

MICROFINANCE AND GROWTH OF SMALL SCALE AGRIBUSINESS
ENTERPRISES IN TANZANIA. A CASE STUDY
OF PRIVATE AGRICULTURAL SECTOR SUPPORT (PASS)

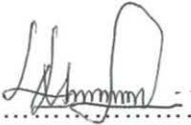
BY
MARIA L. MASOME
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A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF BUSINESS AND
MANAGEMENT IN PARTIAL FULFILLMENT FOR THE AWARD OF A BACHELOR
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KAMPALA INTERNATIONAL UNIVERSITY

JULY, 2009

DECLARATION

I MARIA L. MASOME, declare that I am sole author of this dissertation, that during the period of registered study I have not been registered for other academic award or qualification, nor has any of the material been submitted wholly or partly for any other award. This dissertation is a result of my own research work, and where other people's research was used, they have been dully acknowledged.

Signature: 

MARIA L. MASOME

Date: 14TH JULY, 2009

DEDICATION

I dedicate this project to my nieces, Eppy and Petty. I love you so much

APPROVAL

This report has been prepared and moderated through profound commitment of the named supervisor and student and has been submitted for examination with the supervisor's approval.

Sign: 

Mr. MICHAEL RUTEGANDA
Supervisor

Date: 14/07/09

ACKNOWLEDGEMENT

My great gratitude goes out to my parents for continuously supporting me throughout the years particularly during my university education.

To my supervisor, thanks for guiding and supporting me. To my friends Boke and Kabantu, thanks for your tireless support and encouragement during the period.

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ABSTRACT

The objective was to establish the role of micro finance towards the growth of small scale Small Scale Agri-Businesses enterprises. The study used a qualitative analysis of study findings. The specific objectives of the study were;

- To ascertain the benefits of microfinance to small scale agribusiness enterprises
- To investigate the impact of PASS on small scale agribusiness enterprises
- To establish who the beneficiaries of PASS services are.
- To investigate the challenges facing PASS in its microfinance service delivery to small scale agribusinesses.

The research was a case study of Private Agriculture Sector Support. An explanatory, analytical, quantitative as well as qualitative research design was used. The research analyzed changes in the independent variables over a period of time against changes in the dependant variable it showed the extent to which microfinance had impacted small scale agribusiness enterprises.

The findings showed the biggest challenge facing PASS was in providing the loan services to remote areas. IT was seen that this led to the majority of beneficiaries being medium sized enterprises of which only 48% were directly involved in agribusiness activities. It was concluded that the major challenge faced by PASS was distributing the services to its principal target group of Small Scale Agri-Businesses.

Major recommendations included; The donor community should be involved in the planning and implementation of the program. This would ensure that the program can cater for more individuals and small scale agri-businesses. PASS should redesign its programs so as to be more refined to the needs of its main beneficiaries. This should also be in line with carrying out sensitization programs on how PASS benefits the concerned potential beneficiaries. The government should provide further sensitization so that the key intended beneficiaries know about what PASS can do for them.

CHAPTER ONE

INTRODUCTION

1.0 Background

The adoption of financial liberalization as an economic policy by many sub-saharan African countries has made private sector investment crucial in propelling economic growth in Tanzania. The ministry of finance planning and economic development considers private sector as the engine of growth and its immediate objective is to support the private sector objects to become a powerful engine of economic growth to attain this objective, private sector projects require finance for both acquisition of fixed assets and working capital. The level of development in financial sector which is composed of commercial banks, development banks and insurance companies have a major role to play in promoting private sector by providing financial resources for investment and working capital. Commercial banks mobilize these resources mainly from deposits and subsequently channel them to viable borrowers.

Microfinance is the provision of financial services to those not included in the formal financial system based not only on wealth but social, barriers. In Tanzania, also cultural and gender studies on medium small scale - enterprises. Have reported that access to finance, resource inputs, and markets problems are the three main agricultural constraints hindering growth of the sector in the country. A study conducted in Tanzania, revealed that the majority of rural based agri-businesses depend mostly on Microfinance institutions and Local loan sharks to provide credit but their conditions are often prohibitive and at times life threatening.

There is currently a general consensus that small scale enterprise promotion and growth constitute one of the viable strategies for achieving national development goals such as economic development and poverty alleviation. The study further found hat, Micro Finance Institutions contribute positively to the growth of farm businesses but needs to do more to boost agricultural businesses.

1.1 Background of the Case Study

The Private Agricultural Sector Support (PASS) is a facility established in the year 2000 in order to stimulate investments and growth in Agriculture and related sectors.

Vision Statement

The vision of PASS is to become the leading commercial entity in Assisting primary agricultural and agro-businesses in developing their Enterprises by offering quality business development services

Mission Statement

The mission of PASS is to provide value added business development Services in a customer convenient and confidential manner.

The goal of PASS is to stimulate investments and growth of private commercial farming and agri-businesses. Private persons, association or company can apply.

Focus Groups:

Private Entrepreneurs – consisting of individuals, associations or companies within or linked to the Agricultural sector.

Private Entrepreneurs – Who have a vision and are committed to do business in an efficient and profitable manner.

Private Entrepreneurs – Who will cooperate with Pass and CRDB Bank and supply the needed documents and who can meet at least minimum requirements for borrowing.

Services offered by PASS:

PASS will help eligible individuals and companies to get a loan for their viable investment:

- Via assisting in making a feasibility study and a business plan to submit to the CRDB Bank.
- Via Credit Guarantee that is given to the Bank to increase the chances for the Client to get loan.

- Via business counselling and assessing the client's investment idea.

PASS has a range of business development services for offer to clients on a cost sharing and commercial basis. The business Development includes:-

- Feasibility studies.
- Development of bussiness plans.
- Capacity building– e.g in specific technical areas.
- Organisation of farmers into groups, which can be used as focal points for contract farming, input supply, credit, produce-price negotiations and provision of advisory service.
- Marketing and market linkages.

1.2 Statement of the Problem

Commercial banks act as the main financial intermediaries between surplus spending units and deficit spending units in the economy. However, when it comes to providing rural or small scale enterprises access to funds for development purposes, commercial banks are often reluctant. It is for this reason that microfinance organizations have a role to play. The microfinance organization is able to provide funding to small scale enterprises and some like Private Agriculture Sector Support (PASS) offer loans to farmers and agri-businesses in particular. This study looked into the benefits that these small scale agri-businesses benefit from PASS.

1.3 Research Objectives

1.3.1 General objectives

The study aimed to establish the role of microfinance towards the growth of small scale agribusiness enterprises in Tanzania.

1.3.2 Specific objectives

- To ascertain the benefits of microfinance to small scale agribusiness enterprises
- To investigate the impact of PASS on small scale agribusiness enterprises

- To establish who the beneficiaries of PASS services are.
- To investigate the challenges facing PASS in its microfinance service delivery to small scale agribusinesses.

1.4 Research questions

- What are the benefits of microfinance to small scale agribusiness enterprises?
- What is the impact of PASS on small scale agribusiness enterprises?
- Who are the beneficiaries of PASS microfinance services?
- What are the challenges facing PASS in delivering microfinance to small scale agribusiness enterprises?

1.5 Scope of the study

The study was carried out for the periods of April-June 2009. The study was limited to the study of the role of microfinance to the growth of small scale agribusiness enterprises in Tanzania and use Private Agriculture Sector Support as a case study.

1.6 Justification/Significance

i. To the Government

This study will contribute towards government effort to develop policies that will promote private sector development through increased access to finance as a major contributor to economic growth.

ii. To the Banking Industry

This research will provide insight into the impact that liquidity and loan provision may have on the community.

iii. To the researcher

The study will help the researcher gain insight into the working of microfinance providers and also assist her acquire her degree.

iv. To literature

The study will provide additional literature on the subject of microfinance which can be used by other researchers in future.

1.7 Conceptual Framework

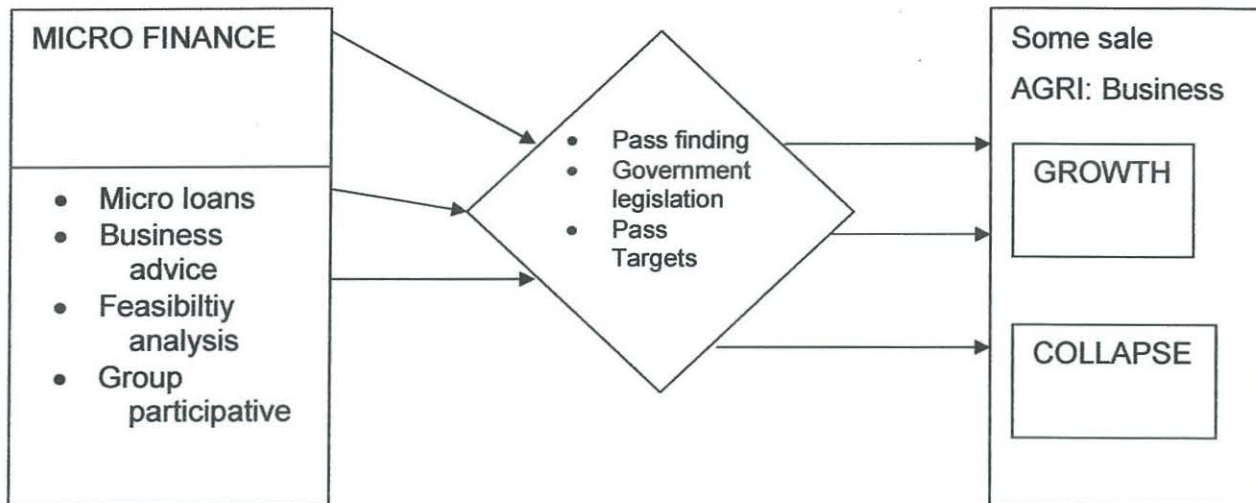


Figure 1: Literature Review

The conceptual framework shows that the independent variable Micro-Finance is constituted by loans and complementary services such as business advice, feasibility analysis and encouraging group participation. These in turn affect the growth potential or collapse of small scale agri-businesses. The conceptual framework shows that PASS funding, government legislation and PASS targets highly influence and impact on how PASS may impact on growth potential of Small Scale Agri-Businesses.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provided a critical review of the issues that were explored and studies both theoretically and empirically in the existing literature on management.

2.1 Microfinance

Microfinance refers to financial services such as cash loans, money transfers, direct deposits, savings, and insurance made accessible (primarily) to the rural poor. The term "micro" is used because the transactions are on a smaller scale that one finds in urban areas. Microfinance refers to the provision of financial services to low-income clients, including consumers and the self-employed. The term also refers to the practice of sustainably delivering those services. Microcredit (or loans to poor microenterprises) should not be confused with microfinance, which addresses a full range of banking needs for poor people. More broadly, it refers to a movement that envisions "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers."^[3] Those who promote microfinance generally believe that such access will help poor people out of poverty.

Microfinance in Tanzania began with NGOs and SACCOS (Savings and Loans Cooperatives) in 1995 and has continued to grow with the increased success of microfinance internationally. Microfinance is still a relatively new concept in Tanzania. Beginning in 1995, it was mainly linked to women and poverty alleviation. The government tried to convince commercial banks to support small and medium businesses. Once the National Microfinance Policy was implemented in 2001, microfinance was officially recognized as a tool for poverty eradication and with its increased use and exposure to the country, banks have taken an interest in offering microfinance. The National Microfinance Bank is an institutional provider of

microfinance services, and the AKIBA Commercial bank and CRDB Bank are also two big supporters of microfinance. There are additional organizations involved in microfinance in Tanzania, including FINCA, PRIDE and SEDA as well as the Tanzania Postal Bank. Community banks and small banks have taken an interest in this, as well as many NGOs and non-profit organizations. A recent 2005 survey done by the Bank of Tanzania (the overseer of microfinance under the Ministry of Finance) updated the directory of microfinance practitioners and includes basic information on microfinance institutions including commercial banks, financial institutions, financial Non-Governmental Organizations (NGO), Savings and Credit Cooperatives Societies (SACCOs) and Savings and Credit Associations (SACAs). The directory includes a total of 8 banks, 45 CBOs, 2 companies, 95 Government programs, 1,620 SACCOs, 48 SACAs and 62 NGOs.

2.2 Impact of Microfinance to Small Scale Agribusiness Enterprises

Good management of even the smallest assets can be crucial to very poor people, who live in precarious conditions, threatened by lack of income, shelter and food. To overcome poverty, they need to be able to borrow, save and invest, and to protect their families against risk. But with little income or collateral, poor people are seldom able to obtain loans from banks and other formal financial institutions. And even when they do have income or collateral, the amounts they require are often too small to appeal to banks.

Microfinance is one way of fighting poverty in rural areas, where most of the world's poorest people live. It puts credit, savings, insurance and other basic financial services within the reach of poor people. Through microfinance institutions such as credit unions and some non-governmental organizations, poor people can obtain small loans, receive remittances from relatives working abroad and safeguard their savings. Accessing small amounts of credit at reasonable interest rates gives people with the willingness and know-how an opportunity to set up a small business. Records show that poor people are a good risk, with higher repayment rates than conventional borrowers. In countries as diverse as Bangladesh, Benin and Dominica, repayment rates are as high as 97 per cent.

Poor women often have the best credit ratings. In Bangladesh, for example, women default on loans less often than men, and credit extended to women has a much greater impact on household consumption and quality of life for children. Women's status, both in their homes and communities, is improved when they are responsible for loans and for managing savings. When they generate and control their own income, women gain a level of power that means they can make decisions independently and command more respect.

Microfinance gives millions of rural men and women an opportunity to find their own solutions. Most of the world's poor lack access to basic financial services that would help them manage their assets and generate income. This is especially true for the 900 million extremely poor people who live in rural areas of developing countries. Microfinance gives millions of rural men and women an opportunity to find their own solutions.

While the amounts may be small, the loans, savings and insurance options offered by microfinance can help rural poor people overcome poverty themselves. Microfinance has evolved over the past 30 years. Its origins are found in the development projects that experimented with subsidized agricultural credit in the 1950s. These credit programmes sought to increase the productivity and incomes of small and marginal farmers. Most failed.

Subsidized loans depleted the capital of lending institutions and loans were often not repaid. The funds did not always reach the poorest people, but remained in the hands of more prosperous, larger-scale farmers. More viable experimental programmes appeared in the 1970s. Unlike subsidized lending, they insisted on repayment of loans and they charged interest to cover their costs. One of the pioneer programmes has been Grameen banking, which in 1974 began providing tiny loans to groups of women in Bangladesh. It is based on principles of mutual trust and responsibility. Each woman is responsible for seeing that the group's loan is repaid. Today, 2.4 million borrowers, 95 per cent of them women, have access to financial services through the national Grameen network, which includes 41 000 villages – more than half the villages in the country.

Through the 1980s and 1990s microcredit programmes improved on earlier models. Results from studies showed that microfinance can be profitable, and that poor people are among the most reliable clients. Although credit is an important part of microfinance, it is just one of the diverse financial services that poor people need to improve their lives. Microfinance is about small numbers. With a loan of as little as USD 50 or 100, a villager can set up a small business that will make a big difference in his or her life. The extra income from that business can mean a secure food supply, medicine for sick family members and education for children.

Some proponents of microfinance have asserted, without offering credible evidence, that microfinance has the power to single-handedly defeat poverty. This assertion has been the source of considerable criticism. In addition, research on the actual effectiveness of microfinance as a tool for economic development remains slim, in part owing to the difficulty in monitoring and measuring this impact. At the 2008 Innovations for Poverty Action/Financial Access Initiative Microfinance Research conference, economist Jonathan Morduch of New York University noted there are only one or two methodologically sound studies of microfinance's impact.

Sociologist Jon Westover found that much of the evidence on the effectiveness of microfinance for alleviating poverty is based in anecdotal reports or case studies. He initially found over 100 articles on the subject, but included only the 6 which used enough quantitative data to be representative. One of these studies found that microfinance reduced poverty. Two others were unable to conclude that microfinance reduced poverty, although they attributed some positive effects to the program. Other studies concluded similarly, with surveys finding that a majority of participants feel better about finances with some feeling worse.

2.3 Challenges facing PASS in its Microfinance Service Delivery to Small Scale Agribusinesses

There has also been much criticism of the high interest rates charged to borrowers. The real average portfolio yield cited by a sample of 704 microfinance institutions that voluntarily submitted reports to the Micro Banking Bulletin in 2006 was 22.3% annually. However, annual rates charged to clients are higher, as they also include

local inflation and the bad debt expenses of the microfinance institution. Muhammad Yunus has recently made much of this point, and in his latest book argues that microfinance institutions that charge more than 15% above their long-term operating costs should face penalties.

The role of donors has also been questioned. The Consultative Group to Assist the Poor (CGAP) recently commented that "a large proportion of the money they spend is not effective, either because it gets hung up in unsuccessful and often complicated funding mechanisms (for example, a government apex facility), or it goes to partners that are not held accountable for performance. In some cases, poorly conceived programs have retarded the development of inclusive financial systems by distorting markets and displacing domestic commercial initiatives with cheap or free money."

There has also been criticism of micro lenders for not taking more responsibility for the working conditions of poor households, particularly when borrowers become quasi-wage labourers, selling crafts or agricultural produce through an organization controlled by the MFI. The desire of MFIs to help their borrower diversify and increase their incomes has sparked this type of relationship in several countries, most notably Bangladesh, where hundreds of thousands of borrowers effectively work as wage labourers for the marketing subsidiaries of Grameen Bank or BRAC. Critics maintain that there are few if any rules or standards in these cases governing working hours, holidays, working conditions, safety or child labour, and few inspection regimes to correct abuses.^[42] Some of these concerns have been taken up by unions and socially responsible investment advocates.

2.4 Other literature on the subject

A credit risk is the failure of borrowers to carry out their obligation of paying back the loans when they fall due and this failure is called a default. Loan asset management is the minimizing of risks by acquiring assets that have low rates of default (Lopez 2001) risk and by diversifying asset holidays. Credit risk is essentially the possibility that a bank's loan portfolio will lose value if borrowers become unable to pay back their debts in full (Mugume and Obwona 2001) (Craig Churchill 1999) says the main

ways the traditional financial institutions managers controls credit risks is by acquiring: Collateral, Information and Credit policies.

Liquidity risk arises from situations in which a party interested in trading an asset cannot do it because nobody in the market wants to trade that asset. Liquidity risk becomes particularly important to parties who are about to hold or currently hold an asset, since it affects their ability to trade. Manifestation of liquidity risk is very different from a drop of price to zero. In case of a drop of an asset's price to zero, the market is saying that the asset is worthless. However, if one party cannot find another party interested in trading the asset, this can potentially be only a problem of the market participants with finding each other. This is why liquidity risk is usually found higher in emerging markets or low-volume markets.

Liquidity risk is financial risk due to uncertain liquidity. An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causes counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity. Liquidity risk tends to compound other risks. If a trading organization has a position in an illiquid asset, its limited ability to liquidate that position at short notice will compound its market risk. Suppose a firm has offsetting cash flows with two different counterparties on a given day. If the counterparty that owes it a payment defaults, the firm will have to raise cash from other sources to make its payment. Should it be unable to do so, it too will default. Here, liquidity risk is compounding credit risk. Credit risk is the risk of loss due to a debtor's non-payment of a loan or other line of credit (either the principal or interest (coupon) or both)

An operational risk is a risk arising from a company's business functions and from the practical implementation of the management's strategy. As such, it is a very broad concept including e.g information risks, fraud risks, physical or environmental risks, etc. The term operational risk is most commonly found in risk management programs of banks that must organize their risk management program according to Basel II. In Basel II, risk management is divided into credit, market and operational

risk management. The definition doesn't talk about strategic risks at all. In many cases, credit and market risks are handled through a company's financial department, whereas operational risk management is perhaps coordinated centrally but most commonly implemented in different operational units (e.g. the IT department takes care of information risks, the HR department takes care of personnel risks, etc)

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter addressed the research design, study population, sample design and data collection methods and instruments.

3.1 Research design

The research was a case study of Private Agriculture Sector Support. An explanatory, analytical, quantitative as well as qualitative research design was used. The research analyzed changes in the independent variables over a period of time against changes in the dependant variable it showed the extent to which microfinance had impacted small scale agribusiness enterprises.

3.2 Study Population

The study was centered on Private Agriculture Sector Support branch in Dar-es-Salaam seeking responses from management, staff and customers.

3.3 Sample size

A representative sample was obtained by using a population of twenty five (25) respondents. This was intended to facilitate the attainment of more objective result. The sample was selected from the PASS management, staff and customers from the private sector.

3.4 Data collection

3.4.1 Sources of Data

The data that was used for the purpose of the study comprised of both Primary and Secondary.

i) Primary data

The primary data used in this research was collected from credit managers of PASS in Dar-es-Salaam and individual persons including staff and customers using self administered and guided questionnaires.

ii) Secondary data

The secondary data of the study were consolidated balance sheet and income statements that were used in this research which were collected from available statistics on PASS, financial journals and from monetary survey reports in Tanzania and other sources such as journals, government publications, the PASS financial statements (Income statements and Balance sheets), other internal records and the internet. Secondary data was used to supplement the primary data in an attempt to limit bias.

3.5 Data collection Methods

3.5.1 Primary data collection methods

a) Questionnaire

These are preformatted written set of questions to which the respondents record their answers. They are preferred because they give straight forward answers, easy to evaluate and they can be stored for future reference.

b) Interviews

In this technique the researcher carried out a face to face interaction with the respondent on various aspects of the research objectives. This method was preferred because it offered an opportunity for the researcher to have direct conversation with the respondents and be able to ask probing questions relevant to the study.

c) Observation

This involved collecting data without having to ask questions by simply observation people in their natural work environment and recording their behaviors and the quality of their performance. Observation helped to understand complex issues

through direct observation and where necessary ask questions to seek clarification on certain issues.

3.5.2 Secondary Data collection

This was obtained from financial reports and other documentary reviews. They were obtained from Libraries, articles and Internet.

3.6 Data analysis technique

The data was edited, coded, arranged and analyzed using percentages, ratios, measures of variability (i.e.) correlations for relationships.

3.7 Limitations

Time constraint

There was limited time affecting the study. Limited time available to complete the project in order to meet the deadline. Nevertheless the researcher was able to complete the study in time.

Finance

The researcher needed adequate money to meet the costs of transport, stationary and incidents.

Accessibility

It was not easy to access information from individual customers of PASS in reference to loans and services they had received. This was dealt with by seeking management assistance in approaching customers.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

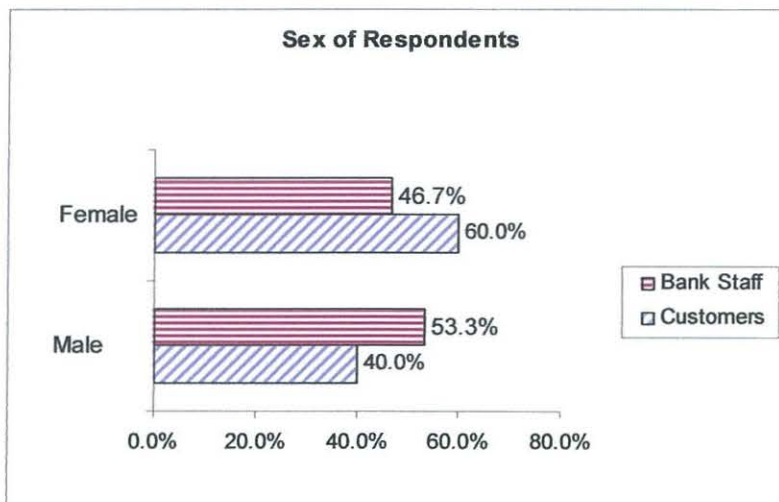
4.0 Introduction

This chapter presented the data collected during the study. The data has been presented using tables, pie charts bar graphs. This data has been analyzed using qualitative and quantitative techniques.

4.1 Background Information

4.1.1 Sex of Respondents

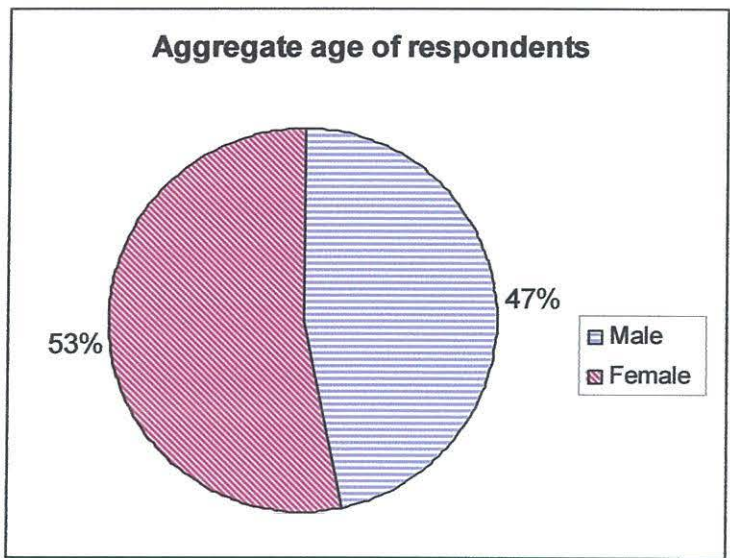
Figure 2: Bar Chart Showing Sex of Respondents



Source: Primary Data

The data findings in Figure 1 show that the majority of the respondents were females who comprised 60% amongst the bank staff and 46.7% amongst respondents. This is further showed by the results in the pie chart below;

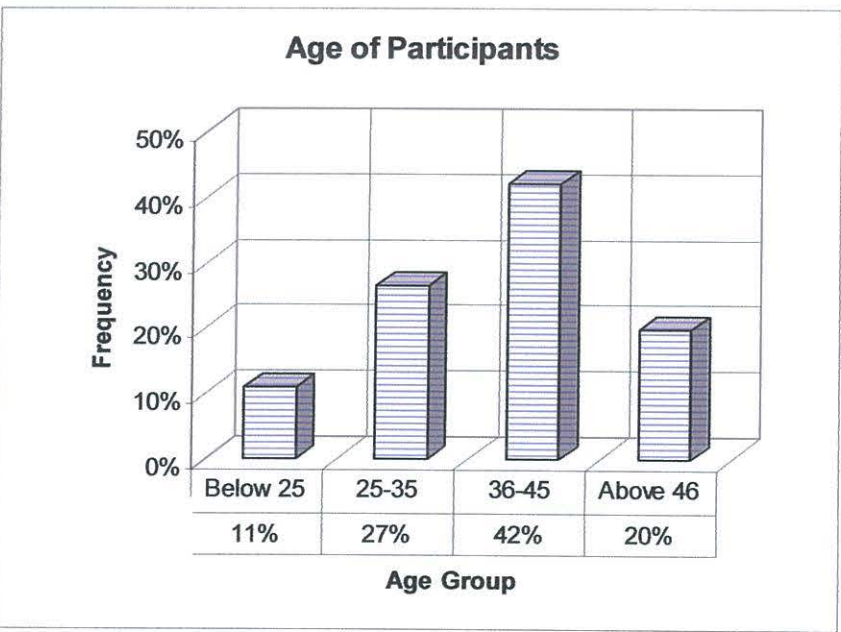
Figure 3: Pie Chart showing aggregate age of respondents



Source: Primary Data

4.1.2 Age of Respondents

Figure 4: Bar chart showing age of respondents



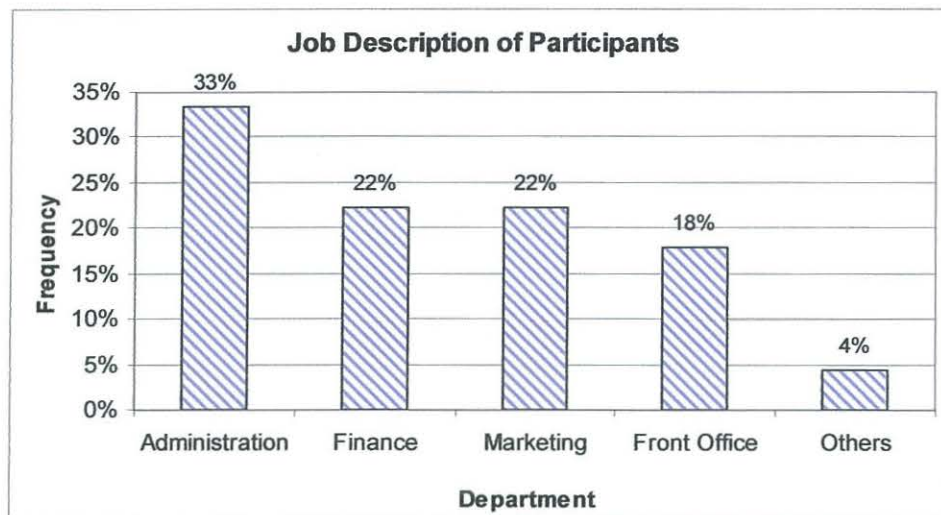
Source: Primary Data

The data findings in the bar chart above show that the majority of respondents were aged between 36-45 years (42%) while those aged between 25-35 years comprised

27% of the respondents. Twenty (20%) of the respondents were aged above 46 years while only 11% were aged below 25 years.

4.1.3 Job position of participants

Figure 5: Job Position of Participants

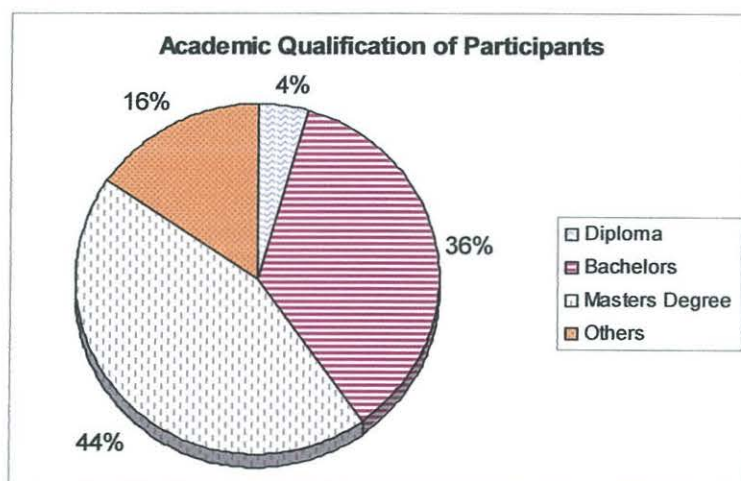


Source: Primary Data

The study sample population was comprised of participants from administration 33%, finance 22%, marketing 22%, front desk and cashiers 18% and others 4%.

4.1.4 Academic qualification of participants

Figure 6: Academic Qualification of Participants

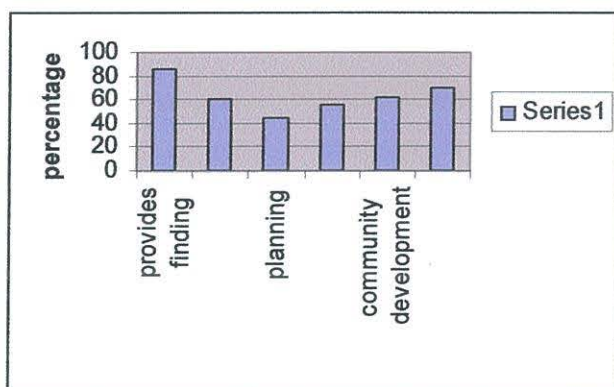


Source: Primary Data

The academic qualification of the respondents was investigated and the results showed that 44% of the participants held a master degree, 36% held bachelors degrees, 16% held other degree titles while only 4% held diplomas. It was discovered that those that held other degrees were PhD holders and post graduate diploma holders who comprised 16% of the respondents.

4.2.1 Benefits of Micro-Finance to Small Scale Agri-businesses

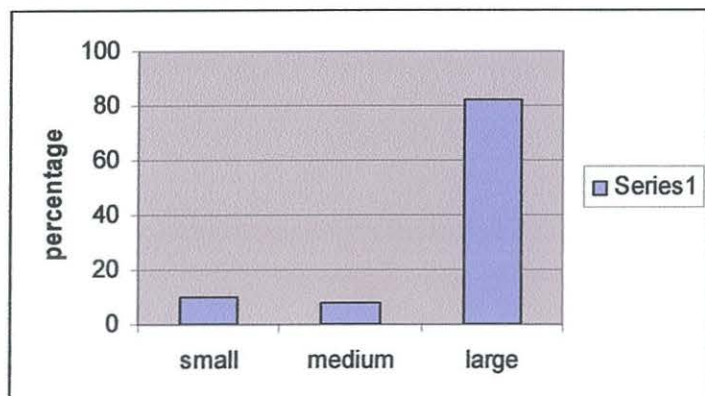
Figure 7: How do small scale Agribusiness benefit from these services



Source: Primary Data

It was found that amongst the benefits that the PASS initiative provided to the beneficiaries included funding which was noted by 85% of respondents, finding market for Agribusiness produce 70%, contribute to community development 62%, change individual society standing (55%) and provide advice and planning services as noted by 60% and 45% respectively.

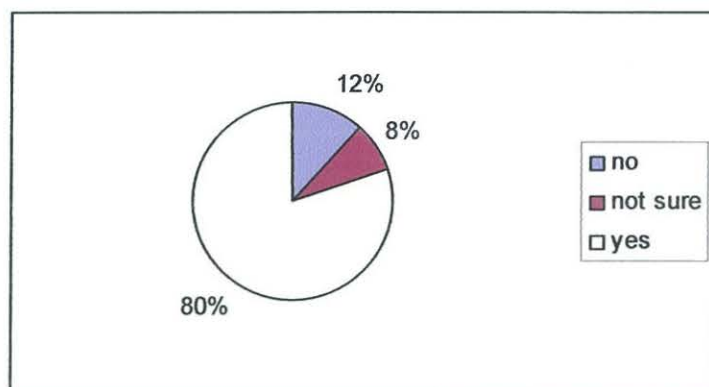
Figure 8: Extent that PASS benefits Small Scale Agribusiness



Source: Primary Data

The findings showed that the majority of respondents (82%) believed that PASS benefited the Small Scale Agribusiness to a large extent as shown in the figure 7 above while only 8% felt that the PASS benefited the Small Scale Agri-business to a medium extent and a further 10% said it benefited the Small Scale Agri-business to a small extent.

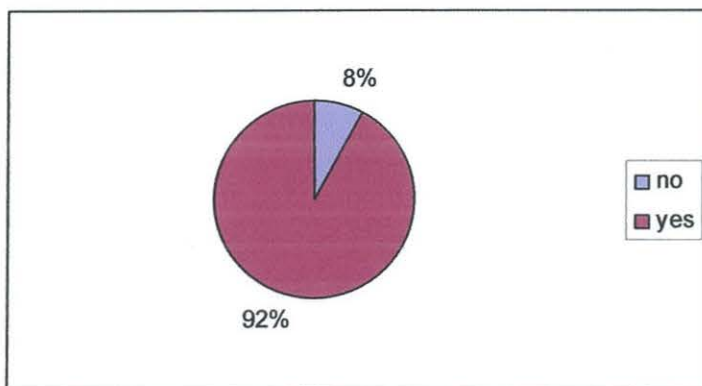
Figure 9: Pie Chart showing whether PASS services benefit small scale Small Scale Agri-business



Source: Primary Data

The majority of respondents believed that PASS services benefited Small Scale Agri-business (80%) while 12% did not think so. IT was also found that 8% of respondents where not sure whether PASS benefited the Small Scale Agri-business.

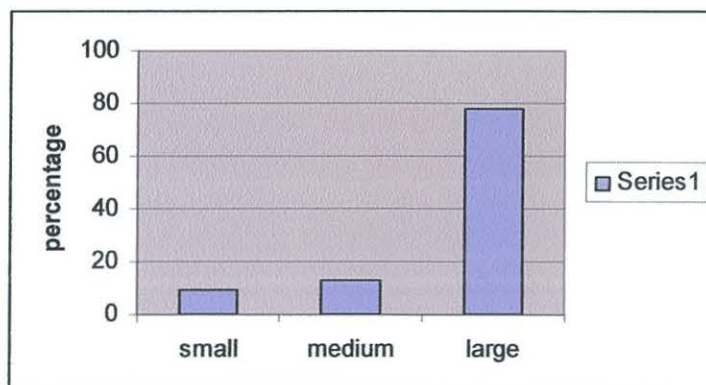
Figure 10: Pie Chart showing whether PASS has impacted on Small Scale Agri-business.



Source: Primary Data

It was found that the majority of respondents (92%) believed that PASS did impact on Small Scale Agri-business. Only 8% did not think there was an impact on Small Scale Agri-Businesses by PASS.

Figure 11: Bar graph showing the extent of impact of PASS on Small Scale Agri-Businesses

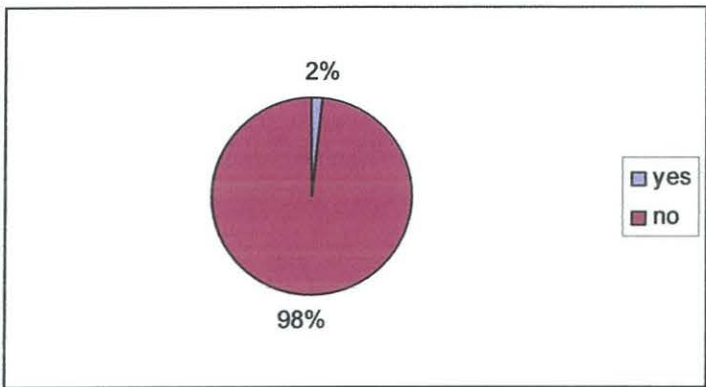


Source: Primary data

The findings showed that 78% of respondents felt PASS had a large impact on Small Scale Agri-Businesses while 13% felt it was medium and only 9% felt the impact was small.

4.2.2 Whether there has been a change in financial position of PASS Small Scale Agri-Businesses beneficiaries

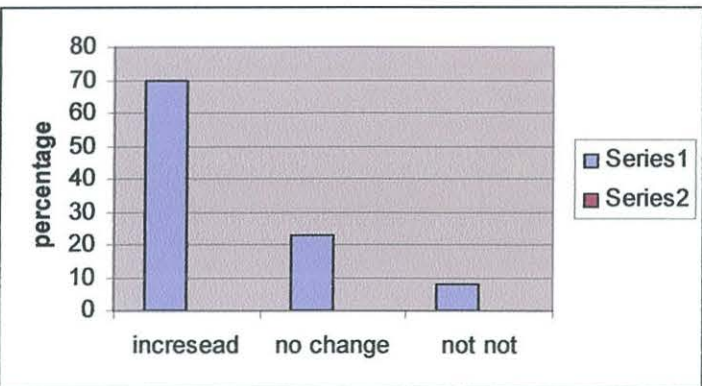
Figure 12: Pie chart showing whether there has been a change in financial position of Small Scale Agri-Businesses



Source: Primary data

The findings showed that the majority of respondents had noted a change in the financial position of the beneficiaries of PASS services. This was in contrast to only 2% who did not note any change.

Figure 13: Bar graph showing how financial position has changed

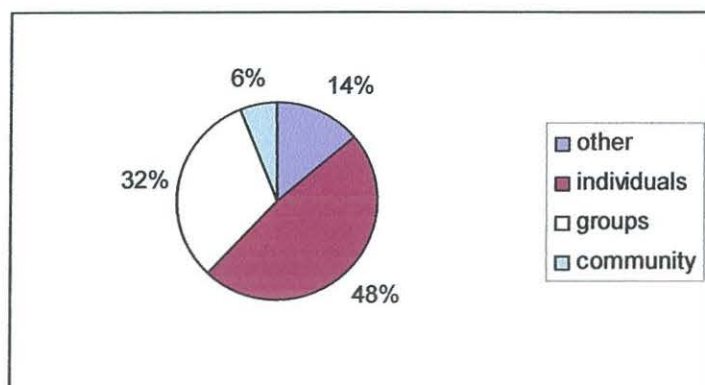


Source: Primary data

The findings showed that the majority of respondents noted there was an increase in the financial position of Small Scale Agri-Businesses while only 23% did not register a change. A further 8% did not know whether there was any change.

4.2.3 Who are the beneficiaries of PASS services

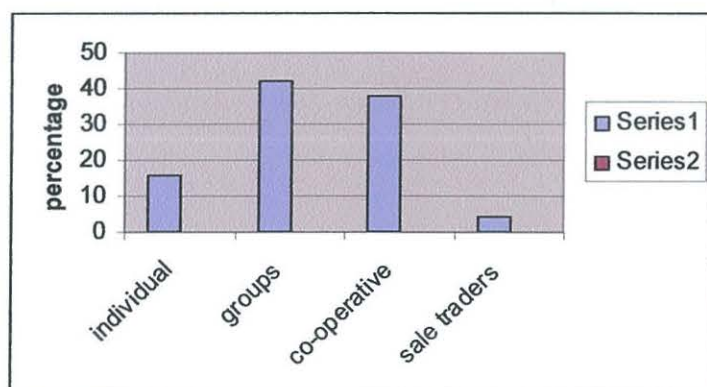
Figure 14: Pie chart showing category of users who have benefited the most from PASS



Source: Primary data

The findings showed that the group that benefited the most from PASS services was individual businesses. This was closely followed by groups (32%), other interests (14%) and community (6%).

Figure 15: Bar graph showing beneficiaries PASS aims to support

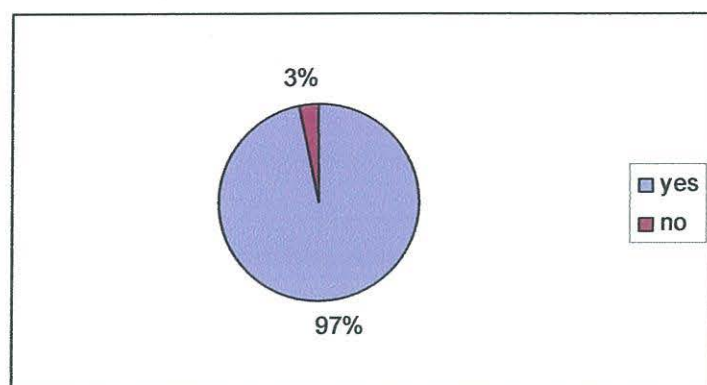


Source: Primary data

The findings showed that PASS aimed to support groups most as noted by 42% of respondents. This was followed by cooperatives as noted by 38% of respondents, individuals (16%) and sole traders (4%).

4.2.4 To investigate the challenges facing PASS in its microfinance service delivery to small scale agribusinesses.

Figure 16: Pie chart showing whether the PASS initiative suffers challenges



Source: Primary data

It was found that the majority of respondents believed that initiative did suffer challenges as noted by 97% while only 3% said the initiative did not suffer any challenges.

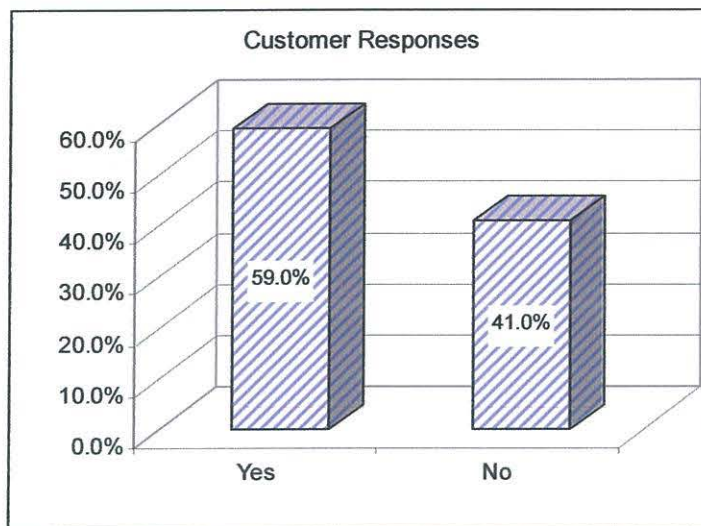
Table 1: Showing lending position of PASS in respect to liquidity risk of client

	Frequency (f)	Percentage (%)
Low risk encourages lending to client	14	56
Low risk enables lower interest to encourage more loan acquisition	16	64
High risk leads to higher interest rate on client	8	32
Tendency to discourage borrowing	17	68
Negatively affects borrower	18	72

Source: Primary Data

The table above showed that the majority of respondents (72%) believed that the lending position of PASS negatively affected the borrowers. This was closely followed by 66% of respondents who felt that borrowers were discouraged from borrowing as a result of the lending position of the PASS. A further 62% felt that the lower interest would encourage more loan acquisition but this was limited to those who had a low risk to the PASS initiative.

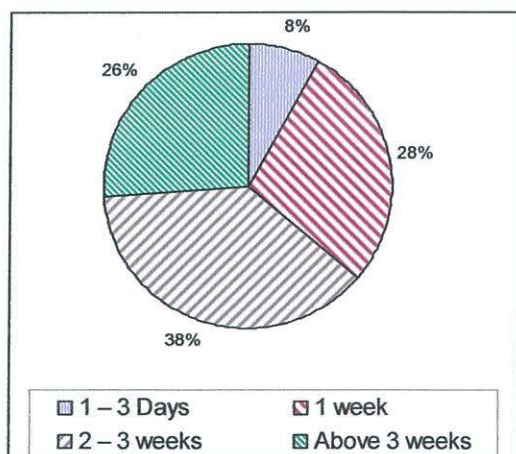
Figure 17: Bar graph showing the number of respondents who have ever acquired a loan



Source: Primary Data

The data in figure 10 above showed that the majority of respondents (59%) had ever acquired a loan from a bank or PASS. This was compared to 41% who had not.

Figure 18: Pie chart showing time to acquire loan by customers

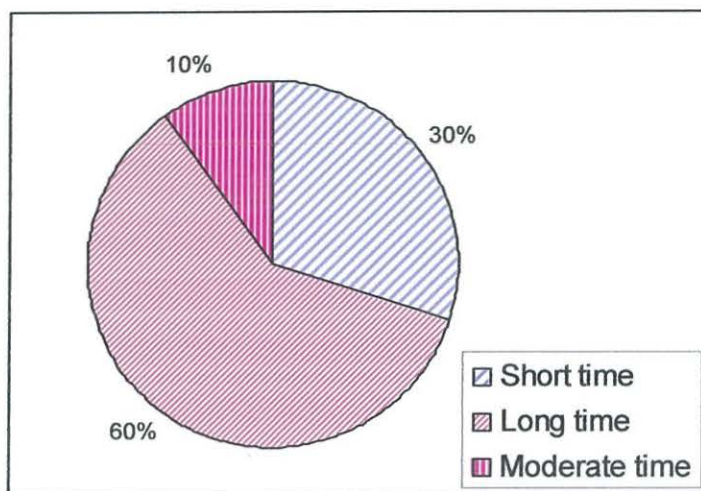


Source: Primary Data

The data in the table above showed that the majority of respondents felt that the bank was interested in their liquidity position as shown by 84%. Only 16% did not think the PASS initiative was interested in their liquidity position. When the respondents

were asked whether they thought their liquidity was a very big determinant, the majority stated that they believed it was. This was shown by 82% while only 18% did not think so. The respondents were further queried what they thought the PASS's estimation of their liquidity was fair. The majority of respondents stated that the bank's estimation was unfair (64%) while only 36% felt it was fair.

Figure 19: Pie Chart showing time it takes to deliver PASS products to the customers



Source: Primary Data

The data showed that the majority of respondents acquired their products from the bank after a long time (60%) while only 10% acquired their loans after a moderate waiting time. The findings in figure 13 below showed that the customers believed that 60% of customers believed that assessing liquidity risk was important when accessing loans. However, 10% believed that liquidity risk was negligible when it came to loan acquisition. Only 30% of the customer respondents said that liquidity risk assessment was very significant when acquiring a loan.

4.3 Discussion

The PASS staffs were interviewed to establish whether the initiative uses a risk management policy. The results showed that the majority of the respondents 89% believed the PASS initiative used a risk management policy while only 11% did not think so. These findings were in agreement with Crockford (1986) who stated that to

minimize and control this liquidity risks and insure continuous operation, bankers plan for liquidity through their assets portfolio. The data findings above showed that the majority of staff respondents stated that the average loan processing time was 2-3 weeks as stated by 58.0% of respondents. A further 34% stated that it took generally 1 week to process loans while only 8% said it took 1-3 days. Therefore, the credit risk and loan asset management tools used by the PASS restrict the level and rate at which the initiative provides loans.

This is further agreed with by the findings since the majority of respondents (72%) believed that the lending position of the PASS negatively affected the borrowers. The data in the table above showed that the majority of respondents felt that the bank was interested in their liquidity position as showed by 84%. Only 16% did not think the PASS initiative was interested in their liquidity position. The findings therefore show that the liquidity risk and liquidity risk management had a negative impact on the delivery of lending services to agri-businesses.

The respondents were further queried what they thought the banks estimation of their liquidity was fair. The majority of respondents stated that the bank's estimation was unfair (64%) while only 36% felt it was fair. The data showed that the majority of respondents acquired their products from PASS after a long time (60%) while only 10% acquired their loans after a moderate waiting time. The respondents were queried to establish whether the PASS services used loan asset management and it was found that all personnel knew that the initiative used loan asset management. The respondents were queried to establish what effects the banks loan asset management had on lending to agri-businesses and the results showed that the majority of respondents (64%) felt that it discouraged loan applicants. It was also found that other shortcomings of the loan asset management policies were that the many requirements as noted by 52% as well as the difficulty in processing emergency loans as showed by 52%.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter aimed to put forward the summary, conclusions, recommendations and areas for further study.

5.1 Summary

The objective was to establish the role of micro finance towards the growth of small scale Small Scale Agri-Businesses enterprises. The study used a qualitative analysis of study findings. The specific objectives of the study were;

- To ascertain the benefits of microfinance to small scale agribusiness enterprises
- To investigate the impact of PASS on small scale agribusiness enterprises
- To establish who the beneficiaries of PASS services are.
- To investigate the challenges facing PASS in its microfinance service delivery to small scale agribusinesses.

In order to achieve the study objective, questionnaires, interview guide and observation were used. Conclusions of the study and recommendations follow in the sections below.

5.2 Conclusions

The study findings were generally in line with the literature that was reviewed. However, when it came to beneficiaries of the loan services and challenges face by the organization there were some deviations.

With the services provided by PASS, it was found that the services included, Feasibility studies, Development of business plans, Capacity building– e.g in specific technical areas, Organisation of farmers into groups, which can be used as focal points for contract farming, input supply, credit, produce-price negotiations and

provision of advisory service and Marketing and market linkages. This was in line with authors such as Kabeer N. (2001) who mentioned that these were services that micro-finance institutions provided. As such the beneficiaries of these services were found to be mostly individuals as shown in figure 13 and these were not only the Small Scale Agri-Businesses community.

The benefits of micro-finance to the Small Scale Agri-Businesses were found to be wide and far reaching from enabling individuals acquire start up capital, provision of working capital, business advice and consulting. These services were found to benefit the Small Scale Agri-Businesses community to a large extent.

The impact of PASS on small scale Small Scale Agri-Businesses was investigated and then findings showed that PASS did have an impact on Small Scale Agri-Businesses. Since the majority affirmed that they had noticed changes in financial position of Small Scale Agri-Businesses as shown in figures 11 and 12. It was thus concluded that PASS had an overall positive impact on Small Scale Agri-Businesses.

The findings showed the biggest challenge facing PASS was in providing the loan services to remote areas. IT was seen that this led to the majority of beneficiaries being medium sized enterprises of which only 48% were directly involved in agri-business activities. It was concluded that the major challenge faced by PASS was distributing the services to its principal target group of Small Scale Agri-Businesses.

5.3 Recommendations

The study findings raised and highlighted various issues and concerns. These involved different stakeholders who need to be involved in the solutions findings and implementation.

The Government

The government should provide further sensitization so that the key intended beneficiaries know about what PASS can do for them. This can be done through country wide sensitization programs.

Private Agricultural Sector Support (PASS)

PASS should redesign its programs so as to be more refined to the needs of its main beneficiaries. This should also be in line with carrying out sensitization programs on how PASS benefits the concerned potential beneficiaries.

Donor Community

The donor community should be involved in the planning and implementation of the program. This would ensure that the program can cater for more individuals and small scale agri-businesses.

5.4 Areas for further study

The study findings concluded that there are areas where more study should be carried out. These include;

- Implicit costs of offering loans to small scale Small Scale Agri-Businesses
- Factors limiting effectiveness of loan services delivery to small scale Small Scale Agri-Businesses
- Solutions to challenges of funding towards PASS

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APPENDICES

APPENDIX A: QUESTIONNAIRE

Dear Sir/ Madam,

I humbly ask you to participate in this research on THE ROLE OF MICROFINANCE AND GROWTH OF SMALL SCALE AGRIBUSINESS ENTERPRISES IN TANZANIA. A CASE STUDY OF PRIVATE AGRICULTURAL SECTOR SUPPORT (PASS). Your responses will be treated with utmost confidentiality.

Instructions: TICK the appropriate answer and **FILL-IN** the blanks where necessary.

1. Sex:

- ☐ Male
- ☐ Female

2. Age:

- ☐ 21-24
- ☐ 25-30
- ☐ 31-34
- ☐ 35-40
- ☐ 41 and above

3. Department

- ☐ Administration
- ☐ Supplies and Procurement
- ☐ Finance
- ☐ Marketing

4. Academic qualification attained

- ☐ Bachelor's Degree
- ☐ Masters
- ☐ PhD
- ☐ Others.....

5. Number of years working with the organization

- ☐ 1-5,
- ☐ 5-10,
- ☐ 10-15,
- ☐ 15-20

SECTION A
BENEFITS OF MICRO FINANCE TO SMALL SCALE AGRI-BUSINESSES

1. What services does PASS provide to Small Scale Agri-Businesses?
.....
.....
.....
2. How do Small Scale Agri-Businesses benefit from these services?
.....
.....
.....
3. In your opinion, to what extent are the services beneficial to small scale agribusinesses?
☐ Small extent
☐ Medium extent
☐ Large extent
4. Do PASS services benefit Small Scale Agri-Businesses?
☐ Yes
☐ No

SECTION B
WHAT IS THE IMPACT OF pass ON SMALL SCALE AGRIBUSINESSES?

1. Do you think PASS has an impact on small scale agribusiness?
☐ Yes
☐ No
2. What is the impact of PASS on Small Scale Agri-Businesses?
☐ Small extent
☐ Medium extent
☐ Large extent
3. Have you noticed any change in financial position of Small Scale Agri-Businesses who are beneficiaries of PASS?
☐ Yes
☐ No
4. How has the financial position of Small Scale Agri-Businesses changed due ot PASS services?
☐ Increased
☐ No change
☐ Don't Know
☐ Other

SECTION C
WHO ARE THE BENEFICIARIES OF PASS SERVICES

1. Which category of users of PASS services have benefited from the program the most?
☐ Individuals
☐ Groups
☐ Communities
2. In your opinion, which set of beneficiaries does PASS support more?
☐ Groups
☐ Individuals
☐ Cooperatives
☐ Sole proprietorships

SECTION D
**WHAT CHALLENGES IS PASS FACING ON DELIVERING MICRO FINANCE
TO SMALL SCALE AGRIBUSINESS ENTERPRISES**

1. Does PASS have any challenges in delivering microfinance to Small Scale Agri-Businesses
☐ Yes
☐ No
2. What challenges do you face in providing microfinance to Small Scale Agri-Businesses enterprises?
.....
.....
.....
3. In case you have any other comments you would like to share, please note them down below.
.....
.....
.....
.....
.....
.....

THANK YOU FOR YOUR CONTRIBUTION TO THE STUDY

APPENDIX B

TIME FRAME

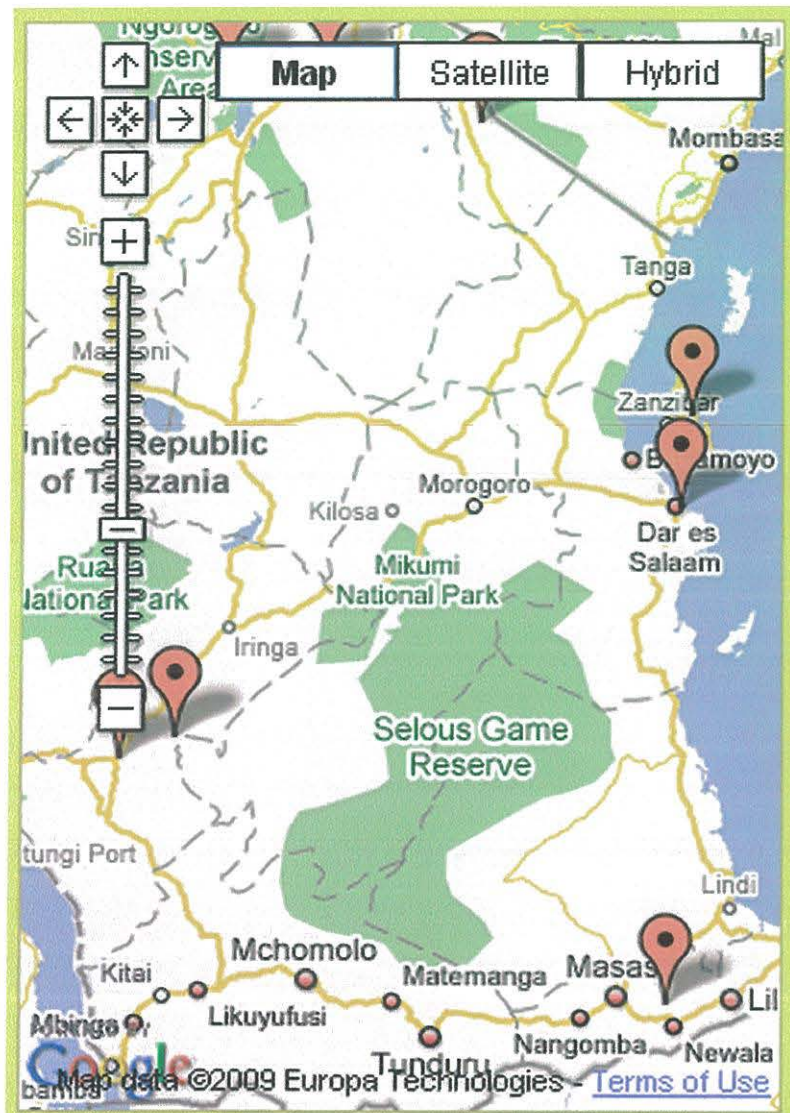
Date	Activity
April – May 2009	Literature Collection
May 2009	Proposal
May 2009	Data collection
June 2009	Report Writing
July 2009	Report Submission

APPENDIX C

BUDGET

Items	Cost (Tzshs)
Stationery	12,500
Printing	29,000
Binding	20,000
Transport	140,000
Food and Beverage	75,000
Typing and Secretarial	30,000
Miscellaneous	50,000
TOTAL	356,500

APPENDIX D: MAP OF STUDY AREA





**KAMPALA
INTERNATIONAL
UNIVERSITY**

Ggaba Road, Kansanga * PO BOX 20000 Kampala, Uganda
Tel: +256 (0) 41 - 266 813 * Fax: +256 (0) 41 - 501 974
E-mail: admin@kiu.ac.ug * Website: <http://www.kiu.ac.ug>

**OFFICE OF THE DEAN
SCHOOL OF BUSINESS AND MANAGEMENT**

Date: 3rd July, 2009

Our ref: KIU/SBM/RL/002-07/09-2

THE HUMAN RESOURCE MANAGER,
PRIVATE AGRICULTURAL SECTOR
SUPPORT – (PASS)

Dear Sir/Madam,

RE: MARIA .L. MASOME REG.NO.BIB/12145/61/DF

The above mentioned is a bonafide student of Kampala International University pursuing a Bachelor of International Business Administration under the school of Business and Management of the University.

She is currently conducting field research and the title of the Research Project is "MICROFINANCE AND GROWTH OF SMALL SCALE AGRIBUSINESS IN TANZANIA" A CASE STUDY OF PRIVATE AGRICULTURAL SECTOR SUPPORT - PASS. As part of her studies (research work) she has to collect relevant information through questionnaires, interviews and other relevant reading materials.

The purpose of this letter is to please request you to avail her with the necessary information she may need.

All and any information shared with her will be used for academic purposes only and we promise to share our findings with your institutions.

Any assistance rendered to her in this regard will be highly appreciated.

Yours sincerely,



**DR. ALFRED NUWAGABA
DEAN SCHOOL OF BUSINESS AND MANAGEMENT**

CURRICULUM VITAE

BIO DATA

Name: MARIA L MASOME
Sex: Female
Nationality: Tanzanian
Marital Status: Single
Address: P.O. BOX 66583
DAR ES SALAAM
Email: holymary_tz@hotmail.com
Telephone: +255-753747404

Career Objective

To work in an Organization where my knowledge and skills in International Business can be fully utilized. Field attachment is thus designed to meet the practical side of my training. I am hard working and goal oriented individual, also team oriented and resourceful.

Education Background

YEAR	INSTITUTION	AWARD
1992-1998	LUGALO PRIMARY SCHOOL	- Certificate of primary Education examination of Tanzania (CPEE)
1999-2002	KIBASILA SECONDARY SCHOOL	-Certificate of Secondary Education Examination Of Tanzania (CSEE)
2003-2005	IFAKARA SECONDARY SCHOOL	-Advanced Certificate of Secondary Education Examination of Tanzania (ACSEE)
2006-2009	KAMPALA INTERNATIONAL UNIVERSITY- UGANDA	- BA Degree of International Business Administration (BIBA)

Languages spoken

- English
- Swahili

Interests and activities

Reading Business Magazines, Art and Design, Traveling, Playing lawn tennis, listening to music.

Experiences

Field attachment at the Daily news company and I was a Teacher and a secretary at Bahari Nursery and Primary English medium School, Dar es Salaam.

References

1. Mrs. Nsanyiwa M.Chacha
Principal Administrative Officer
Vice President's Office
P. O. Box 5380,DSM
Tel.No: +255-713459555
2. Mr. Gilles Ngoma Matiaba
Chief assistant of treasury
Congolese office of control
P.o. Box 2278, Bukavu, DRC
Tel.No: +243815010782
E-mail: g-ngomat@yahoo.fr