors will stimulate competition and ensure the services are delivered in the best way possible. The literature review has explained the positive impacts of microfinance in

development, both at the household level and beyond and in reduction of poverty. Poor road network in most rural areas increases transaction costs and introduces high risks of failing to deliver supplies and materials on time (Kimenye, 2002).

5.4.2 Support from Commercial Banks and Private Sector

PRIDE RFW obtain their funds from a commercial bank known as CRDB and it lends this money to different clients. Most microfinance institutions obtain their funds from commercial banks but it seems that the procedures of getting these funds are too long and there is no guarantee that a given MFI will successfully acquire funds from a given commercial bank. If there could be an effective agreement between these commercial banks and private sectors at large and microfinance institutions on terms pertaining borrowing and lending to benefit both sides, this would have helped improving the delivery of services to clients. An example is the issue of interest rate charged by these commercial banks or private sector which channel funds to MFI's. If the interest rate is too high, then it is very difficult for new MFIs to enter the market. It is also a burden for people in business to prosper. If the interest rates are high, it also means the costs of running these MFIs will be high which subsequently makes it expensive to deliver services in remote/rural areas where there are more people in need of microfinance services.

5.5 Significance of the study

This study, which is aimed at improving efficiency of microfinance institutions by assessing their impact on rice production activities in Mvomero district, has added to the body of knowledge in different ways. The findings of this research address the importance of improving efficiency on the daily operations of these institutions and other stakeholders. A careful selection of policies and operations that are beneficial to both parties (lenders and borrowers) has to be implemented to support a more effective running of these institutions.

Promotion of Rural Initiatives and Development Enterprises Rural Financial Window (PRIDE RFW) can also use the findings as important pillars for issue framing and agenda setting. On the other side, access to financial services is imperative for development of any sector (whether informal or formal). Microfinance institutions in Tanzania, in spite of the financial sector reforms that aimed at, among other things, gradually establishing more open credit markets, achieving flexible and eventually, liberal interest rates and enhancing financial intermediation, still experience a gap between the demand for and the supply of financial services, together with many other problems. It is hoped that the findings of this study will be a useful contribution to microfinance sector in Tanzania and other developing countries faced with similar challenges particularly in the areas of policy choices and program implementation.

5.6 Limitations of the study

A major limitation of the study was the fact that it was difficult to get time from the respondents during morning and afternoon as they were busy with farming and other secondary economic activities. They did not want to be disturbed. It took time to organize them into groups ready for discussion, in that case it was impossible to get all the active members in the groups. Another limitation was the fact that some group members will leave all the talking to group leaders and be quiet most of the time during discussions. There were also a number of group members who would come late to the discussions and therefore could not catch up well with other group members who came earlier. Lastly, and more generally, resources did not permit the collection of detailed input and output data that would have allowed a rigorous assessment of the impact of the PRIDE RFW program, or at least calculation of farm-level costs and returns of intensified rice production and the potential gains in profitability resulting from a microcredit program such as PRIDE RFW.

5.7 Conclusions

Generally speaking, microcredit services such as the ones provided by PRIDE RFW are helpful in supporting farmers in Tanzania. With respect to PRIDE RFW, their services have enabled rice farmers in Mvomero district to grow rice for a number of years and improve their living standards. They use the loans they get from PRIDE RFW to prepare their farms, purchase fertilizer, plant and harvest rice and in transportation of their produce.

There are several challenges facing this sector as explained in chapter four of the report, but with the proposed suggestions in the recommendation part of chapter five, the service delivery of the sector can be improved to a great extent. If improvements will take place then the number of users of microfinance services will increase. Farmers in Tanzania need credit since most of them are from poor backgrounds. All they are asking for is contracts that will enable them to produce enough so that they are in a position to improve their farming practices and profitability which will ultimately help them improve their living standards.

Farmers should also be patient; they should not expect to see the contribution of credit during the first cycle of borrowing and this fact should not disappoint them. It is therefore important for governments and private sectors to recognize the role played by the microfinance sector especially in rural areas of Tanzania.

APPENDIX

APPENDIX: Checklist of Questions for Focus Group Discussions

List of questions to ask and type of data to be collected from each group

1. Name of the group:
2. Location (village name):
3. Name of the person providing this information and his/her official role in this group/organization:
4. When was this group formed/established (year) _____?
5. How many members belong to this group? _____ total
6. How many are male/female? _____ males _____ females
7. What is the purpose of this group/organization?
8. What is the criteria to become a member of this group?
9. In your estimate what is the average land size holding of the group members? _____
acres (if cannot estimate an average, please ask for a range and record the range).
10. How many of the current members produce rice? _____
11. In your estimate what is the average area cultivated to rice by each member? _____
acres (again, if it is difficult to estimate the average, please ask for a range of rice area per member)

12. In what season(s) is rice typically grown as a major crop in this village?
13. What is the typical rice planting and harvesting time frame (month/week):
- a. Planting time: _____ Harvest time: _____
14. How many members in this group have received credit (loan) from PRIDE MFI in the most recent year (*use the proper name this MFI is known to farmers*)? _____
15. What was the average amount of credit each member received? _____ Shillings
16. How many years has your group received loan from this MFI? _____
17. Typically, what is the interest rate on this loan? (Please note down whether the rate is per month or per year) _____
18. In how many months do you have to repay this loan _____?
19. Do each member sign a loan contract with PRIDE individually or is the loan contract between your group and PRIDE?
20. What are the main purposes for which this loan is used by the rice farmers?
21. In the last loan received from PRIDE, were there any major problems/issues encountered within your group (such as default, delay in repayments, fines, etc.)
22. In your opinion, what are the major credit constraints rice farmers in this area are facing?
23. How has PRIDE helped address these constraints?
24. What more do you think needs to be done to address the credit needs of the rice farmers?

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