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Village Savings and Loan Associations: experience from Zanzibar

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DFID
Financial Sector
Deepening Project
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Table of Contents

List of Abbreviations

$	United States dollar
ASCA	Accumulating Savings and Credit Association
CRS	Catholic Relief Services
DHS	Demographic Health Survey (studies)
DFID	Department for International Development
DFS	Decentralised Financial Services
FSDU	Financial Sector Deepening Project in Uganda
GDP	Gross Domestic Product
IGA	Income Generating Activities
JCBCA	Jozani-Chwaka Bay Conservation Area
JCBCP	Jozani-Chwaka Bay Conservation Project in Zanzibar
JOCDO	Jozani Credit Development Organisation
JOSACA	Jozani Savings and Credit Associations
KI	Kupfuma Ishungu (VSLA programme in Zimbabwe)
MRFMF	Market Research for Microfinance
MFI	Microfinance Institutions
MMD	Mata Masu Dubara
NGO	Non-Governmental Organisation
PRA	Participatory Rapid Appraisal
ROSCA	Rotating Savings and Credit Associations("Upatu")
SACCO	Saving and Credit Cooperation Organisation
SPSS	Statistical Package for Social Scientists
Tsh.	Tanzania shilling
Ush.	Uganda shilling
VSLA	Village Savings and Loans Association

Executive Summary

Background

Village Savings and Loan Associations (VSLA), modelled on CARE's project in Niger (commonly referred to as the Mata Masu Dubara or MMD model) have attracted much interest because of their promise to attain outreach to very poor and rural people better than formal, centralised, microfinance institutions. While the model is being widely replicated, few detailed studies of its performance have yet been undertaken.[1]

A VSLA is a time-bound accumulating savings and credit association (ASCA). In it, 15 to 30 people save regularly and borrow from the group fund. Loans are repaid with interest, and have a period usually between one and three months. On a date chosen by the members, usually after about a year, all the financial assets are divided among the members in proportion to each one's savings. This pay out is called the "action audit". The groups normally re-form immediately and start a new cycle of savings and lending.

The role of CARE and other support organisations has been to train these groups on how better to operate the ASCAs based on a four-phase curriculum. During an intensive three-month phase, a trainer visits the groups every week and trains them on group dynamics. In a second three-month phase the trainer visits the groups every two weeks as they become more independent. After three months, the trainer comes only once in a month. After 12–18 months the trainer ceases to visit the group (Grant and Allen 2002)

The VSLA methodology proposes that once mature, groups can function with no external support. Its proponents suggest that in the best programmes, 95% of the groups continue to function after two years and that the model reaches deeper into rural areas and serves poorer people than other microfinance models. In order to study the model's achievements, the researchers sought to identify a situation where groups had been trained and then left to operate on their own. This proved extremely difficult since in many cases groups had continued to receive support or training of various kinds from CARE or another programme, even if this was not directly related to the VSLA component, hence creating ongoing incentives for the groups to continue to operate. After a literature search and many contacts, the researchers decided that the case closest to the ideal was the Jozani Savings and Credit Associations (JOSACA)

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[1] The study was undertaken by the Decentralized Financial Services (DFS) Project, Kenya, and funded by DFS and the Financial Sector Deepening Project, Uganda. The Decentralized Financial Services (DFS) project is supported by the Financial Sector Deepening Trust, Kenya (DFID), the Ministry for Foreign Affairs, Finland and UNDP. The study has benefited from comments from Paul Rippey and Hugh Allen. Authors thank CARE Zanzibar, JOCDO, Chief Statistician's Office in Zanzibar and UNDP Zanzibar for their assistance.

programme in Zanzibar, Tanzania where CARE trained groups between 2001 and 2002. After CARE left, the groups were left under the supervision of an apex organisation that they themselves ran, the Jozani Credit Development Organisation (JOCDO). While the JOSACA programme was the best option, it did not reflect a situation where the groups were left entirely alone but did offer the possibility of examining how well an apex organisation run by the groups themselves was operating.

The objective of the study was to examine the performance of VSLA groups in Zanzibar after several years of operations independent of CARE or other non-governmental organisations (NGOs). It also sought to understand the outreach of the programme to poorer members of the community, and its ability to provide useful services and produce change in the lives of users.

Community-owned and -managed groups tend to stop functioning as a result of default and/or fraud. It is often argued that these problems stem from lack of literacy and numeracy skills, and a lack of these skills can certainly produce failures in book-keeping and compliance with policies. However, problems also arise from unequal power relations within groups which produce failures in governance. For example, a few leaders may be very dominant and influence the allocation of group resources, leading to exploitation of the less powerful, for example by taking loans which are not repaid. Studies of savings and credit groups have rarely examined the actual lending pattern of the groups and there is little information on whether most or only a few people in the groups can access loans.

The VSLA claims to produce transparency and accountability through various mechanisms. For example, a locked box is used to keep savings and group records safe and the keys are held by three members other than the treasurer; the fact that the date for the end of the cycle is set at the beginning of the cycle is a means of ensuring accountability since the group cannot pay out until all loans have been repaid. The study wanted to examine whether and how these procedures were being respected in the absence of an NGO overseeing operations.

The findings of the five main research questions of the study are highlighted below.

Findings

1. Outreach and Sustainability

The VSLAs in Zanzibar have performed well in terms of growth and sustainability. Only one of the sample of 25 groups which were over two years old had dissolved itself, but it had been re-formed with new leadership. Total membership rose from 1,272 in 2002 (when CARE left) to an estimated membership of 4,552 in July 2006, an increase of 258% (an annual rate of growth of 38%). The average membership per group is 29, with women forming 70% of the membership.

VSLAs have also performed well in terms of profitability. During the last payout for all 25 groups, the mean rate of return was 53%, with individual groups' rates ranging from 10% to 92%. The mean payout was Tsh.5mn ($4,000) per group and Tsh.172,535 ($138) per member. 72% of the groups had paid out dividends during the twelve months before the study. This evidence suggests that the majority of groups are conducting an action audit annually and paying members' dues with dividends.

2. The Role of Village Trainers as Support Service Providers in the Ongoing Support to Groups and Expansion of the VSLA Model

Trainers and community representatives created JOCDO to take over the supervision and group formation roles of CARE. New groups buy the lock boxes and stationery from the organisation, and all groups are supposed to pay an ongoing membership fee but only about 35% of the groups were in fact doing this.

Many groups reported that the overall curriculum was not completed. The group interviews suggested that trainers' support to the groups had been minimal. Nor has JOCDO improved the trainers' skills sufficiently for groups to appreciate their additional support value beyond the initial training. As explained by JOCDO officials, the limitation in support service delivery has been due to lack of resources, inadequate capacity and inappropriate recruitment procedures. Despite the resource limitation, JOCDO has facilitated an impressive expansion and replication of new groups. This reflects effective demand for the services from the communities and good potential for expansion into other villages in Zanzibar.

3. Poverty Outreach and the Socio-economic Profile of VSLA Users in the Socio-economic Context of Zanzibar and Tanzania as well as the Availability and Use of Other Financial Services

In order to contextualise the socio-economic profile of the VSLA members, the study compared their profile with that of Zanzibar as a whole and the Tanzanian mainland using questions from the Tanzanian Demographic and Health Survey. Findings suggest that the households in the VSLAs had a very similar profile to households in Zanzibar as a whole and the data for the Tanzanian mainland shows that the Zanzibar population on the whole does much better than the population on the mainland in terms of household quality and access to services. Household assets and means of transport also suggest that the VSLA members in most cases are at least as well off as the Zanzibar population and much better off than the Tanzanian population. VSLA members were also well educated: 58% of women VSLA members compared to 48% of women in Zanzibar and only 5% in Tanzania had some secondary level of education; for men VSLA members this was 55% compared to 53% for Zanzibar and 9% on the Tanzanian mainland.

The relatively well-off and educated profile of the VSLA users could help explain the fact that it is operating well. A larger number of better-educated members is likely to strengthen the governance of the groups since more members are likely to feel capable of taking on leadership roles, dealing with record-keeping and are they likely to engage in debating policy changes. At the same time they are more likely to be able to question poorly performing leaders and see how it is possible to adapt the VSLAs to their needs

4. Usefulness of the Model in the Livelihoods of Members

The study asked respondents to indicate the main changes in the lives that they thought had arisen as a result of the programme[2]. Respondents named an improved standard of living (22%), improved housing (21%) and increased incomes (20%) as the three major changes. Women respondents also cited the ability to save and improved savings habits as a positive result. Although savings and loan sizes are relatively small, they are useful amounts to members – especially the payout – but there are virtually no other microfinance programmes or formal financial services available.

5. Operation of the Internal Group Dynamics over Time

Lending pattern within the groups were studied to understand whether most or only few people receive loans. The majority of current members (95%) had taken a loan during the previous cycle and 55% had taken more than one loan during that cycle, suggesting a good rotation of funds around the group. There was no significant difference in the frequency of borrowing related to gender, and although more leaders had taken more than one loan compared to non-leaders, this difference was also not significant.

The action audit is a key element of the model in ensuring repayment in a context where it is difficult for people to enforce repayment from others whom they know well. If any member has not repaid her loan by the time of the action audit, shares equal in value to the member's debt are cancelled in his or her passbook. Since the date of the payout is set at the beginning of the cycle, the members plan for the cash use and there is therefore a lot of pressure not to delay the action audit.

[2] The priority of this study was to evaluate the ongoing sustainability of the VSLA groups, an impact assessment would have required a different methodology.

The VSLA model allows groups to adjust their bye-laws, and some groups had adjusted their bye-laws. In most cases, groups simply adjusted terms and conditions to meet their needs and desires, while not changing the fundamental elements of the approach. For example, the rule that loans should be a maximum of three times savings is well respected, and most groups have had an action audit in the last year. On the other hand, many groups have adjusted details of their procedures, such as changing interest rates or the length of the cycle. Only two groups of the 25 had delayed the action audit due to members not repaying in time, though other groups changed the length of their cycle from the day of re-formation in order to achieve higher payouts. The fact that the model appears to have been rigidly implemented in the original training has probably reduced the erosion of the rules and procedures that could have undermined its effective implementation

The segregation of official duties has also contributed to discipline in those groups that are performing exceptionally well. These groups have a smooth leadership transition and the retired leaders continue to be members of the groups. Less well performing groups have problems with the delegation of authority and leaders tend to dominate. This has been found to be a cause of conflicts and one such group had to be reconstituted.

CHAPTER 1: INTRODUCTION

1.1 Background

In the last few years, there has been renewed interest in searching for financial models that can be used to deliver sustainable financial services to the rural poor in Africa. This quest has been motivated by the failure of formal and/or centralized microfinance institutions (MFIs) to reach remote and rural areas. These organisations (mainstream MFIs and banks), faced with the challenge of a dilapidated infrastructure, low population density and the small transaction amounts of the people, often find it too costly to deliver services in the rural areas of Africa. Moreover, the push for financial sustainability makes it less attractive for them to reach a critical mass of clients in low-density population areas. The situation is exacerbated by the fact that rural clients are likely to invest in highly risky agriculture and save in small amounts that make such transactions not cost-effective. Johnson et al.(2004) suggest the idea of a frontier of provision faced by centralised financial service providers beyond which they can not currently reach and formulate this hypothesis on the basis of poverty incidence and population density.

The potential is seen in decentralised models that involve greater user-ownership and management that reach further into rural areas (Johnson, Malkamäki et al. 2006). Some decentralised models have the added advantage of retaining financial resources within the villages and not causing drainage into the overhead costs of running distant head offices. One of such promising models is the Village Savings and Loan Associations (VSLA), modelled after CARE's project in Niger (commonly referred to as the Mata Masu Dubara or the MMD model). CARE has replicated this model in several other countries including Angola, Burundi, Côte d'Ivoire, Eritrea, Haiti, India, Kenya, Lesotho, Malawi, Mozambique, Rwanda, Tanzania-Zanzibar, Uganda, Zambia and Zimbabwe. Other international NGOs, including Save the Children, Plan International, World Vision, OXFAM, Freedom from Hunger and Catholic Relief Services (CRS), are also promoting VSLAs, particularly in Africa.

The VSLA model has evolved over time. VSLAs are time-bound accumulating savings and credit associations (ASCAs). ASCAs already exist in most African countries, although the time-bound ASCAs are much rarer. Members of a VSLA group of up to 30 persons save regularly and borrow from the group fund. The borrowers must repay the loan with interest, usually after between one and three months. The group is formed for a specific cycle (usually 12 months) and set with a specific objective, such as a religious holiday or the beginning of school. At the end of the cycle the total fund is divided among members based on their savings (shares) contributions. After the fund has been paid out, the groups normally immediately re-form with members having the right to leave and new members enrolled and inducted. The group then starts a new cycle of savings and lending.

The role of CARE and or/other support organisations is to train the groups on a curriculum based on modules delivered in a single, short phase and then supervised for the remainder of the year in three additional phases – intensive, development and maturity. During the initial phase (which lasts for three months) a trainer visits the groups every week, trains them on group dynamics, savings and credit management he/she also helps the management committee to handle meetings. During the second phase which also lasts for three-months) the groups become more independent: the trainer visits the groups every two weeks and plays more the part of observer, and after three months visits only once a month to monitor progress. In the third phase the trainer visits the group after two months from the end of the second phase to conduct an evaluation that can lead to graduation. After 12–18 months, if the trainer is satisfied with the performance of the group, he/she graduates the group and does not visit it again. If progress is not satisfactory, the trainer is expected to conduct further training in areas of weaknesses, drawing upon others in the pool of trainers as required.

1.2 Study Justification

Decentralized Financial Services (DFS) has recently started an initiative to take a systematic research approach to understanding the issues and dynamics of alternative models offering financial services to remote rural areas, with a view to strengthening future efforts through improved information and toolkits. As the VSLA approach has had much attention from international organisations and donors, there is a need to study its relevance and possible application to sustainable rural financial services outreach in a wider context.

In order for DFS to decide on whether it should work with the CARE VSLA model in Kenya where it is currently working with other models, it would like to understand better the prospects for its long-term sustainability.

The Department for International Development's (DFID) Financial Sector Deepening Project in Uganda (FSDU) has also made substantial investments in VSLA creation and support, and is participating in this study to add to the body of knowledge about VSLAs, to help assess their long-term prospects in Uganda and to feed information to CARE to help improve the assistance it is giving.

The VSLA methodology proposes that once mature, groups can function independently of external support. Its proponents suggest that, in the best programmes, 95% of the groups continue to function after two years and that the model can reach deeper into rural areas and serve poorer people than other microfinance models. In order to study the model's achievements in practice, the researchers sought to identify a situation where groups had been trained and then left on their own to continue to operate. This proved extremely difficult since in many areas where the VSLA model was operating, groups had been trained but continued to receive support or training of various kinds from CARE or another programme, even if this was not directly related to the VSLA component. The case closest to the ideal that could be identified and the research effectively organised was the Jozani Savings and Credit Associations (JOSACA) programme in Zanzibar, Tanzania where CARE trained groups between 2001 and 2002. After CARE left, the groups were under the supervision of an apex organisation run by themselves, the Jozani Credit Development Organisation (JOCDO). While the JOSACA programme presented the best option for this study, it does not reflect the situation where the groups were left entirely alone, but it does offer the possibility of examining how well an apex organisation run by the groups themselves was operating to support them.

The overall objective of the study was therefore to examine the performance of VSLA groups in Zanzibar after several years of operations independent of CARE or any other NGOs. More specifically, it sought to understand the outreach of the programme including reaching poorer members of the community, its ability to provide useful services and produce change in the lives of users.

1.3 Objectives of Study

The main objective of the research was to discover how sustainable and robust VSLA groups are after several years of operations, especially in cases where CARE does not provide back-up after the initial training.

This objective was formulated into five key research questions, as follows.

1. To investigate the performance of VSLAs in terms of both outreach and sustainability in the period since CARE stopped training the groups and turned that function over to the local organisation This will cover both numbers of clients and indicators of groups' financial performance, including loan and savings volumes, arrears and default.
    - How has membership changed, both overall and of particular groups?
    - How many have joined, exited, are continuing members?
    - What is the current financial performance of groups trained prior to July 2004?
    - What changes have occurred in the operation of the groups?

2. To investigate the role of village trainers as support service providers in ongoing support to groups and expansion of the VSLA model.
    - What ongoing services are provided by trainers to groups (including fees, etc)?

- How is the local organisation operating to support trainers and provide an ongoing service to groups?
- What is the financial sustainability of the local organisation?
- What are the main achievements of and challenges faced by the local organisation?
- What adaptations has the local organisation made to its operations to improve its ongoing service delivery and sustainability?

3. To investigate the poverty outreach of the VSLAs in terms of both client poverty levels and location in the context of the social and economic context of Zanzibar and availability of services from other microfinance providers.

- What is the poverty and socio-economic profile of VSLA users in relation to the overall population in both Zanzibar and Tanzania as a whole?
- What is the poverty profile of VSLA users compared with users of formal and semi-formal financial services in the area?
- What use do VSLA users make of other available financial services?
- What is the gender profile of VSLA users and how does use of the services differ by gender?

4. To investigate the usefulness of the financial services provided by the groups to the livelihoods of the members, and the role the savings and loans play in supporting the livelihoods of their users.

- What volumes of savings and loans have users been able to access through the groups?
- What have been the main uses of savings and loans accessed?
- What have been the experiences of users in saving and borrowing in the programme?
- What have been the main changes in the lives of users as a result of joining the programme?

5. To investigate through qualitative research the experience of the groups and their members in relation to internal group dynamics and how these have operated over time.

- What have been the main advantages and disadvantages of the VSLA methodology in supporting transparency and accountability in group financial operations?
- What have been the main changes in the operations of groups and why?
- What have been the main achievements and challenges in effective group operation, for example, equitable loan distribution, safekeeping of savings, effective use of repayment sanctions?
- What are the gender dynamics involved in their operation? (This could involve issues of gender related to mixed groups; issues of gender related to the different purposes to which

men and women put loans, different views of the usefulness of groups to men and women in the community, etc.)

1.4 Significance of the Study

This study set out to investigate the performance, sustainability and usefulness of the financial services offered by the VSLAs in the livelihoods of its users. Its scope did not cover impact assessment, which would have required a very different methodology, which was not feasible within the scope of the study.

1.5 Literature Review

The purpose of this literature review is to clarify the research questions and to focus the study in the areas that have not been covered or adequately addressed by previous studies or research. The study is being conducted on VSLAs that were initiated as part of the Jozani-Chwaka Bay Conservation Project in Zanzibar (JCBCP).

The original objective of the JCBCP was to conserve the unique biodiversity of the forest reserves and associated buffer zone known as the Jozani-Chwaka Bay Conservation Area (JCBCA), while enhancing the livelihoods of the surrounding communities. The savings and loans component was added as a separate activity to augment the livelihood component, but it was not tied to the conservation objectives. The savings and loans component that is the subject of this study was reviewed by Hartley and Rijali (2003) as part of the project final review.

In terms of impact their study found that the VSLA had significantly supported households' development of income-generating opportunities. The Income Generating Activities (IGA) promoted helped to improve livelihoods and, according to workshop participants, increased community awareness and understanding of how to work more effectively with financial capital. The study concluded that this was a significant step forward in a generally poor society unused to working with financial assets. "*The S&L scheme was one of the most talked about aspects of the project: where it had been tried the communities wanted to expand its scope and where it had not been tried the people were eager to be exposed to it..*" (Hartley and Rijali 2003)

The most important limitation of this study is that it mainly sought to measure impact from the perception of the community members without a baseline or control group. A credible impact assessment would have required a different methodology.

The key focus of Allen and Hobane (2004) and Anyango (2005) is that they also mainly sought to establish impact and a few like Doka and Mossige (2001) Allen (2002) as well as

Mutesasira and Mule (2003) had looked in depth at the ongoing performance and sustainability of the VSLA model after CARE left. However, none of the studies presents a strong case of impact assessment.

1.5.1 Summary of VSLA Impact Assessment Study Findings

Allen and Hobane (2004) concluded that the VSLA have contributed to increased household productive and non-productive asset levels among the great majority of Kupfuma Ishungu (KI) members in Zimbabwe and some improvement in the quality of housing. The study further noted that there has been a significant reduction in the use of formal-sector and traditional savings instruments, in favour of KI group membership. This is particularly marked by a steep reduction in post office savings schemes. The number of income-generating activities per household increased and IGA became more stable, while household labour allocated to IGAs increased. Eighty-one percent of respondents felt that their status in the community had improved as a result of their association with KI.

Anyango (2005) reached similar conclusions. The findings showed that the VSLA programme had helped to improve the livelihoods of its members and alleviate poverty, particularly for women who constitute the majority in the VSLA groups. The number of economic activities that members of VSLA were engaged in at the baseline had increased, as had the magnitude of other activities. However, members had divested away from certain economic activities that require greater capital. The VSLA had led to increased accumulation of assets for its members as compared with the baseline and the control groups. This study had a control group and a baseline, but the baseline was taken at community level and therefore there was a potential that the impact assessment did not cover the same households as the baseline.

Mutesasira and Mule (2003) in their study in Uganda concluded that most VSLAs were comprised of very low-income people. The average savings per member and the average loan size provided some evidence of the depth of outreach. The loans ranged from Ush.5,000–50,000 ($2.50–25.00) and savings per member ranged from Ush.200–1,000 ($0.10–0.50) weekly. The project reached very low-income households.

As noted above, these studies faced some methodological limitations. While these results are possible, it is difficult to attribute them to the interventions of VSLA alone. First, Allen and Hobane (2004) and Hartley and Rijali (2003) had no control or comparison groups; as a result there is no basis for attributing changes noted to the interventions of the programme. Second, Allen and Hobane (2004), using recall data for a period of four years, may not yield accurate information as people tend to forget what their status was four years ago. Third, none of the studies had any testing of the significance of the changes noted. Together with other environmental factors,, such as hyperinflation, it is difficult to use the results of these studies as conclusive evidence of impact.

1.5.2 Ongoing performance

Very few studies have been focused on the ongoing performance and sustainability of the VSLAs. Doka and Mossige (2001) posit that it seems the relevance of MMD groups resides in the following:

1. the autonomy of management and the strong feeling of appropriation of the action by the members;
2. the savings of the members directly managed by them;
3. the validity of the conflict resolution system that unites them;
4. the permanent mobilisation of the members and the solidarity which links them;
5. the easy and discreet access to credit;
6. the methodology mainly founded on increased prestige and the improvement of a traditional system known and accepted by all;
7. the simplicity of the system which permits an easy replication;
8. mutual aid and solidarity in emergency situations (marriage, baptism, death, disease, etc).

Allen (2002) in his study in Niger argues that at the present time there is hardly any group that is directly trained by CARE/MMD. This system arose when MMD programmers noticed that informal training was taking place between groups. Rather than suppress this activity, MMD decided to use it as the basis for auto-replication in the future. A similar copycat phenomenon has been noticed in other programmes, but MMD has taken it further in terms of incorporating informal training into its systems. Its basic attitude has been that if spontaneous and informal training is going to happen, it might as well be done right. The main activity of existing field staff at the present time is to maintain quality control.

The above seems to be a justification for Allen’s argument that the MMD has pioneered an approach that is based on village trainers and at the present time all its continuing training activity is done by non-professional staff selected from the communities themselves. The way this works is that MMD goes to a given area where there is expected to be significant demand and trains a limited number of groups to create awareness and to develop market demand. It then selects a number of women from the groups who have the capacity and interest to train other groups. These women’s services are then advertised by the programme and groups that want to be trained negotiate an agreement with them to be paid a fee (approximately $1 per meeting) for the entire training cycle. Therefore the fact that the training can be done locally by people who are not highly educated and that the cost is low make the prospects of beneficiaries continuing to pay for the service higher, hence its assumed sustainability.

While this argument is plausible, in reality CARE never left the groups on their own, as they started using them as an entry point for other services such as health education. In such a case it would be difficult to measure performance without taking into consideration input from other services offered.

1.6 Context of the Study

Zanzibar combines the twin islands of Pemba and Unguja and is a semi-autonomous part of the United Republic of Tanzania in East Africa. It is located on the Western Indian Ocean, covering a land area of 2,332 square kilometres. According to the 2002 census, Zanzibar had a population of 984,625 with an annual growth rate of 3% Demographic and Health Survey, Tanzania (DHS), 2005. The population is evenly distributed throughout the islands, but it is estimated that women constitute about 55% of the population.

The main economic activities are agriculture, fishing, trading and tourism. Cloves are the major export along with coconut products and spices, but seaweed is also becoming an important export commodity. Zanzibar's GNP per capita was $269 in 2003. (Nyanga 2004)

CHAPTER 2: STUDY DESIGN AND METHODOLOGY

2.1 The Study Area

This study covers Unguja Island only and, more specifically, southern and central Zanzibar, which are the main operational areas for the VSLAs. In all, the study covered a total of 14 villages. Our fieldwork revealed Zanzibar to be developed, with a diversified economy, higher standard of living, higher literacy level and better facilities and infrastructure (e.g. road network, hospitals and schools) than the mainland Tanzania.

2.2 Research Design

In order to reflect relevant issues of concern for all stakeholders, this study was designed under the auspices of DFS through a series of email discussions with various stakeholders including the Financial Sector Deepening Trust in Kenya and FSDU, and was guided by a comprehensive research design workshop held at the University of Bath, UK from 31 May to 1 June 2006. The workshop revised and outlined major research issues and defined the objectives of the study. It also indicated data collection techniques, sample design and the phases of the research.

Furthermore, the DFS project manager and the lead consultant made a reconnaissance visit to the study area on 21–24 June 2006 to ascertain a reliable inventory of the total number of groups trained and those existing now as well as to solicit support from local stakeholders. The lead consultant also conducted an initial pilot testing of the tools during the visit to understand the initial issues raised for the proposed methodology before the actual fieldwork began in July 2006.

2.3 Sampling Strategy

There were 158 VSLAs (61 trained by CARE and 97 since) at the start of the study. However, only groups that were at least two years in the programme, including groups trained after CARE[3] left, were included in the sample. The groups were partitioned into those formed before and after the reference date of mid-June 2004. The first group, comprising 73 groups, formed our sample frame.

2.4 Data Collection Technique and Tools:

The study involved quantitative and qualitative components and drew upon five main sources of data, which are briefly described below.

2.4.1 Survey of Group Financial Records

The financial records survey was based on an existing DFS list of financial indicators to capture three snapshots of the group financial performance during the last completed cycle. The sample was made up

[3] Since the methodology suggests that trainers should be able to carry on training new groups and to provide ongoing support on their own after CARE leaves.

of 25 groups[4] from 11 villages drawn randomly from the completed list of groups that had been at least two years in the programme. This tool was used to capture loan and savings volumes, share distribution, yield over the cycle, arrears and default outstanding, attrition rate, membership changes over time, training and support services received and any other issues affecting group performance for each of the selected groups.

2.4.2 Questionnaire Survey to Individuals (Including Exits)

The target sample for the sample survey was 100 current members and 30 past members. The individual questionnaire was therefore administered to four members (with two alternatives) randomly selected from each of the completed client lists of the 25 groups chosen for the financial record survey to give the required sample size of 100. An additional 36 randomly selected exit members were interviewed to understand the dynamics of exit from compiled exit lists of the 25 groups. However, it was realised during the interviews that nine of the 36 sampled exit members had rejoined new groups, thereby reducing the total number of exit members to 27.

The tool, which was translated into Kiswahili, covered the basic socio-economic characteristics of respondents, their households and participation in the VSLA programme. Respondents were also asked about the volume and utilisation of loans and savings received from the VSLA, likes and dislikes of the model, reasons for exit as well as the availability and uses of other financial services. To contextualise the socio-economic profile of VSLA users in relation to the wider population in both Zanzibar and Tanzania, the study compared findings from the sample survey of VSLA users (current and past users) with data from Demographic and Health Survey studies (DHS) of Tanzania. (National Bureau of Statistics and Macro 2005). Where possible, the questionnaire used for the individual survey matched questions used in the DHS.

2.4.3 The Market Research for Microfinance (MRFMF) /PRA tools

Three Participatory Rapid Appraisal (PRA) exercises were carried out in three villages randomly selected from the compiled lists of VSLA operating villages after excluding the 11 that were already included in the quantitative research. The key consideration for selection was that they should not have been sampled for the quantitative survey and should be from different districts/regions of the programme area. Through the dynamics of peer-group discussions, six participants (three VSLA members and three non-VSLA members) were selected for each of the PRA exercises in each village. In all, a total of 72 participants (36 women and 36 men) from the three villages participated in the three

[4] The 25 groups were randomly selected using the random number function in Microsoft Excel after numbering all the 73 qualified groups sequentially. In addition, 10 reserves were drawn from the list in order to ensure that at least 25 groups that were functioning were studied. Out of the original 25 sampled groups, only one was replaced because it was the only group in the other island, Uzi, which was not logistically feasible to include in our sample.

PRA exercises, using the following tools: simple wealth ranking, financial sector trend analysis and product attribute ranking.

2.4.4 In-depth Interviews and Observations

The purpose of this qualitative research tool was to explore the variations in performance found in the financial record survey. Using a purposive sampling technique, a total of 32 participants (eight leaders and 24 members) drawn from eight of the 25 groups chosen for the financial record survey were interviewed as part of the in-depth investigation. The process of selection involved grouping all the 25 groups into three broad groups (good, average and poorly performing), based on group performance data and the views of the research team. The criteria for grouping included the frequency and effectiveness of meeting and the repayment performance for the past three months. Two groups were then randomly chosen from each category for the in-depth interview. Additionally, two groups that had disbanded and re-formed were included in the overall sample. Three non-committee members and a leader were then randomly chosen from each group, after first excluding those who were to be interviewed by the other survey for the in-depth interview.

The semi-structured discussion guide covered issues such as formation, membership and other activities, group dynamics (e.g. leadership, organisation, management) and investigation of performance such as repayment, default and fraud. In addition, members were asked their reason for joining, loan and savings services received and their utilisation, repayment experiences, likes and dislikes about the programme, views of group dynamics (e.g. challenges, disagreements, leadership dynamics within the group) and use of other financial services, among others. Furthermore, each of the eight sampled groups was visited during their group meetings to observe the group dynamics and the adaptation of the model against its expected operations.

2.4.5 In-depth Interviews with Trainers and Service Providers

Key informant interviews were also arranged with trainers and executive committee members of JOCDO, the local apex that had taken over from CARE. The semi-structured interviewing guide covered, among other things, the nature of services supplied to ongoing groups, the number of new groups trained, fees charged, the nature of competition among trainers, how the model is spreading and its role in their overall livelihood (Table 2.1).

The total sampling for all the tools is shown in Table 2.1

Table 2.1 Summary of Tools and Sampling

Type of interview	Current members /Group	Past members	Non-VSLA members	Key informants	Total
Financial record survey	25	-	-	-	25
Individual/exit survey	109	27	-	-	136
In-depth interview	32				32
Financial-sector trend ana	12		12		24
Simple wealth ranking	12		12		24
Product attribute ranking	12		12		24
Total focus group discuss	36		36		72
Trainers				5	5
JOCDO officials				2	2

2.5 Data Collection

Data collection methods for the qualitative study involved semi-structured interviews and focus group discussions. The sample questionnaire was administered to individuals. A Swahili-speaking PRA expert assisted by the lead consultant facilitated the qualitative studies and staff recruited from the Office of the Chief Government Statistician and the VSLA village trainers administered the individual and the financial record surveys respectively. All interviews were conducted in Kiswahili.

To facilitate the data collection for the quantitative survey (financial record and sample individual survey), a two-day session was organised for interviewers. The lead consultant and the chief executive of JOCDO led the training for the village trainers and the team of experts and the supervisor from the Statistical Office led it for the Statistical Office staff. The training was mainly in Kiswahili and involved lectures, role-play and practising interviewing in small groups. Furthermore, all the tools were pre-tested to ensure that the questions and sentence structures were not too complex or technical for respondents and interviewers alike. This exercise familiarised interviewers with the questionnaire, gave the team an opportunity to refine the questionnaire, tested the statistical package and revised logistical plans before the actual fieldwork.

2.6 Data Processing and Analysis

Data quality control, processing and entry for the quantitative survey began immediately after each day's interview. Descriptive and statistical tests were then performed using the Statistical Package for Social Scientists (SPSS). Likewise, the qualitative data were transcribed and analysed each day for trends, consistency and areas for further probing. Daily meetings of the researchers allowed ongoing triangulation of the results from each of the four research components.

The study was conducted between 9 July 2006 and 30 September 2006.

CHAPTER 3: POVERTY OUTREACH AND SOCIO-ECONOMIC PROFILE OF VSLA USERS

Drawing on the main questionnaire survey and the qualitative enquiry, this chapter looks at the background characteristics of VSLA users, their main livelihood strategies and participation in the VSLA programme. In order to contextualise the socio-economic profile of the VSLA members, the study compared their profile with that of Zanzibar as a whole and the Tanzanian mainland. The final part discusses the availability and use of other financial services by VSLA users, with particular emphasis on how these differ by gender.

3.1 Basic Characteristics of VSLA Users

Since gender, age, marital status and education are important mediating variables that might affect livelihood strategies as well as determine the extent to which VSLA users and their households benefit from their participation in the programme, Table 3.1 shows the distribution of survey respondents by key background characteristics and gender.

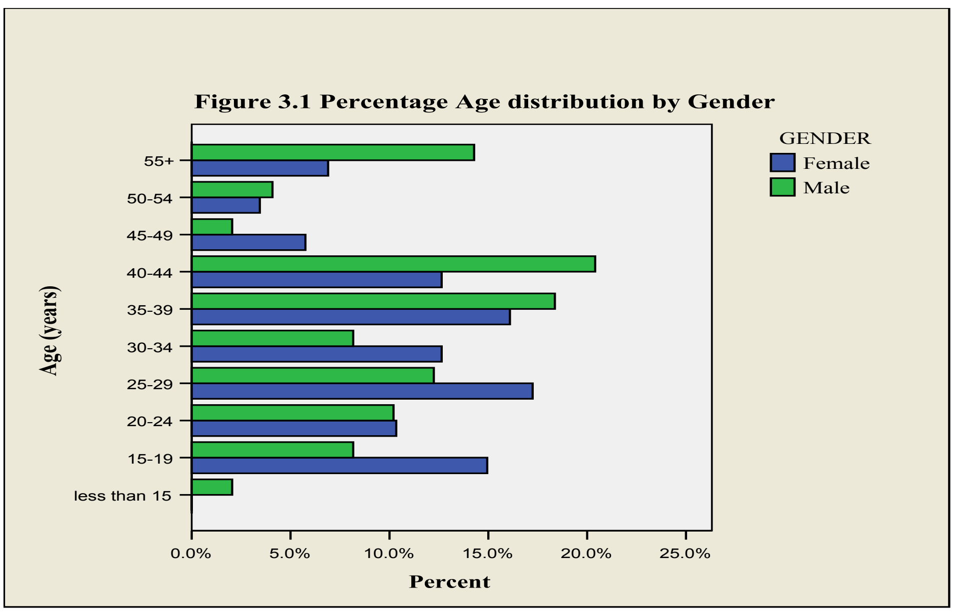
Table 3.1 Background Characteristics of Respondents (percentages by category)

Demographic information – individual	Women	Men	Total
Type of survey			
Current VSLA member (number)	74	35	109
Past VSLA member (number)	13	14	27
Total sample size (N)	87	49	136
Total sample (%)	64	36	100
Age	Women	Men	Average
<40	71	59	67
>40	29	41	33
Mean age	34	37	35
Marital status	Women	Men	Average
Married	70	71	70
Separated/Divorced	6	6	6
Widowed	5	2	4
Single/Never married	20	20	20
Mean age of single/Never married	19	19	19
Leadership position	Women	Men	Average
Leadership position	18	35	24
Type of position			
Chairperson	13	53**	
Secretary	50	35	
Treasurer	37	12	
Note: **The cross tabulation was statistically significant at 95%.			

As shown in Table 3.1, two-thirds of the respondents were women. As noted elsewhere, women prefer the programme's policies and men show a higher level of exit and a greater desire for larger loans. The qualitative studies also indicated that one of the factors accounting for the high proportion of women is the positive effect of other aspects of the programme, such as group support and the fostering of social cohesion. However, the programme appeals to some men who are attracted by the financial services, particularly access to loan and dividend payouts.

The survey indicated that different age groups participate in the VSLA programme, with ages ranging from 14 years to 74 years. However, the majority (67%) of respondents were under the age of 40. This suggests that it attracts people from the younger and economically productive age group. Although there was no significant difference between the mean age of women and men (34 and 37 years respectively), Figure 3.1 suggests that the model tends to be more attractive to younger women and older men.

Figure 3.1 Percentage Age Distribution by Gender

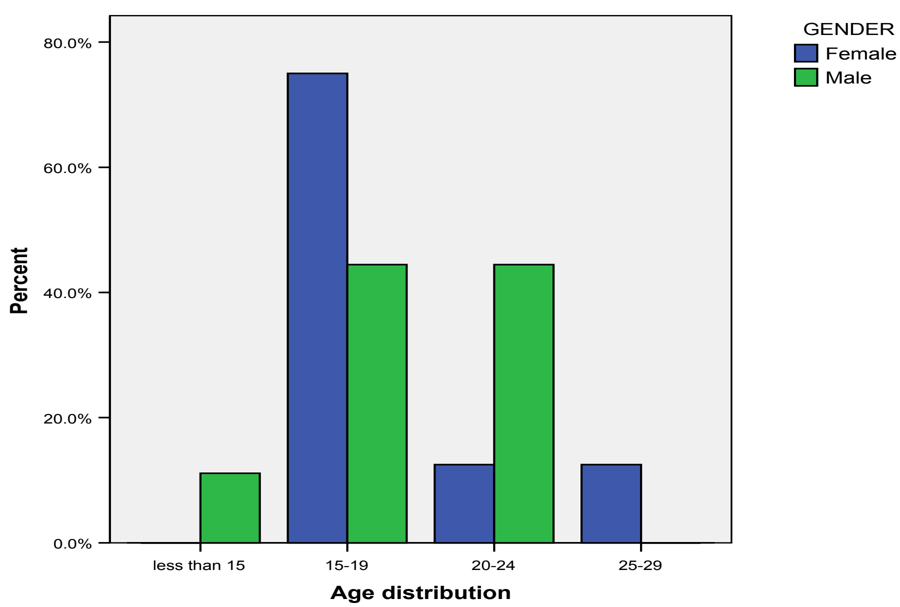


In terms of religion, 99% of all respondents were Moslem and only 1% were Christian (Roman Catholic), reflecting the predominant religion in Zanzibar.

There was no marked difference between the proportion of men and women married, with seven out of 10 respondents of both sexes married and only 11% of women and 8% of men were divorced, separated or widowed. The survey indicated, however, that while mainstream microfinance groups tend to exclude young and single women because they may marry out of the area and leave without repaying their loans, this model tends to attract a sizeable proportion of young unmarried women (17 out of 87). Similarly, although some studies have indicated that young men tend to be excluded from VSLA groups because they are seen as a liability, 10 out of 49 (20%) male respondents were young unmarried men. The average age of the single respondents was 19 years (see Figure 3.2).

Although there are obvious limitations in attributing young people's participation in the programme to one reason only, the qualitative studies showed that most young participants were proxy members, either for their relatives or for other adult members, such as teachers. For example, only two of the five young people randomly selected for the in-depth survey owned shares in the group. The others were representing a parent, a sibling and a teacher respectively. This has implications for the successful running of the groups, particularly as the real member is hidden. Evidence from the qualitative study, for example, suggested that such proxies tend not to perform well, either because there is nothing at stake for them or because of a shift in priority by those being represented after every action audit or termination. In one of the poorly performing groups 83% (25 out of 30) of its members were pupils representing either their teachers or relatives. This suggests that although young people attend the groups, they are not directly benefiting from participation.

Figure 3.2 Age Range of Unmarried Respondents



A total of 24% of the sampled respondents had held formal leadership positions in their groups. Table 3.1 indicates that men were significantly more likely to hold leadership positions than women, even though the men were less well educated. There was a large disparity between the types of position held. Women were less likely to be a chairperson (13%) than men (53%), even though they formed the majority of the groups. In contrast, a higher proportion of women (37%) than men (12%) were treasurers. Similar patterns of leadership composition were observed by the qualitative studies. The gendered cultural roles and power relationships existing in the study areas may figure strongly here. In general, men are perceived to have the authority to be leaders while women are seen as good stewards, as they are more embarrassed by the repercussions of financial misappropriation than men.

When asked to name the type of training received since joining the VSLA, only 7% of the 136 respondents indicated that they had received no training. Of those who had received training, 62% had had training on group formation and orientation, 63% on financial management, 20% on business management, 28% on personal relationships and conflict management, 17% on health education and 3% on agriculture and environmental conservation. A relatively high rating was given to the quality of training (Figure 3.3, with 79% of the respondents rating it as “good to very good”, while 21% rated it as “poor to fair”.

Figure 3.3 Quality of Training Received

3.1.1 Individual Income Sources

The main economic activities of respondents were agriculture, fishing and business (sales and services). However, a significant proportion (26%) were also paid employees in the teaching, tourist and transport industries, while some were engaged in small-scale industries such as carpentry, masonry and dressmaking. Only 1% of respondents were not involved in any income-generating activities, with 12% being students.

An analysis of individual income sources by gender (Table 3.2) indicated that agriculture (41%), fishing (29%) and business (25%) were the main sources of income for men. The qualitative studies indicated that men involved in agriculture mainly farmed *mivinje*[5] and other food crops and fruits such as bananas, oranges, mangoes and lemons. A few also indicated livestock-keeping, poultry-farming and illegal hunting of animals from the national park. While agriculture was the main income source for women (50%) they also engaged in marine activities. Although not directly involved in offshore fishing, they are engaged in the farming of a seaweed known as *mwani*, which is primarily exported to East Asia and Europe as an additive to products such as processed meat, toothpaste and mascara. It is often depicted as a sustainable form of aquaculture since it requires little initial investment or land and no fertiliser or irrigation. It is therefore not surprising that most of the women whose main occupation was farming were involved in seaweed farming, because of the low capital requirement and entry barriers. The PRA exercises with the VSLA members also indicated that the few women involved in fishing mostly collect oysters, a popular local delicacy which is culturally restricted to women for sale. The 37% involved in the informal business sector were mainly into the sale of *khangas*,[6] fruit juice, *vitafuno*,[7] fuel wood and charcoal.

Table 3.2 Percentage Individual Income Sources by Gender

Individual income sources	**Female**			**Male**			
	Primary income	**Secondary income**	**Tertiary income**	**Primary income**	**Secondary income**	**Tertiary income**	**Consolidated**
	N=87	N=60	N=14	N=49	N=35	N=11	**percentage**
Agriculture	50	35	0	41	43	27	75
Business	37	45	6%	25	34	36	71
Fishing	7	13	29	29	17	9	29
Employment	6	7	7	6	3	18	12
Other	1%				3	9	2

[5] A fast growing and high-income species of the pine tree that was reported to be in great demand for the construction of coastal resorts.
[6] A popular piece of cloth that women traditionally tie around their bodies and heads

[7] Refers to fried wheat products (not bread) that are sold all over the island.

3.1.2 Household Income Sources

In order to make a comparison between individual and household income, respondents were asked to name and rank their three main household income sources. Most (46%) indicated that their households primarily depended on income from agricultural production, which is consistent with individual income sources. A further 28% and 30% gave it as a secondary and tertiary source (Table 3.3). However, while agriculture is the mainstay of majority of the households, followed by business (sales and services), a greater proportion (63%) derived supplementary income from fishing activities.

Table 3.3 Household Income Sources of Sampled Respondents

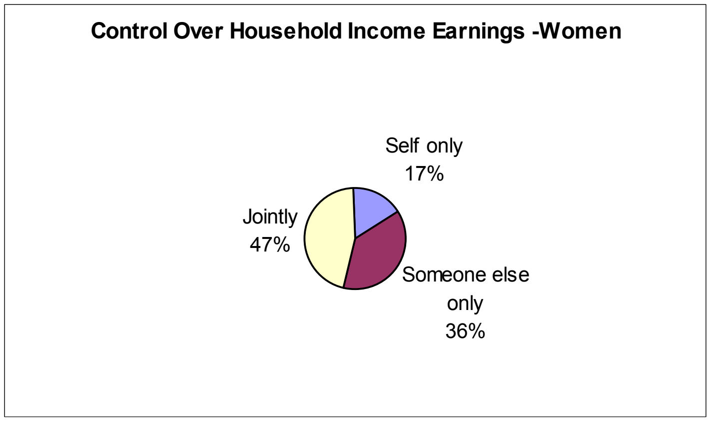
Income source	Primary income		Secondary income		Tertiary income	
	Count	%	Count	%	Count	%
Agriculture	62	45.6	35	28.2	17	29.8
Business (Sales& service)	30	22.1				
Fishing	22	16.2	78	62.9	30	52.6
Employment	22	16.2	9	7.3	9	15.8
Other			2	1.6%	1	1.8%
Total	136	100.0	124	100.0	57	100.0

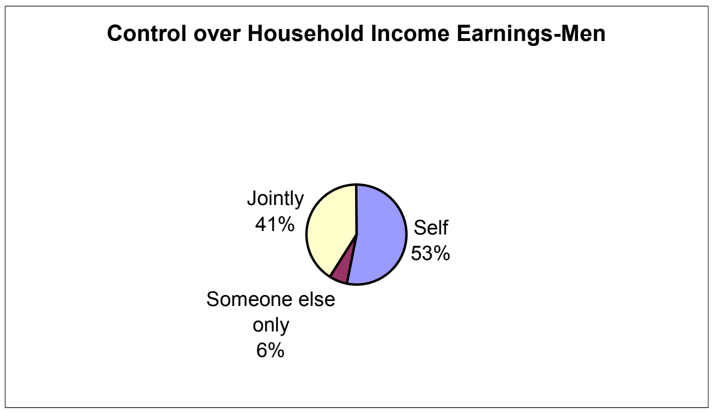
An analysis of household income sources by village indicated that the area of residence has a great effect on the type of occupation and income. As expected, the primary income of households in the coastal areas tended to come from fishing, business and paid employment, while in the forest areas it came mainly from agriculture and employment.

3.1.3 Control over Household Income earnings

Important attributes of poverty are exclusion, powerlessness and a lack of voice in decision-making processes, particularly for women. Respondents were therefore asked about who makes the decisions about how household income is used (Figure 3.4).

Figure 3.4 Person Who Decides How Household Income Is Used





Seventeen percent of women and 53% of men reported that they decided on how household income is used. Almost all divorced/separated (80%) and widowed women (75%) indicated that they decided, compared with only 11% of married women and 6% of single women. Unsurprisingly, a sizeable proportion (36%) of women but only 6% of men indicated that someone else makes the decision. Of these, 33% of married women stated that it was their spouses, and 25% of widows and 59% of single women indicated that it was another family member. Although a similar proportion of men and women reported joint decision-making, only 76% actually meant that they discussed and agreed it. Of the remaining 24%, 10% discussed and took the final decision, another 10% discussed but the other person took the final decision, and the remaining 4% indicated that they were only informed.

3.2 Socio-economic Status in Relation to the Wider Population

To understand the poverty profile of VSLA users, in the absence of an official poverty line, the survey adapted the DHS poverty proxies, which included indicators expressing the means to achieve welfare and a reflection of the earning potential of households. It comprises indicators such as household size, dependency, education, occupation and gender of the head of household, which relates to human capital, the fulfilment of basic needs such as access to food and shelter, as well as asset ownership. Other indicators such as the availability of safe drinking water, electricity and sanitation services were also included as indicators of human development.

Although the DHS classified households into five wealth quintiles, this study made no attempt similarly to classify VSLA users, as the weights given to these poverty proxy indicators were not known.

Nonetheless, a number of key indicators pointed to the fact that in general Zanzibar[8] is better off than Tanzania and the incidence of poverty in Zanzibar might therefore be lower. In terms of how VSLA members compare with the wider Zanzibar population, the profile of the members is fairly representative, although there were some noteworthy differences. The key findings are as follows.

3.2.1 Household Composition

DHS data indicate that some 23% of households in Zanzibar are headed by women. By contrast our sample had only 11%, which is a striking difference. It is not entirely clear why this was so, but it may be because VSLA attracts more middle-income households, whereas female-headed households are possibly poorer. The mean size of household for Zanzibar households is slightly higher at six persons than the Tanzanian average, and our sample was in line with this figure.

[8] Notwithstanding this, there were some regional variations within Zanzibar, in which the island of Pemba appears poorer than Unguja (Zanzibar), where the study was conducted.

Table 3.4 Tabular Comparison of Household Composition and Educational Attainment of VSLA Sample with 2004/5 DHS Data

Indicator	VSLA sample	Zanzibar	Tanzania Mainland
A. Household composition			
Percentage distribution of households by gender and household size			
Sex of head of household (%)			
Male	89	77	76
Female	11	23	25
Total	100	100	
Average household size	6	6	5
Average number of dependents	4	-	-
B. Literacy and education			
Ability to read and write Swahili			
Female	90	-	-
Men	92	-	-
Formal education +			
Females (%)			
No education/pre-primary	12	24*	37
Some primary	13	13*	18
Completed primary	18	15*	40
Secondary	58	48*	5
Male (%)			
No education/pre-primary	12	8*	21
Some primary	20	21*	23
Completed primary	12	18*	47
Secondary	55	53*	9
* Unguja Zanzibar figures +DHS figures have been adjusted to estimate proportions for adults over 20 years.			

3.2.2 Literacy and Educational Attainment

Table 3.4 indicates that the VSLA sample is well educated. Women VSLA members are better educated than the Zanzibar female population as a whole, with 58% having some secondary education compared with 48% for Zanzibar and only 5% of the Tanzanian female population . 55% of male VSLA members had secondary education compared to 53% in Zanzibar as a whole but only 9% of the Tanzanian male population. respectively.

The higher proportion of secondary education might reflect in part the higher proportion of users in the younger age bracket. Increasing age is generally associated with lower levels of education, particularly among women. Similarly, many studies in Zanzibar (and elsewhere) have indicated that women are more disadvantaged compared with men in terms of higher education. However, there was no significant difference between the educational levels of men and women in the sample, with slightly more women than men having had some secondary education. Similarly, 90% of respondents considered themselves to be functionally literate, able to read and write in Swahili.

3.2.3 Housing Characteristics

In the DHS study, physical housing characteristics were used as indicators of the socio-economic status of households. Our sample shows housing characteristics similar to the Zanzibar population as a whole (Table 3.5). Comparison with Tanzania shows that VSLA users in general are more likely to own and live in better-constructed houses, and have access to electricity (24% compared with 11%) and clean water (80% use piped water, compared with 34%).

Nonetheless, analysis by the type of material used for housing construction by our sample compared with the wider Zanzibar population showed some marked differences. For example, the most commonly used flooring material is cement, which 74% of the VSLA sample had, compared with 56% in Zanzibar as a whole. Similarly 74% of the VSLA sample is more likely to use iron sheet as roofing material compared with 66% in Zanzibar. The main materials for constructing walls in Zanzibar and Tanzania as a whole are poles and mud (39% and 33% respectively), and 82% of our sample used stones.

Table 3.5 Comparison of Housing Characteristics of VSLA Sample with 2004/5 DHS Data

Indicator	VSLA sample	Zanzibar	Tanzania Mainland
C. Household characteristics			
Tenure			
Owned by household	72	84	-
Shared family house	23	10	-
Rented	4	6	-
Other	2	0	-
i) Electricity (%)			
Yes	20	24	11
ii) Source of drinking water (%)			
Piped water	71	80	34
Borehole/covered well	12	2	3
Well (open)	17	17	24
Spring, river/stream, pond/lake/dam	0	0	25
Other (e.g. tanker trucks, water vendor)	0	1	3
iii) Sanitation facility			
Flush toilet	2	3	3
Traditional pit toilet	79	80	81
Ventilated improved pit latrine	2	4	4

No facility, bush, field	18	13	13
Shared toilet			
Yes	21	-	-
iv) Source of cooking fuel			
Fuel wood	97	93	
Charcoal	3	5	
Paraffin	0	2	
Electricity	0	0	
Bottled gas	0	0	
Other	0	0	
iv) Flooring material			
Earth, sand	24	43	73
Dung	0	0	1
Cement	74	56	26
Others	1	1	1
Total	100	100	100
Wall material			
Grass	1	1	1
Poles/mud	7	39	33
Sun-dried bricks	0	2	32
Baked bricks	0	1	17
Cement bricks	10	37	16
Stones	82	-	-
Other	1	20	1
Total	100	100	100
Roof material			
Grass/leaves/mud	23	31	49
Iron sheets	74	66	50
Tiles/concrete/asbestos	2	3	1
Other	2	-	-
Total	100	100	100
Rooms for sleeping			
1 room	9	19	31
2 rooms	39	36	37
3 rooms	37	32	20
4 rooms	11	8	8
5+ rooms	4	4	5
Total	100	100	100
Number of households	136	252	9,483

Note: Percentages for electricity, source of drinking water, sanitation facility, roof material and rooms for sleeping may not add to 100 because of missing cases (no more than 0.2% of cases in any category).

+ Zanzibar data: Draft table supplied by UNDP 2006.

3.2.4 Household Possessions

VSLA members are more likely to have a telephone (44%) compared with only 9% and 23% in Tanzania and Zanzibar households respectively (Table 3.6). More VSLA and Zanzibar households owned a radio (85% and 80% respectively), bicycle (63% and 53%) and motorcycle than households in Tanzania. However, households in Tanzania (80%) and VSLA users (60%) are more likely to own agricultural land than those in Zanzibar (48%). Additionally, 16% of VSLA users indicated that their household uses land that they do not own for agriculture.

Table 3.6 Comparison of VSLA Sample Household Possessions with 2004/5 DHS Data

Indicator	VSLA sample	Zanzibar	Tanzania Mainland
D. Household possessions			
Household effects			
Radio	85	80	58
Television	14	20	6
Telephone/mobile phone	44	23	9
Refrigerator	13	15	4
Paraffin lamp	93	45	39
Iron	21	26	23
Percentage of households with member with bank account			
Bank account	10	6	6*
Means of transport			
Bicycle	63	53	40
Motorcycle	12	9	1
Car/truck	2	2	2
Ownership of agricultural land	60	48	80
No. of households	136	252	9,735
NB: * *Tanzania Mainland Household Budget Survey, 2000. Zanzibar data: draft table supplied by UNDP 2006*			

3.2.5 Household Food Security

Two-thirds of our sample had at least three meals a day and one-third had two, which was similar to the overall position in both Zanzibar and Tanzania. They also ate meat with a similar frequency to other Zanzibar households. Although 49% reported ‘never’ having problems satisfying their food needs compared with 63% for Zanzibar as a whole, a much higher proportion (40%) reported that they ‘seldom’ had difficulty, while much lower proportions reported they sometimes, often or always had such problems. This is surprising and may indicate a degree of response bias in comparison with the other, more objective indicators being collected.

Table 3.7 Comparison of VSLA Household Food Security with 2004/5 DHS Data

Indicator	VSLA sample	Zanzibar	Tanzania Mainland
E. Food security characteristics			
i) Usual number of meals per day			
1 meal	0	1	2
2 meals	33	33	34
3+ meals	67	67	64
Total	100	100	100
ii) Number of days consumed meat in past week			
0	62	65	50
1	16	18	20
2	13	10	16
3	4	3	8
4	1	2	3
5	0	0	1
6	0	0	1
7	3	1	2
Total	100	100	100
Number of days consumed fish in past week			
0	4	-	-
1	4	-	-
2	7	-	-
3	4	-	-
4	11	-	-
5	9	-	-
6	7	-	-
7	54	-	-
Total	100	-	-
Frequency of problems satisfying food needs in past year			
Never	49	63	42
Seldom	40	13	17
Sometimes	10	14	19
Often	1	10	18
Always	0	1	4
Total	100	100	100
Number of households	136	252	9,483

3. 3 Poverty Status

The findings of the individual survey based on self-reported wealth categories showed that the majority (80%) reported themselves as poorer than most and among the poorest in the community (Table 3.8).

Table 3.8 Self-Reported Wealth Category

	Wealth category	Frequency	%
1	The richest in the community	2	1
2	Among the richest in the community	17	13
3	Richer than most households in the community	4	3
4	A little poorer than most households in the community	70	51
5	Among the poorest in the community	39	29
6	The poorest in the community	4	3
	Total	136	100

Overall, these findings are consistent with those from the wealth ranking exercises. Participants[9] of focus group discussions in the wealth ranking exercise classified households in three VSLA operating communities into three distinct wealth categories – rich, middle and poor.[10] This classification was based on the type of diet, housing, asset ownership and economic activities. When asked to place VSLA members in their respective communities into these three categories, the groups placed most in the middle (53%) and poor (45%) categories (Table 3.9).

[9] These community members include both VSLA and non-VSLA members.
[10] The descriptors for these categories can be found at Annex 3.

Table 3.9 Poverty Ranking of Households

	Wealth category		%	HH headed by VSLA members	Spouses of VSLA members	Spouses of non-VSLA members	Total individual coverage	Total VSLA HH coverage	HH coverage by wealth category, %
Muyuni	Rich	2	2	0	0	0			0
	Middle	48	54	10	1	3	13	13	27
	Poor	40	44	7	3	4	14	11	28
	Total	90	100	17*	4	7	27	24	27
Jendele	Rich	2	4	2		1	3	3	100
	Middle	38	76	3	1	1	5	4	11
	Poor	10	20	2			2	2	20
	Total	50	100	7	1	2	10	9	18
Binguni	Rich	1	2	0	0	0	0	0	0
	Middle	15	30	4	1	1	6	5	33
	Poor	34	68	6	5	3	14	9	26
	Total	50	100	10	6	4	20	14	28
Overall	Rich	5	2	2	0	1	3	3	60
	Middle	101	53	17	3	5	24	22	22
	Poor	84	45	15	8	7	30	22	26
	Total	190	100	34	11	13	57	47	25

Table 3.9 presents results from a simple wealth ranking exercise that was carried out in three villages. In the first village, Muyuni, the sample took the total population of the village households. The second and third villages were large and were divided into three sections. In each case the sample took all the population of households in one section of the village. It is worth noting that the sections of the villages were divided by geographical spread rather than by other indicators such as wealth. It was therefore expected that each cluster of the village would provide varied characteristics of households. The households listed included both VSLA and non-VSLA members. However, a more detailed table resulting from the wealth ranking exercise is in Annex 3.

* - 2 household heads were women: one the wife of a polygamist who ran her own household and the other a widow

Table 3.9 shows that 57 individuals in the 190 households were members of the VSLA, 34 were the head of the household, 11 were the spouse of a household head who was a VSLA member and 13 were the spouses of household heads who were not VSLA members. This gives a total VSLA coverage of 47 or 25% across these households, which suggests that approximately one out of every four households in these villages was a VSLA member, quite a high coverage rate.

The table further shows that although those reported as rich in the community were a relatively small proportion, three out of five of these households were VSLA members, suggesting that they nevertheless found the services useful. The proportion of households in the middle and poor categories was similar at 22% and 26% respectively. However, there were some differences across villages. In Jendele a lower overall participation rate (18%) also comprised a much lower proportion of the middle wealth category. The rich and middle groups in this village were relatively better off compared with the other two (as can be seen from some of the characteristics they reported for each of the categories[11]) and hence some of those classified as the middle category in other villages could have been reported in the poorer category in Jendele.

These data are based on community members' subjective rating of relative poverty. The rather high proportion of people reported in the middle and lower wealth categories by both methods may have been in part a result of reporting bias concerning expectations that the research team's findings would influence the potential for future support. However, the classification of a small number of people as rich may also reflect a new tendency for some people to do very well, and others aspire to these standards. These subjective assessments do not undermine the fact that the objective indicators of socio-economic status suggest that the members of the VSLA are in general at least as well off as the population of Zanzibar as a whole. The evidence also suggests that despite some being relatively well off, VSLA membership occurs across wealth categories.

3.4 Use of Other Financial Services

The sample survey and the PRA exercises provided information about other financial services available. Some of the institutions that have operated there for the past 10 years include Commercial Bank, MFIs such as PRIDE, Rotating Savings and Credit Associations (ROSCA or "Upatu"), the Saving and Credit Cooperation Organisation (SACCO) ("Waridi") (cooperatives, referring to the old marketing cooperative societies), government schemes, men's support groups (Ndime), Bisira,[12] Zanzibar Youth Forum, women's self-help groups and other informal insurance for personal use.

However, the survey suggests that, as in most rural communities in Africa, these villages are not attractive to MFIs and commercial financial institutions. Traditional user-owned and -managed models like ROSCAs (29%) remained the main sources of savings and loans. Others included SACCO (6%) and ASCA (1%), with only 1% saving with the bank (see Annex 2). There was no significant difference in the utilisation of these services between men and women.

Again, there were some indications that the credit market in these villages is not very well developed, as the majority of respondents (both men and women) still borrowed from the informal sector. The most frequent source of credit was mainly the interest-free ROSCA, followed by friends and relatives (18%) with a few borrowing from SACCO (2%), employers

[11] See Annex 7 for description of the poverty profile characteristics of each village.
[12] Savings service for group business promoted by a woman called Bisira, hence the name.

(2%) and the bank (1%). The average loan size from these sources (Tsh.56,725 (US $ 45.38)from friends and relatives and Tsh.51,250 (US $ 41) from SACCO) was similar to those from VSLA. Loans from the bank, SACCO and employers were used for long-term investments like housing and business projects, while those from friends and relatives were used for short-term needs such as school fees, celebrations, debt payments (including VSLA loans) and emergencies like sickness and funerals.

Past VSLA members are more likely to borrow from relatives and friends than current VSLA members. This indicates that, although access to loans is one of the push and pull factors in joining the VSLA programme, there are limited financial services available and past members were not leaving in order to join other credit scheme.

Moreover, the financial-sector trend analysis indicated that there were numerous difficulties in accessing services from formal and non-banking financial institutions, although generally they were felt to be comparatively more reliable and secure than the informal sources. Lack of mobilisation centres, proximity (more than 10 km) and unfavourable financial service policies were cited as some of the constraints. For instance, participants said that although the commercial bank was popular and liked by community members because of its accessibility (operating mobile banking) and the security of their savings, it has relocated to a town that is out of reach and has stopped the mobile unit. A similar explanation was given for other Microfinance Institutions (MFIs) such as PRIDE. Another constraining factor is a lack of adequate information about services, products and procedures from these institutions.

However, although informal sources of financial services are usually available, respondents expressed misgivings about using them. Misappropriation, insecurity of money, unreliability and lack of confidence were cited. For example, it was clear during the focus group discussions that some participants had lost their money through informal financial institutions like ROSCAs (they referred to some of them as *wanyang'anyaji*, literally meaning robbers) and were not willing to take risks with them.

It might be expected that this relatively well-off and well-educated population had other, preferable financial service options than the relatively small loans of the VSLAs. However, it was clear from the study that this is not the case. The VSLA therefore remains the most visible and key provider of financial services in these villages, playing an important role in the rural financial market. However, it is important to point out that participants are still thirsty for any approach that will provide them with a mixture of savings and loans services. It is therefore not surprising that other emerging institutions, like SACCO and the Zanzibar Youth Forum, seem to be creating some excitement.

CHAPTER 4: VSLA PERFORMANCE

4.1 Outreach and Sustainability of VSLAs

This chapter presents the findings on VSLAs' performance in terms of outreach and sustainability since CARE turned over the support function to the local organisation, JOCDO. It addresses the following questions.

- How has membership changed, both overall and of particular groups?
- What changes have occurred in the operation of the groups?
- What is the current financial performance of groups trained prior to July 2004?

4.1.1 Changes in Membership of the VSLAs

At the close of the CARE programme in 2002 there were 47 functioning VSLA groups with 1,272 members. The mean average membership per group was 27, with actual membership ranging from 18 to 35. The desired maximum membership per group was established during CARE's training as 30. The groups were operational in 15 villages within the Jozani-Chwaka Bay area of Zanzibar. The data could not be segregated by gender as the information was not available.

Table 4.1 Group and Membership Changes in CARE and JOCDO Groups

Year	2002	2002	2002	2006	2006	2006	Change
	Groups	Members	Average/G	Groups	Members	Average/G	%
CARE	47	1,272	27	47[13]	1,333	29	5
JOCDO	0	0	0	111	3,219[14]	29[15]	
Total	47	1,272	27	158	4,552	29	258

Membership Changes within the Trained Groups

During the survey there were 158 groups operating in 26 villages. This included 47 original and 111 additional groups trained by JOCDO after CARE's exit. Of the original 47, only one group had been reconstituted and its name changed due to initial poor leadership. By 2006 membership within the original 47 groups had increased by 5% from 1,272 to 1,333 members. JOCDO did not have up-to-date records of membership[16] as it had no proper system of monitoring and some groups not registered with it did not submit reports.

[13] The reconstituted group was considered as a CARE-trained group for the purpose of the study.
[14] This number is estimated from the average members per group from the sample of 25 groups.
[15] This figure is derived from the average number per group from the sample of 25 groups including CARE and JOCDO trained groups of more than two years old.
[16] It was only when the research team was there that JOCDO bought a computer and started updating some of the information based on the actual data collected by the research team from the groups and others that were kept in files.

In the absence of global data, the research team collected data from the 25 sample groups to shed more light on the dynamics of change during the four-year period after CARE left. There was a total membership of 735, of which 70% (514) were female and 30% (221) male. The mean average membership per group was 29,[17] with the actual ranging from 19 to 35. Of these members, 99% were considered to be active (attending regular meetings and contributing). Based on the average membership of 29 per group, it is estimated that the total membership of the 111 groups trained by JOCDO was 3,219, which together with the CARE-trained groups gives a total of 4,552 current users of the VSLA services in Zanzibar, an increase of 258% since CARE left.

The trainers also reported that when they initiated new groups, they expected a minimum membership of 20 and in most cases 30 members was a recommended maximum.

Exits and New Members

Analysis of changes in membership prior to the study (from October 2005 to June 2006) was carried out. Within the 25 sample groups there were 735 members, with 74 members leaving while 69 new members joined, resulting in a net loss of five. The same sample groups also reported that since inception they have lost a cumulative total of 123 members,[18] 22 of whom left to form other groups. The net exit from the programme is therefore 12% in the last five years[19] This is relatively low compared with MFIs, which can lose 10–20% per year.

One of the main reasons why people left was lack of time to attend weekly meetings or conflict with other schedules in business, at work or school. This accounted for 39% of the responses or 5% of total membership. Moving from the area because of getting married (for women), going to school or family obligations and expenditure on healthcare accounted for 14%, although 8% of respondents indicated that they moved to other VSLA groups.

[17] See footnote 3.
[18] Excluding members from the reconstituted group.
[19] Calculated as net exit/ current membership + total net exit x (100) = (123 – 22)/(735 + (123 – 22) x (100).

Table 4.2 Main Reason for Leaving

Main reason for leaving groups	Frequency	Percent
• High interest rate and/or against religious belief	3	8.3
• Found a programme with better terms and conditions –- joined another VSLA	3	8.3
• Problems related with economic activity/business, not able to save and repay because of weak business	3	8.3
• External factors; unrelated to programme or business – relocation (2); sickness (1); illness/family crisis (2)	5	13.9
• Problems with the VSLA group – defaulted, conflict with leaders, gossip, jealousy	3	8.3
• Lack of time to attend meetings/schedule conflicts	14	38.9
• Limited shares/low return on savings	3	8.3
• Improper record keeping, mismanagement/lack of accountability	2	5.6
Total	36	100.0

When asked to rank the main reasons for their exit, 83% of men gave problems with the programme's policies and requirements as the primary reason compared with 56% of women, suggesting that women found it easier to cope with than men (Table 4.3). However, 17% of women also ranked problems related to economic activities as a primary reason, while men did not rank this. This finding raises concerns about the extent to which economic opportunities are open to women in the area.

Both females and males (17% and 11% respectively) gave factors such as relocating as a primary reason for exit. For women group conflicts and gossip also contributed to a significant percentage of exits (11%).

Table 4.3 Two Major reasons for Exit Ranked, %

Two major reasons for	**Females**		**Males**	
exit from group	**Why left, 1**	**Why left, 2**	**Why left, 1**	**Why left, 2**
Policies/requirement of programme - -Interest, limited share, obligatory meeting and savings, changed VSLA	55.6	61.1	83.3	83.3
-Problems related with economic activity/business, weak business	16.7	16.7	0	0
-External factors, e.g. move from the place	16.7	16.7	11.1	11
-VSLA group conflicts, gossip, jealousy	11.1	5.6	5.6	5

4.1.2 Changes in the Operation of the Groups

Table 4.4 presents two sets of data. One was collected from the sample 25 groups using the financial information tool and the other from eight groups further selected for in-depth studies using focus group discussions. The data show some of the fundamental changes that the groups have made since they were initiated and trained by CARE and/or JOCDO.

Table 4.4 Key Parameters that have Changed since Inception of Programme

Key Parameter	Original policy	No. of groups	Changed to:	No. of groups	Total groups	% groups changed
Share value	Tsh.500	13	Tsh.1,000	12	25	48
Termination period	12 months	18	18–24	7	25	28
Interest on loans	5%	14	1–3%	10	24[20]	42
Loan amount	3 times	21	open	4	25	16
Repayment schedule	Interest paid monthly	0	3 months balloon	25	25	100
Loan term	3 months	4	4 months/reschedule	1 + 3	8	50

1 Share Value

The share value in some groups has risen due to a desire to save more as well as the demand for a higher payout and access to larger loans. Of the sample 25 groups, 12 (48%) increased their share value from Tsh.500 to Tsh.1,000. This seems mainly to have been done by groups that are performing well and located in high economic potential areas like Chwaka, Unguja Ukuu and Michamvi. The study noted that groups from lower economic potential areas with poor road networks such as Charawe maintained their share value at Tsh.500. Three of the eight groups sampled for in-depth interviews and categorised as performing poorly also maintained the original share value.

2 Termination Period

In the majority of the groups, the action audit and payout takes place every year as per the initial model guidelines. Data from Table 4.4 shows that 18 out of 25 groups (72%) still conduct their action audit every year, and only seven (28%) have changed to more than one year. Further in-depth analysis of the smaller sample of eight groups revealed that only two have changed their action audit duration, to 18 and 24 months respectively. This was also explained by the need to have a higher payout at the termination. Members felt that the amount they got after one year was insufficient to complete their proposed projects. In other cases, like Rizki popote in Bweju, delays in termination were caused by loan repayment problems and the period had to be adjusted to allow for the recovery of delinquent loans before payout, as per the group's policies.

Table 4.5 Distribution of Groups by Last Date of Termination

[20] One group from Charawe was not charging any interest on loans due to Islamic laws.

July–Dec. 04	Jan.–June 05	July–Dec. 05	Jan–June 06	Total
4	3	12	6	25

Table 4.5 shows that most (72%) of the groups from the sample of 25 conducted an action audit within the year between July 2005 and June 2006. Seven other groups conducted their last action audit between July 2004 and June 2005 (within the last two years). This shows that the groups are serious about termination and payout. It was also noted that most of the groups peg their date of termination around Muslim festivities such as Ramadhan (between September and November) or Idd (between March and June).

3 Interest on Loans

Interest rates are a contentious issue in some groups. There seems to be a perceived conflict between the programme policy guidelines and the Islamic religious teaching that considers interest as sinful. In one area (Charawe) 7 out of nine (4%) of the total 158 VSLA groups have stopped charging interest and two are charging between 1-3%. According to the programme policy the charge is defined as *Ziada*, which is a charge that comes back to benefit its members and is not paid out to a third party as interest. The groups in Charawe have resisted this explanation but they are the ones with high delinquency and poor leadership.

Groups in other regions are charging interest although with some variation in the rate. As indicated in Table 4.4, 14 groups (56%) of the sample of 25 are charging the recommended rate of 5% per month, 10 groups (42%) have charges of 1–3% and one group out of three sampled from Charawe is charging no interest. Other than Islamic law, the groups that reduced the interest rate said it was necessary because they felt 5% was too high for the members. There was a category of groups within the Islamic law proponents that set a flat amount to be repaid with the loan instead of interest. (The researchers understood this to be interest-free.) However, this figure is not based on the loan amount.

4 Loan Amount

According to the group training, the maximum loan amount was supposed to be a multiplier of three times the share value but this has not been strictly implemented. In four (16%) of the sample of 25 groups there was no absolute ceiling on the amount of loans, provided that the group found the borrower creditworthy and the loan justified by the investment opportunity presented. However, faced with mounting loan default problems and the consequent risk of losing money, the size of loans was reduced to ensure that the shares adequately cover any money that is borrowed. Three groups even set a maximum loan size based on what they felt was adequately covered by an average member's shares. The other groups implemented the policy of three times the value of the shares.

5 Loan Term

In two of the eight groups picked for in-depth discussions, participants said that the repayment period had changed from three to four months. In three other groups the loans are rolled over at the request of the borrower when the loan period expires at three months to allow for a further period with new terms. In such cases the loans are not regarded as being in arrears but are treated as new loans (restructured). This strategy is to get round the three-month loan repayment period, which they considered to be too short.

According to the model and the training provided to groups at inception, members are expected to pay interest on their loan at the end of every month in order to spread the repayment instalments over the three months. However, all the groups interviewed disregarded this requirement and gave their members the flexibility either to repay the interest in instalments or in one single payment at the end of the loan period. Marriam Hasan Us, a trainer, said the groups felt the policy was too prescriptive and put undue pressure on the members. What was important was the need for members to have cleared their interest by the expiry of the loan period.

6 Delinquency

Groups deal with the default and arrears problems in different ways. The original VSLA policy was to charge 5% per month on loans in arrears. However, several groups have changed this. Some have stopped charging further interest and only require the member to pay a flat penalty of Tsh.500 every month the loan is in arrears (Wema Hauozi), others close the loan and treat the balance as a new loan with a new interest rate (Jiunge Ule). The dissimilarities in interest penalty charges are largely attributed to the groups finding difficulty in demanding penalty payments from their members.

The groups are reacting to the various challenges in different ways, but they all feel that the changes they have made are responding to their members' needs, irrespective of whether they were trained by CARE or JOCDO.

4.1.3 The Financial Performance of Groups Trained before July 2004

In order to analyse their financial performance the research team collected key financial information from the 25 sample groups. This included snapshot information at the time of the survey in mid July and historical data on savings and loans for the nine months to end June 2006 . Key financial data were analysed using an adapted financial indicators tool from DFS. The analysis was conducted on liquidity, delinquency, savings, loans, profitability and dividend payouts. The historical dynamic data were analysed using a spreadsheet.

Tables 4.6 and 4.7 below present the financial position of the sample 25 groups as at July 15th 2006 when the study was conducted.

Net worth

The total asset base of the 25 sample groups was 93million ($74,400), a mean average of Tsh.3.9mn ($2,975) per group. This compared favorably with total shares of Tsh.62.1mn (US$ 49,715), a mean average of Tsh.2.5mn ($1,988). This means the share capital was 67% of total assets, giving rise to a healthy balance sheet. Even when other contributions, such as education,[21] welfare and insurance totaling Tsh.7.9mn, were added, the total liabilities arising from contributions only rose to Tsh.70mn ($56,000). Against the asset base of Tsh.93mn ($74,400) this still gave a total contribution to asset ratio of 75%, resulting in good accumulated income (retained earnings) of 25%.

Although the total shares listed above were taken at a snapshot time, as at July 15 they were quite close to the dynamic figures for the nine months to the end of June 2006 when the cumulative figure was Tsh.63.7million.

Table 4.6 Total Shares and Savings and Net Worth of 25 Sample Groups as at July 2006

Financial indicator	Tsh.	$
Total assets for 25 groups	**93mn**	**74,400**
Mean average assets per group	3,719,813	2,975
Mean average assets per member	128,300	102
Total shares	**62.1mn**	**49,715**
Mean average shares per group	2.5mn	1,990
Mean average savings per member	**84,500**	**68**
Total contributions other than shares	7.9mn	6,290
Total retained earnings(with income)	23mn	18,390
Total long-term loans outstanding	64.5mn	51,625
Total short-term loans outstanding	780,860	625
Total loans outstanding	**65.3mn**	**52,250**
Average long-term loans	68,510	55
Average short-term loans	4,120	3.50
Average education contribution per member	3,173	2.50
Average welfare contributions	2,800	2.25
Average insurance contribution	4,000	3.20

Table 4.7 shows that the ratio of net total loans outstanding (including both short- and long-term loans[22]) to total assets was 70%, of which the delinquent loans were 23% of the total assets. Most of the groups interviewed did not give fresh loans in the quarter before payout unless it was an emergency.

[21] Contributions for education are used to pay for the services of trainers. Whatever is left during the action audit is paid out to members on equal basis.
[22] Long-term loans are those with three months' repayment period. Short-term loans are those repayable in one month, sometimes referred to as advances.

Table 4.7 Key Financial Ratios

No.	**Key financial ratios for 25 groups**	Jul. 06, %
1	Delinquent loans (long- + short-term)/total assets	23
2	Liquidity ratio	32
3	Non-earning assets/total assets	28
4	Net loans/total assets	70
6	Member shares/total assets	67
7	Other contributions /total assets	8
8	Cumulative group income/total assets	25
9	PAR long-term loans	31
10	PAR advances	33

PAR = Portfolio at Risk

Liquidity

The liquidity ratio was analysed to see efficiency in resource utilization and cover against liability of obligation, and it was found that it was in the range of 3–145%, with a mean average of 32%. Groups at the beginning or earlier part of their cycle tended to have low liquidity as most of their cash was held up in loans. Groups that were about to make payouts held more cash and reduced borrowing in preparation for the action audit.

Profitability

Profitability was analysed at two levels. The first level was the profitability of the groups during the last time each group made a payout[23] and the second the current accumulated value of retained earnings (not yet paid out) held within the groups at the time of the survey July 15, 2006.

During the last payout for all 25 groups, the mean rate of return was 53%, with individual groups' rates ranging from 10% to 92%. The total payout was Tsh.125.1mn ($100,000), reflecting a mean average of Tsh.5mn ($4,000) per group and one of Tsh.172,535 ($138) per member. This payout was against total savings of Tsh.81.5mn ($65,200), giving a mean average of Tsh.3.3mn ($2,600 per group or an average of Tsh.112,420 ($90) per member. Seventy-two percent of the groups paid out dividends during different months within the last 12 months from the time of the study. This evidence suggests that most groups are conducting an action audit annually and paying members' dues with dividends.

At the second level, it was found that all the sampled groups except one reflected positive retained earnings or accumulated profits (see tables 4.6 and 4.7). The ratio of cumulative income over the total assets was 25%. Within the current ongoing cycles of different groups all the sampled groups have accumulated profits of Tsh.23mn ($18,400), which translates into a mean average of Tsh.919,500

[23] Groups made pay outs during different months depending on when they started their cycles.

($735) per group. Each group member has accumulated an average profit of Tsh.31,405 ($25). (The accumulated profits per person ranged from Tsh.465 ($0.40) for groups at the beginning of the cycle to Tsh.130,375 ($104) for a groups that were about to pay out.)

Delinquency

Delinquency is one area that has not been clearly documented, as records were not designed in such a way that groups could use them to keep track of delinquent loans.[24] Most groups have improvised an additional record other than the official documents, usually an extra exercise book. Various groups also treat the loan term differently. In some groups interest is collected on loans at the end of the three months together with principle, while others collect interest every month and collect principle at the end of the loan term. Other groups issue a loan for three months and at the end the borrower has the option to renew the loan by filling out a new application form. The definition of delinquency, therefore, varies according to the approach a group has taken. However, according to group members and officials the issue of delinquency is not a big problem until the quarter before payout. They were therefore quite lenient on borrowers who were late with payments. Moreover, they were confident that they could recover the loan from the shares of the individuals in case of default (assuming that the value of the shares is more than the outstanding loan amount).

Despite these limitations, the research team reconstructed information that was mainly in an extra exercise book rather than the official documents. According to available records and subsequent analysis, the sample groups overall had a delinquency rate of 31% Portfolio at risk (PAR) on the long term loans outstanding portfolio and 33% PAR on the advances outstanding portfolio (Table 4.8).

Table 4.8 Portfolio at Risk for the 25 groups sampled as at July 15, 2006

Period	Percent
PAR (Long-term loans) 30–60	14
PAR (Long-term loans) 60–90	9
PAR (Long-term loans) >90	8
Portfolio at risk (advances) 30–60	33
Portfolio at risk (advances) 60–90	0
Portfolio at risk (advances) >90	0

Although PAR to a large extent measured the general performance of the groups, in some cases it was not a good measurement of a portfolio's health. For example, in one group in Jiunge Ule there was an outstanding advance of Tsh.13,100 ($10) that was in arrears and the PAR was reflected as 100%. However, the group had an asset base of Tsh. 6.5mn ($5,200) with a large proportion (Tsh.2.3mn or $1,800) in cash. None of the groups interviewed had written off any loans during any cycle and they

[24] Note: the record keeping system now used by most other CARE programmes and recommended by Hugh Allen, VSL-associated has corrected this shortcoming.

felt confident that they would always recover their loans in full. It was, however, difficult for the research team to gather enough evidence to draw any conclusions.

Based on the findings above, it can be concluded that the VSLA has performed well in growth and sustainability. In the four years since CARE left, membership has grown by 258%, giving an annual growth rate of 64%. This compares favourably with an exit rate of 3% per year or 12% over the four years. There has also been continued good financial performance over the same period, with reasonable returns as reflected in the average dividend rate of 53% during the last payout and a positive cumulative surplus.

4.2 The Role of Village Trainers as a Support Service

How the village trainers came into existence, the framework in which they operate and their expected roles were all investigated in order to ascertain whether they are meeting their original objectives and to see if their mandate has changed over time.

4.2.1 Background to the Village Trainers

Village trainers were established as part of CARE's VSLA operational model and project exit strategy. They were seen as an integral part of the programme's operations as well as ensuring sustainability beyond CARE.

During the JCBCP, CARE Tanzania trained 20 village trainers as part of its community mobilisation and extension strategy for the VSLAs. They were to be paid a fee for service by the groups and acted as field agents rather than CARE employees. Although they received no direct monetary benefits from CARE, the secretary of JOCDO[25] indicated that during the life of the CARE project there were many non-cash benefits. These included opportunities for further training, cross-visits, and attending seminars and workshops held by agencies such as UNDP where participants were sometimes paid allowances for attendance. In addition, CARE provided bicycles as well as items such as T-shirts, which helped them to be identified with CARE. Through this they expected to earn respect in their communities and have the opportunity to participate in other community affairs.

[25] JOCDO was created by trainers and community representatives to take over the role of CARE in the VSLA beyond the project.

4.2.2 JOCDO's Support Trainers' Ongoing Service to Groups

Formation of JOCDO

According to the executive director[26] and the secretary of the executive committee of JOCDO, only eight of the original 20 CARE trained trainers were operational towards the end of the project. Some had moved and others had dropped out, probably due to unmet expectations, as it required commitment without much prospect of direct financial gains.

Against this background both CARE and the remaining village trainers realised that the fee for the service arrangement was unsatisfactory, particularly in terms of the programme's expansion. A local organisation was needed to continue the support role. JOCDO's formation was therefore the result of CARE's phase-out.

A caretaker committee consisting of 12 community contact persons (CCPs) was formed in early 2003 after CARE facilitated stakeholder workshops to decide on the type of organisation to be created. The committee coordinated activities and carried out campaigns explaining why the organisation was necessary and what it would do. The committee also decided that JOCDO should be an NGO and it was registered in October 2003. Membership of JOCDO is group-based.

The leadership structure of JOCDO is as follows: five members of the board of trustees selected from important people in the community; 20 executive committee members including a chairperson, secretary, assistant secretary, treasurer, assistant treasurer, executive director; and 12 group representatives. The constitution provides for the election of at least five women; the current committee has nine. The committee functions as management, which means there is no clear management role and leads to inherent weaknesses such as slow decision-making processes and potential loopholes in accountability.

Currently, JOCDO does not have a business plan and therefore has no idea of when it will be financially self-sustainable. Since it was set up, most of the work has been done on a voluntary basis by executive committee officials. It was only in 2006 that a part-time executive director was engaged as well as an administrative assistant to help with development plans. The board of trustees is not involved in the running of the organisation and all decisions are taken by the executive committee. JOCDO needs to put a strategic plan in place that spells out the necessary steps if it is to move towards the goal of organisational sustainability.

Support to Trainers from JOCDO

[26]Hamisi Simba was a CARE employee in charge of mobilising VSLA and is now the ag Eexecitive Director (ED) of JOCDO on a part-time basis. Vizzer Makonda is the secretary of JOCDO executive committee and was one of the original trainers.

After its formation JOCDO embarked on training additional village trainers. In addition to the eight remaining CARE trainers, JOCDO recruited and trained another 17 to augment the efforts of CARE-trained village trainers in the field.

The village trainers (or field agents[27]) are expected to interact with groups during the inception and development of a VSLA. There are four phases: introductory, intensive, development and maturity.

In the two-week introductory phase the trainers facilitate the organisation of participants into groups and introduce them into the programme. During the second, three-month phase there is more intensive interaction and trainers are expected to present the six training topics contained in the training guide. If all goes well they continue to attend weekly meetings until the end of the three months. During this phase a group sets up its management committee, elaborates the internal regulations, defines its objectives and begins its savings and credit activities. The development phase is designed to assist the groups to move towards independence. In a second three-month phase, weekly visits are expected to fall to only four, preferably during loan disbursements or repayments. The trainers are expected to observe and intervene only when really necessary. The final, maturity, stage is expected to last for two months and the trainer should visit only at the end to evaluate whether the group is qualified to be independent.

Once a group matures the role of the village trainer changes to one of monitoring and technical assistance (TA). The trainers are expected to visit the groups once a month during the closure of the books to ensure quality control and to conduct an action audit before the payout at the end of each cycle.

4.2.3 Performance of Trainers in Providing Services to Groups

As perceived by the different groups interviewed, trainers' support to the groups has been minimal. According to JOCDO's secretary, many of the post-CARE trainers were brought in without a competitive interview process or consultation and many lacked the minimum qualifications. The JOCDO executive committee decided to discharge them and re-advertise the posts. At the time of this study it was preparing a new training programme.

Members of three groups interviewed (Hawavumi, Mwanzo mgumu and Asiobahatisha) said that some trainers knew no more than they did and they saw no need to pay for their services. They recommended that the trainers be re-trained. The research team also identified this problem during the financial data collection. Only one (trained by CARE) of the four trainers (three trained after CARE) used had any idea of simple concepts such as the ageing of arrears and the calculation of the dividend ratio.[28]

[27] Sometimes referred to as Community Contact Persons (CCP) in the programme area.
[28] The dividend ratio is calculated as total profit earned over total shares. This ratio shows what each share is worth in dividends.

JOCDO officials explained that they could not support all 25 trainers because of inadequate funding. As the executive director said, "*We are still very young and lack the capacity to do many things planned.*" JOCDO has still to develop a clear mechanism of monitoring and evaluating the quality of the training it delivers.

JOCDO has neither improved trainers' skills sufficiently for groups to consider they warrant higher pay nor has it developed a mechanism to enforce compliance with standards. It may have to pay the trainers directly and supervise the quality of their work.

The trainers have also been unable to complete the total curriculum during the initiation of new groups. They argued that one reason why they provided limited support was the minimal cash incentive. They receive Tsh.2,000 ($1.60) per day, out of which they are expected to pay JOCDO Tsh.500 and the cost of their transport. One trainer compared this with fishing, where he could make a minimum of Tsh.5,000 ($4) a day and have less distance to travel. He also argued that when he visits groups in other villages, the bus fare alone can be as high as Tsh.1,000 ($0.80), leaving him with Tsh.500 ($0.40). It is therefore not surprising that trainers were unavailable for groups outside their immediate vicinity.

While the trainers may have been playing to a perceived potential donor and could therefore have exaggerated, what is evident is that if they are demotivated they will not perform.

4.2.4 Achievements and Challenges Facing JOCDO

Achievements of JOCDO

JOCDO has a mandate to provide services such as training, arbitration and accountability to the VSLA programme. It can expand the programme by forming new groups as well as providing a starter package of stationery and equipment and other services as required. Within this mandate, JOCDO has tripled the number of groups from 47 at the end of CARE's tenure in 2003 to 158 groups at the time of this study (July 2006) and there are an estimated 4,552 members.

In the quest for sustainability, JOCDO has made some efforts to raise funds from other sources such as CARE and to strengthen its internal revenue streams.

Challenges

JOCDO also faces the following challenges as it aspires to become a sustainable and valued service provider.

The training provided is below the expectation of its clients (the groups). The curriculum is not adequately covered by trainers during a group's inception and, in general, there is no follow-up training. As a result there are many variations in different groups that may lead to departure from the core model. Many groups would like further training and if JOCDO can provide quality training, groups would be willing to pay increased charges for it.

JOCDO still has to prove itself as a quality service provider, offering services such as group dynamics, arbitration and maintenance of the VSLA standards. Many groups do not understand the role of JOCDO beyond the initial training and provision of stationery.

The lack of a business plan poses a big challenge. Without a plan JOCDO has no idea of its core business nor when it will become sustainable. It is difficult to increase its membership without a clear direction. This is reflected in the current low enrolment (35% of the groups).

The other challenge is organisational structure and systems. There is no clear definition between the functions of board and management. The board of trustees has a goodwill role rather than a functional one while the executive committee is responsible for both governance and management. This has led to slippage of some responsibilities without anyone being held accountable. For example, although the constitution provides for general meetings to be held annually, JOCDO has not held one since 2003. The management by committee approach also lends itself to loose systems and a lack of accountability. JOCDO's books have not been audited in its three years of operations, raising the question of whether the committee understands its management responsibilities. It is also clear that without a clear organisational structure with internal controls it will be difficult for JOCDO to raise funds from external sources.

4.2.5 Financial Sustainability of JOCDO

JOCDO currently has three revenue streams based on its expected service delivery. The first is the membership fee of Tsh.45,000 ($36) which is paid on registration and renewed annually at Tsh.15,000 ($12); the second stream comes from the sale of the package of equipment and stationery at Tsh.70,000 ($56), with a gross margin of approximately Tsh.30,000 ($24); the third is commission on trainers' fees at Tsh.500 ($0.40) per day. JOCDO has also received two loans from CARE, one for on-lending to the initial groups performing well and a second one of Tsh.4,035,000 ($3,228) for the purchase of office equipment for sale to groups. The latter (disbursed June 2006) is expected to be paid for from the three main streams of revenue within the next six months by December 2006. Other fundraising strategies such as being an implementing partner of other agencies are being explored.

For the first revenue stream the study found that only 58 out of 162 initiated groups (35%) are paid-up members of JOCDO. This is very low and raises the question of whether the groups value the services JOCDO offers. The second stream has 100% compliance because equipment and stationery are necessary before a group can start operations. Although the third stream also has a high compliance, it was not possible to determine the actual extent because much depends on a trainer's honesty in reporting the payments received and the services delivered. This is a loophole that may be difficult to deal with. It is expensive for trainers remote from JOCDO's head office to travel there to pay the Tsh.500, but accumulating the money would lead to the temptation to spend it.

Since the study team could not find any audited accounts for the three years of operation, it was not possible to determine income and expenditure trends. (The research team was informed that the books for the previous financial periods, from 2003 to 2005, were with the auditors.) The poor state of the financial records was alleged to be partly due to the absence of the secretary for two years. However, over the past six months from January 2006, with the return of the secretary, the hiring of a chief executive and an office clerk, records have improved significantly. Basic income and expenditure statements are being produced on a monthly basis and between January and June 2006 JOCDO reported marginal surpluses. Between January and March, it had revenues of Tsh.976,300 and expenditure of Tsh.692,500. Revenues in the April–June quarter rose to Tsh.1,764, 300, but expenditure also increased, to Tsh.1,282,376. In the first quarter, which runs from January to March income retention was 30% while in the second quarter it dropped to 28%.

Although surpluses were recorded for the half year, this does not take into account that many services are still offered on a voluntary basis. Currently, JOCDO is trying to be more cost-conscious and to limit expenditure.

CHAPTER 5: USEFULNESS OF SERVICES AND CHANGE IN THE LIVES OF USERS

5.1 Usefulness of services and changes in the lives of users

This section looks at the usefulness of the financial services the groups provide and explores the role savings and loans play in supporting the livelihoods of their members.

5.1.1 Savings

The quantitative data indicated that on average current VSLA users save Tsh.8,972 per month, with no significant difference between men and women. The qualitative studies showed that the overwhelming majority were happy with the value of the share price of Tsh.500–1,000 a week (and they could contribute up to a maximum of Tsh.3,000). However, there is a problem with members wanting larger loans and the difficulty this poses due to the small volume of their savings. This indicates that there has been no significant change in the share amount since CARE left, which raises the question of whether the model has kept pace with inflation. From the financial records, the findings showed that over the nine months to end of June 2006 total cumulative shares were Tsh.63.7mn and total cumulative loans were Tsh.115mn, with a savings to loans ratio of 182%.

Table 5. 1 Loans and Shares for 25 VSLAs (Cumulative Sept 05- June 06)

Total loans/savings	Total amount per group	Average per group	Average per member
Total cumulative loans	115,000,000	4,603,320	158,735
Total contributed shares	63,709,245	2,548,369	87,874

The sample survey revealed that the average payout was Tsh.145,059, the minimum being Tsh.20,000 and the maximum Tsh.400,000. An important feature of the payout was the timing, which was generally pegged to coincide with Islamic celebrations such as Maulid or Idd Ul Fitr and other festive occasions when households' demand for money is high. To emphasise the importance of the timing, Mwanahamisi Bakari of Mwanzo mgumu said that the dividend payout for her group was not during Ramadhan. However, to compensate for this, a compulsory interest-free loan was given to all its members. This was said to be the practice in some other groups whose dividend payout did not coincide with Ramadhan.

From the focus group discussions, it was evident that the dividend payout was liked by all members and was a major reason for joining the group. The members felt that the way the dividend payout was determined enabled them decide in advance what project they wanted to invest in. As they knew the date for the next action audit they could project how much money they would have saved.. In their own words, they looked at this whole process as targeted savings, which they greatly appreciated.

During the quantitative study, the members highlighted what they were able to do with the lump-sum payout as an indication of how important the service was to them. The members reported that their savings appreciated during the payout. This return on investment was a great motivation for continued participation. From both the product attribute ranking and in- depth discussions, the members (men and women) were seen to be happy with the following aspects of the savings programme.

- They provided them an opportunity to save.
- They ensured that their savings were safe.
- They provided them an opportunity to get a lump-sum payout.
- They enabled them to invest.
- The share value was low enough to allow for participation by any community member (not only for the well-off members).
- Their shares appreciated in value at the payout.

Members were generally satisfied with the savings aspect of the programme. For those who defaulted or had outstanding balances, the group recovered the outstanding balance from their shares. This is a normal procedure even in MFIs. One member who left a group complained that they refused to give him his money. Although he said that his shares had been over-deducted, the group records showed that the deductions were correct and fairly done. What emerged from the study was that overall members were satisfied with the savings element because at the payout they got their shares plus the profit.

As seen in Table 5.2, the main use of savings for women were housing projects or improvement (24%), the purchase of household assets (21%) and the payment of debts (16%). Men mostly used them for housing projects and improvement (46%), the purchase of household assets (15%) and productive investment (12%). However, a significant number of women used savings for family celebrations (12%). The findings are largely consistent with the in-depth discussion results.

The aggregated data shows that a significant proportion (49%) mentioned food and household expenses as one of the three main uses of their savings payouts. Other significant uses were housing project/improvement (48%) and productive investment (29%).

Table 5.2 Three Main Uses of the Savings Payout

	Female			Male			Consolidated
	Main use, 1	Main use, 2	Main use, 3	Main use, 1	Main use, 2	Main use, 3	
	N=86	N=72	N=50	N=48	N=40	N=28	
Housing project/improvement	24%	13%	6%	46%	20%	7%	48%
Household asset	21%	10%	4%	15%	10%	4%	29%
Paid off debts	16%	10%	14%	6%	5%	7%	26%
Family celebration e.g. Ramadhan, wedding	12%	8%	14%	8%		14%	23%
Productive investment	9%	11%	16%	13%	13%	25%	31%
Food/household expenses	7%	26%	28%	6%	43%	25%	49%
Paying school fees	6%	8%	6%		8%	4%	13%
Savings	4%	3%	4%	4%		4%	7%
Investing in spouse's business		3%		2%		4%	3%
Medical expenses	1%	6%	4%		3%		6%
Other business assets		1%				7%	2%
Lending to other		1%	2%				1%

The consolidated percentages total to more than 100% because members could list more than one use.

Case Study Mwana Hamisi Mlenge

Mwana Hamisi Mlenge and her husband are members of the Maendeleo group in Chwaka. She operates a small business selling chapatti and handkerchiefs in town. She joined the group in 2001.

"I have received payout four times. The first payout was worth Tsh.15,000. I used part to pay for school fees for my two sons and the balance to purchase food and other household items that I needed for the Ramadhan celebrations. That payout really helped me because it came during the celebrations and I had a lot of pressure to pay fees for my children. I received what I expected and I was very happy. The second payout was Tsh. 120,000. I used Tsh.60,000 to pay school fees for my sons. With the rest of the money, I assisted my husband to extend our house. The third payout was worth Tsh.140,000 and I used all of it to pay school fees for my sons. The final payout was worth Tsh.160,000. I used Tsh.120,000 to pay school fees for my son and the remaining Tsh.40,000, I spent on my personal effects.

"The payouts have played a very important role in my life. They come at a very opportune time, during our religious celebrations. Through the payouts, I have been able to educate my sons up to secondary level. I am sure that I will manage to pay even their college fees through my savings. Without this group, my sons would never be where they are now."

The case studies in Annex 5 illustrate other uses of savings payouts as reported by discussants during the in-depth interviews.

Emerging Savings Issues

Some members felt that defaults were affecting the amount of profit they received at payout. They said that when members default and their shares cannot cover the balance, the group profit is deducted until such time as a member is able to repay. This had happened in both the Wema Hauozi and Mwano mgumu groups in the Charawe area. The members feared that if this trend continued, they risked wiping out the profits and their shares being used to cover for defaulters.

In Wema Hauozi, the members were unable to get their savings at the projected time because of arrears and default problems. Although this is not widespread, both the members and the trainers noted that it was worrying, as the revised action audit disrupted projected and targeted investment plans. The unpredictability of the dividend payout was bad for planning and resulted in a less effective utilisation of the payout. According to the members, the biggest threat to their savings remains the non-repayment of loans.

In one instance, a group put the members' savings at risk because of over-reliance on certain leaders. The chairlady of the group reported that they were not sure of the extent to which the secretary, whom they expelled from the group, had tampered with the financial records, although they knew how much she took; they are pursuing her for its recovery.

5.1.2 Loans

The discussants said that they had received loans when needed and no one had been refused.

The great majority of members (95%) had taken out a loan during the previous savings cycle. Those who did not cited reasons such as not needing a loan at that time or having a sick wife. Indeed the majority (55%) had taken out more than one loan, suggesting that the VSLAs were able to rotate the funds. There was no significant difference in the frequency of borrowing related to gender or holding an official position, although the data indicate that 67% of leaders had taken two or three loans compared with only 53% of non-leaders.

Table 5.3 Frequency of Loans Taken During the Previous Savings Cycle

No of loans taken since the previous savings cycle	Current members	Females	Males	Leaders	Non-leaders
0	5.5	4.6	8.3	3.0	6.9
1	39.4	36.8	39.6	30.3	40.2
2	31.2	31.2	20.8	36.4	29.4
3	23.9	21.8	31.3	30.3	23.5
Total	100.0	100.0	100.0	100.0	100.0

A small number of members reported having borrowed for others. Five people reported that their first loan had been taken out for others, while six reported that this was the case for their last loan.

From the financial records of the groups, the findings showed that the cumulative total of loans for the nine months up to end of June 2006 was Tshs19mn. Average loans per group were Tsh.6.4mn and for the average loan per member was Tsh.214,433.

Table 5.4 Loan Sizes

	First Loan				**Last loan**			
	Leaders		**Non-leaders**		**Leaders**		**Non-leaders**	
Loan amount, Tsh.	No.	%	No.	%	No.	%	No.	%
<50,000	13	40.6	31	33.3	3	10.7	27	36.0
50,000–100,000	16	50.0	50	53.8	15	53.6	21	28.0
101,000–150,000	1	3.1	8	8.6	4	14.3	12	16.0
151,000–200,000	2	6.3	4	4.3	6	21.4	10	13.3
201,000+	0	0	0	0	0	0	5	6.7
Total	32	100.0	93	100.0	28	100.0	75	100.0

Loan amounts in Tshs

The analysis showed that most loans were for Tsh.50,000–100,000 (53% for non-leaders and 50% for leaders). There was also a shift towards higher loan values in last loans compared with first loans. As Table 5.5 shows, the average loan size for the first loan was Tsh.65,599 but rose to Tsh.102,428 for the last loan.

The findings indicated that women were not losing out. However, as loan cycles increased, so did the amounts. This was evidenced by the fact that the average latest loan for women was Tsh/105,033 while for men it was Tsh.97,783. Looked at from another perspective, it indicates that loan sizes for women rose must faster than those for men.

Table 5.5 Average Loan Sizes in Tanzania shillings (Tsh).

Gender	First loan		Last Loan	
	No.	Amount	No.	Amount
Female	81	62,283.95	66	105,033.33
Male	44	71,704.54	37	97,783.78
Total Sample	125	65,599	113	102,428

Loan uses

Findings from the qualitative data showed that members were happy with the fast processing of the loans, being able to get loans instantly or after one week at most. The members also said that they could plan for certain specific investments which they could accomplish within three months (the repayment period), while technically they had a grace period of three months before they made a lump sum repayment. Those members who invested the loans properly and planned their activities well were of the view that the loans had been very productive. According to the members, the key to proper loan utilisation and good loan repayment lay in the planning.

Case Study: Salama Ali Mjumbe

Salama Ali Mjumbe is a member of the Maendeleo group. Over the past four years, she has borrowed six times. Her first loan was for Tsh.15,000, which she took in 2001. She used to trade in *khangas* that she bought for Tsh.1,800 and resold for Tsh.2,100. She said that she had no problems repaying her loan and repaid it within three months.

She took out her most recent loan, for Tsh.50,000, in July 2006 and again invested it in her *khanga* business. She now buys the *khangas* for Tsh.2,000 and sells them at Tsh.2,300. She was confident that she would repay the loan by the end of August 2006.

"I have never had problems repaying my loans. The key to good loan management is proper planning and taking a loan when you really know what you want to do with it," she says.

The most significant loan she took was for Tsh.40,000 in 2004, which she used to roof her mother's house with iron sheets. *"I cannot forget the poor condition of my mother's thatched house before my intervention. Each time I visit my mother, I remember where the loan pulled her from."*

Annex 5 has further case studies on loan uses.

As Table 5.6 illustrates, both women and men use loans for business and household expenses. Cumulatively, 58% and 52% of the individual household survey respondents used loans for business and household expense purposes respectively. Other significant loan use was debt repayment. Members explained that they would borrow from friends who were sure that their money would be repaid with funds from the group. Some members, who did not require a loan, borrowed for their colleagues who would in future borrow to repay it. This resulted into a high incidence of borrowing geared towards servicing debts.

Table 5.6 Main Loan Uses

	Females				**Males**				**Cumulative**
	Use 1	**%**	**Use 2I**	**%**	**Use 1**	**%**	**Use 2I**	**%**	
Business	28	34.6	8	25.0	21	47.7	2	9.5	58
Household expenses	20	24.7	10	31.3	12	27.3	10	47.6	52
Repaying debts/ Borrowing for others	16	19.8	5	15.6	1	2.3	2	9.5	24
Housing improvements	5	6.2	2	6.3	6	13.6	2	9.5	15
For an emergency	5	6.2	4	12.5	2	4.5	1	4.8	12
Household assets	6	7.4	1	3.1	1	2.3	3	14.3	11
Educational expenses	1	1.2					1	4.8	2
Family celebration			1	3.1					2
Other			1	3.1	1	2.3			2
Total	81	100.0	32	100.0	44	100.0	21	100.0	

Results from the in-depth discussions showed that women were mainly responsible for household needs (i.e. food and clothing for children) and also catered for the Islamic celebrations. This finding is consistent with the individual survey results, which showed that 25% of women used loans for household expenses, school fees and business investment. However, 35% of the women used loans on business. Men used their loans for business (47%) and household expenses (27%).

Quantitative research showed that when the women were asked what was their most significant loan, the responses were household and social-related: preparing a son's wedding, buying gold (an important status and social factor among women in the community), paying school fees, getting electricity connected, constructing a house, supporting parents to construct a house. Discussions with male group members showed that their most significant loans were biased towards productive investments. Although they said this was motivated by the need to generate income for the household, it was evident that women still took a major responsibility towards ensuring that household basic needs were provided for. Men's major contribution, resulting from the profits they made from their businesses, was the construction of houses.

Emerging Loan Issues

The study showed varied concerns over loan policies and procedures. Some members felt that the three month loan period was sufficient, others that it was too short. Some members argued that policies needed to be changed, which would have implications for the distribution of loans, which current policies seem to hold in check.

Both men and women felt that the loan size had serious limitations. The discussants explained that they found it limiting because it was pegged to the share, yet there was no flexibility about the number (and value) of shares that a member could purchase. They therefore were agreed that the small size of the loan did not enable them to complete projects for which they were borrowing and they had to stagger them. This was said to be unsatisfactory, particularly for those who were constructing houses, because walls that remain exposed to rain over a long period become weak.

Pegging the loan size to the shares also elicited varied opinions. In Wema Hauozi, Jiunge Ule and Mwanzo Mgumu members explained that leaving the loan size flexible (no minimum or maximum) limits had led to default problems.[29] They were categorical that this was bad for groups. Some members had borrowed as much as Tsh.600,000 simply because there was no upper limit, but there were no provisions in place which would have helped check against default. Other members felt that limiting the loan to a maximum of three times the share value had denied them the opportunity to borrow substantive amounts that they could use for larger investments. It also emerged that because of the default problems, groups had responded by requiring that all future loans be less than the total share values of a member.

Surprisingly, almost all the members conceded that they had problems repaying loans, especially the first loan. According to the members, the first loan caused problems because they were getting acquainted with the programme and did not have the experience of handling loans. It was a serious learning curve for most members. They acknowledged that the problem was not with the training but more with their own perception of how loans should be managed. They invested in the wrong projects or used the money for consumption without having alternative sources of income for repayment. This finding seems to be in contrast to the findings of the individual household survey, which showed that only 17% of the respondents had problems repaying the first loan. This might be explained by the fact that as long as the respondents in the individual survey finally paid, their responses were likely to show that there was not a problem . But in the Focus Group Discussions (FGD) they could explain that even though they had repaid, they had had difficulties.

Members mentioned default problems as another key issue relating to loans. Although the training made default follow-up look easy, members acknowledged that it was not as easy as that. Most of them are resigned to waiting until the action audit before they deduct outstanding loan balances for

[29] Some groups had removed the rule that the loan can be not more than 3 times of the member's shares.

loan defaulters. They said this may not be satisfactory, especially if the shares are not able to clear the entire amount. Such loans could lead to loss of savings if they have to be written off. They have already experienced situations where loan deductions from the profits of defaulters have been made to repay the defaulters' balance so as to facilitate the action audit.

5.1.3 Changes in the Lives of Users

In this study, it was evident that the lives of users had to some extent changed because of joining the programme. Table 5.7 gives the findings of the household survey on the changes that have occurred in members' lives. For women, increased income (as a result of improved business and ability to buy more inputs) was the most notable change, with 13% of the female respondents mentioning it. Ability to save or the inculcation of savings habits and improved housing were the second and third major changes respectively (with both accounting for 12% of the respondents). For men, an improved standard of living (21%), increased incomes (17%) and improved housing (15%) were the three main changes.

The consolidated findings (taking into consideration what the respondents considered as the first and second significant changes in their lives) showed an improved standard of living (22%), improved housing (21%) and increased incomes (20%) as the three major changes. All the changes seem to be related either to business growth or improved livelihoods at the household level.

Table 5.7 Changes Since Joining the Programme, %

	Female		Male		Consolidated
	Change 1, N=86	**Change 2, N=42**	**Change 1, N=48**	**Change 2, N=34**	**percentage**
Increased income/Business improvement – ability to buy more inputs, expansion	13	14	17	6	20
Improved housing (roofing sheets, electricity, etc)	12	14	15	15	21
Ability to save/inculcate the habit of saving	12	10	8	9	16
No significant change	11	0	0	0	7
More and/or better food/Meeting basic needs/standard of living	9	17	21	1%	22
Increased ability to cope with emergency/loan	8	14	8	6	14
Increased self esteem/social network/support	7	0	2	0	5
Increased household assets	6	5	13	15	13
Initiated new business/additional business	5	2	8	6	8
Increased welfare e.g. helping family members, weddings, festivities	5	0	0	0	3
Education for self or children	4	0	2	12	6
Increased ability to plan and manage business	4	10	0	6	7
Increased business assets	4	10	4	9	9
Worse off/Better standard of living before joining programme	2	2	0	0	2
Other	1	2	2	6	4
Total	100	100	100	100	

These findings are consistent with those of the in-depth interviews. Some members invested in business, which had increased households' disposable incomes and enabled them to continue building their savings base and expanding or diversifying their business. The discussants reported that they had constructed houses, which is an important social status consideration in Zanzibar. Every family aspires to own its house and the loans and dividends had played a great role in facilitating this. Women beneficiaries said they were well regarded in the community (social esteem), because they could effectively participate in the annual numerous Islamic celebrations, which required that money be spent on new clothes, *khangas* and food.

Case Study Mwana Hamisi Bakari

Mwana Hamisi Bakari is a member of Mwanzo mgumu group, which she joined in 2001. Her main occupation is farming (seaweed) and weaving. She is also a member of another group where they save every month but only borrow to invest in the weaving business.

"Since I joined the group, I have had five payouts. The first payout was worth Tsh.45,0000. I used Tsh.30,000 to buy a bed. Each time I sleep on that bed, I remember that were it not for the savings, I would still be sleeping on the poorly made traditional bed. With the remaining Tsh.15,000, I bought food for my family. The second loan was worth Tsh.50,000. I used all the money to buy a sideboard. Now my utensils and other valuable household items are kept safely. It has also made my house to look very neat. When other women visit me, they admire it because it is in the sitting room."

The third payout was worth Tsh.75,000. *"I will never forget this one. I used it to facilitate my son's wedding. I am so proud of this payout because it has brought me a grandchild. This was my most significant payout. The fourth payout was worth Tsh.140,000. I used all of it to pay my child's school fees in secondary school. The final payout was Tsh.75,000. I bought a sewing machine and the balance paid school fees. The timing of the payout was perfect and the payout sufficiently met my needs for that time. I am sure the payout this year will also be good. The savings have made me achieve many milestones in my life."*

It was evident that if they did not get an opportunity to access a lump-sum payment, the VSLA members might not have managed to put their children through school. Whereas some of the parents (mostly women) said that they had been able to cater for the weddings of their children, the men reported that the dividends and loans they received had enabled them to marry and were happy because they now had their own families. Both parents and husbands viewed this as an important social status step. Other changes mentioned in the in-depth interviews were increased fish harvests due to new fishing gear and resulting in higher incomes, purchase of household assets like beds, seats, sideboards and cooking utensils, and increased business assets through the purchase of boats for fishing or freezers. Others stopped doing petty jobs and started their own business

The case studies in Annex 5 illustrate the changes seen from the in-depth interviews. The members said that having the funds to do certain things meant they were able to improve their standing in the community.

5.2 Group Dynamics

This section discussed the internal group dynamics. From the main sample of 25 groups a subset of eight was selected for further in-depth interviews. At least one official and two non official members were interviewed from each group. In order that the research should achieve good coverage, groups were selected that had not been sampled for the individual survey questionnaire. The information collected was augmented by the results from the individual survey questionnaire and the financial data collected from the total sample of 25. Village trainers and members of JOCDO were also interviewed where necessary.

5.2.1 Transparency and Accountability

Transparency and accountability in group financial operations are considered one of the key factors that enhance group performance in the VSLA model. In this study we explored how transparency and accountability are applied and to what extent they has contributed positively or negatively to the dynamics of the groups.

Action Audit

The VSLA methodology is designed to have a definite termination period, which is called the action audit. The groups determine the termination period, usually one year, at the beginning of each cycle and work towards accumulating savings and other earnings to be shared out during the action audit. The action audit is meant to provide accountability at all levels. The leaders are held accountable for their actions during the terminating cycle and are subject to scrutiny before being re-elected or dropped. The financial records are audited for the entire period and cash is reconciled with the books. Members are also held accountable for their loan obligations.

In the action audit (share out) the money available is shared out amongst the members in proportion to the amount that they have saved. If any member has not repaid his/her loan by the time of the action audit, the shares equal in value to his/her debt are cancelled in his/her passbook. In this way the defaulting member is penalised, because the cancellation of the shares means that he/she will not receive the profit on those shares, but only on the number of shares remaining. (Allen and Staehle 2006)

The study found that the action audit is one of the most significant contributors to accountability and cohesion in the groups. All 25 groups in the sample had conducted an action audit at least once; 18 out of 25 (72%) had conducted one within the last 12 months and the other seven within the last 24 months. All groups and individuals interviewed said that the action audit held the groups together. Leaders can be changed during the action audit if their performance is not satisfactory and many groups had done this. They also felt that it protected them from delinquency and losses because all loans must be paid during the action audit. Failure to clear a loan leads to automatic deductions from the shares of defaulting members to cover the loan. They said that the action audit also gave members who want to exit the group an easy way out. Undesirable members could also be asked to leave the groups during the action audit. In one extreme case (Ari Mpya) where the members were dissatisfied with the leaders, the group dissolved and re-formed without the former officials. The action audit is therefore a powerful tool for enforcing discipline within groups.

Shared Responsibilities

The model proposes the use of shared responsibilities as a means of ensuring transparency in group activities. The leaders' roles are defined in such a way that they control each other. The chairman has no direct role in handling cash. He or she presides over the meetings and even discusses the money. The secretary records the transactions and the treasurer verifies the records with cash. The records are open to members for scrutiny. This ensures the segregation of duties as well as checks on the leaders. An additional control is the trainer's expected audit of the cashbook every month during the closing of the books.[30]

Collection of funds during a meeting should involve each member walking up with their money (whether it is for shares, loan repayment, penalties or other savings), displaying it to the members to confirm the total and placing it in the appropriate bowl where it is confirmed by money counters. The passbook is then stamped for the purpose of accountability.

The safety of the cash box is also ensured by the segregation of duties. There should be at least four people involved in handling the cash box:: three members who are not group officials holding different keys to the box and the fourth keeping the box, which is only opened in the presence of the group members. All financial records and cash are kept in the box to avoid manipulation by officials.

Implementation of Shared Responsibility Systems

The research team visited all 25 sample groups during the financial data collection and observed how the system of accountability was being implemented. It was found that all the groups had four different people handling the box and in one group the box was kept in different homes on different days to avoid it being targeted. All the groups opened the box only when the group members were present. In four groups the members had to stay for over two hours to ensure that the records used by the researchers were returned to the box before leaving. All members were particularly interested in the safety of the box and its contents.

Although collection of the funds was generally handled openly, the research team observed some variations. In one (Hawavumi) of the eight groups visited for in-depth discussions the members reported that they had twice lost money during the money collection. After members had placed their contributions in the bowls, the figures did not tally with the secretary's record as the treasurer and other members did not verify how much was placed in the bowl by the member. Although this was reported in only one of our case study groups, it still calls for certain measures to make such a situation impossible.

To a large extent the officials' segregation of duties works well for those groups that are performing exceptionally well. For the eight groups selected for in-depth interviews, two that were categorised as

[30] It was found that the trainers do not regularly visit the groups to audit and help them close the books.

good performers (Maendeleo and Asobahatisha) applied the rules according to standards. They had both had a smooth leadership transition and the retired leaders were still members of the groups. They had a low number of exits (three and one) and a low delinquency rate (PAR 7% 30–60 days and 0% (no arrears) respectively). The two groups applied the regulations to all members, irrespective of their positions in the group. But all groups ranked as poorly performing had problems with delegation and the leaders tended to dominate. In Riziki popote the secretary managed to borrow Tsh.1.6mn through proxies and then left. Ari Mpya is another case where leaders borrowed and defaulted. The group had to disband and eject the leaders when it was reconstituted. In the last poorly performing group (Wema Hauozi in Charawe) the PAR was 100% despite the fact that they were not charging interest on loans. The leaders had no control of the members and the treasurer never attended meetings.[31] It was clear from the findings that there is a direct correlation between good leadership and good performance, and vice versa..

As noted, the trainers did not always visit the groups for audit during the monthly closure of books to ensure that the records are well kept. However, the research could not determine what value such audits would add because it was not being implemented.

Other Elements of the Programme

The findings from the focus group discussions showed that women rate the security and social support elements of the VSLA programme highly. Women were satisfied with the fact that the shares (money) were kept by their own members, which they found reassuring. Another dimension was that if they kept the money at their own homes (in the absence of such a programme), it would not accumulate to the same level as in the VSLA and would also be prone to other risks. The handling of the keys to the cash box by three different people was seen as a very positive measure by the female discussants as a guarantee that there could be no collusion. The security of the money is a critical consideration and so far, the members are happy with the way it is managed.

The female discussants highlighted their good rating of the social support element. The VSLA provides a network for supporting each member under varied circumstances. During moments of sorrow (i.e. funerals) and happiness (i.e. weddings), all the members are there to support one another. It also emerged that social support extends to assisting each other with new positive ideas such as business ventures.

Men gave a high rating to the loan facility and the value of the share, which was premised on the fact that it is an important determinant of what a member expects to earn during the payout. The discussants said it was the basis of the group's existence. Without the share (and its value), then there is no group activity. Even loans are dependent on the value of the share. *"The fact that the share has a ceiling is also good because it makes all of us equal,"* said Mwana Hamisi Mlenge of Maendeleo.

[31] When the research team went to visit the group, the treasurer tried to tell the team that the members (most of whom were students) were away and could not be found for interviews. She was also in arrears.

The share price is manageable in relation to the economic status of the community and has enabled most of them to join. If it were higher, fewer members would be likely to join. The current share price is a great pull factor as it is within reach of most community members. Despite the evident high rating, the discussants felt that if the value of the share was to be increased, then the chances of getting a bigger loan would be higher, which they would prefer. The fact that the VSLA is the only programme providing loan services in the community was the main reason for its high rating among male discussants.

The programme elements that men consider important are very different from women's. Women seem to be concerned more about safety of their savings (not issues related to its utilisation) and social issues, whereas the men's focus is more on the loan side of the programme. The element rated as very important by both was the dividend payout. For the women, the significance of the payout was tied to what they were able to do with it as well as the fact that it allows a member to project how much they are likely to get and therefore prepare for a project that fits within a certain budget. Men also appreciate it because it enables them to project what they are likely to get at the payout and allows them to plan properly how to use the money. However, the male discussants felt that the payout would be greater if the ceiling on the shares was removed.

Women discussants felt that the profit element derived from fines and interest on loans would discourage the members from working hard in their businesses to make surpluses to save. They felt that profits can cause laxity among members who believe that even if they do not save much, they will still get more at the payout, courtesy of the profits made. Although they appreciate the fact that the shares' value appreciates as a result of the penalties, they do not rate the profit element highly. What matters is what the members themselves save. They did not want to be dependent on other means for increased payout. The women also felt that the other savings, i.e. welfare and education savings, did not constitute the core savings business but only helped to support members during times of need.

Men had issues with the penalty. Although it was meant to instill discipline, they felt it could be misused and that another form of punishment should be explored. They explained that for poor people raising the different kinds of penalties can be difficult. They felt the penalties affect their ability to pay the share (in some of the groups, they insist that you must pay a penalty before the share). Group officials, however, thought that penalties helped to enforce discipline in the groups.

5.2.2 Main Changes in Group Operations

In order to understand the issues relating to the group dynamics, the study explored some of the major changes in the operations of the groups and why those changes were necessary. Four trainers were interviewed in addition to selected group members.

Training

Through interviews with trainers and a review of the training manual, the study established that there have been no changes in the content of the training provided by both CARE and post-CARE trainers. The only difference is that some of the post-CARE trained groups did not complete the full curriculum. All four trainers interviewed were trained by CARE. The trainers used the manuals that are used as reference by the current group of trainers.

Operating Procedures

There were several changes in the operation of groups which affected both the CARE-trained and post-CARE-trained groups in equal measure and cannot be attributed to differences in approach. They were mostly in response to programme attributes that the members felt were not favourable to them and affected areas such as share value, termination period, interest rates, loan term and loan amount and delinquency management (as discussed in Section 4.1).

According to the trainers and JOCDO officials, the changes are due to three main factors: first, persuasion by other groups to abandon the initial training procedures in the CARE training manual; second,) a phase-out meeting hosted by CARE at which the groups were told they were free and independent to carry out their activities how they wanted; and third, a lack of updated policies and procedures based on group experiences.

The study found that as the groups mature the needs of their members change and the pressure to respond to these changing needs is overwhelming or else they lose them. For example, in three groups (Nia Njema, Safari Nkema and Mvivi Hashibi with the largest number of exits, 16, 13 and 9 members respectively), the exits left to form new groups or went to other groups with a higher share value when their groups could not increase the share contributions. This is healthy because they stayed within the programme. Some other groups also changed their bye-laws and increased their share value, a sign of natural progression. But changes such as opening up the loan amount without tying it to shares showed an increased potential of risk. This was illustrated earlier by the example of Riziki Popote

CHAPTER 6: CONCLUSIONS

Based on the evidence gathered from the findings above the following conclusions can be drawn.

1 Outreach and Sustainability

The VSLAs in Zanzibar have performed well in these areas. Overall membership has grown from 1,272 in 2002 when CARE left to an estimated 4,552 in July 2006, an annual growth rate of 64% (not compounded) or 258% over the four-year period. This compares favourably with an exit rate of 3% per year or 12% over the four years. The average membership per group is 29, with women being 70% of the general members. The growth rate in both membership and groups and the low exit rate suggests that there is demand for the services offered by the VSLA model, especially from women.

While existing groups may be able to survive on their own due to the demand for services, JOCDO still has a critical role to play in the formation and development of new groups. New groups need training and stationery to start up with and some form of monitoring before they can operate effectively on their own.

The VSLA groups have continued to perform well after CARE's departure. The sample groups registered a mean average dividend rate of 53% during their last payouts, with individuals receiving a mean average payout of Tsh.172,535 ($138) against average savings of Tsh.112,420 ($90) per member. Most groups (72%) maintained a cycle of 12 months for payouts. Their financial position during the current cycle reflected a positive cumulative income of 25% over overall total assets. Each member has accumulated a mean average surplus or profit of Tsh.31,405 ($25). The VSLA is therefore offering useful financial services in a context where there are few alternatives and in particular no formal or semi-formal providers. In this sense it is reaching those who are otherwise unserved.

Despite the impressive return to its members, there were few cases of where officials mismanaged members' funds. One area still not standardised is the documentation on loans and schedules.

2 The Role of Village Trainers as Support Service Providers in the Ongoing Support to Groups and Expansion of the VSLA Model

Due to limited resources, JOCDO has not developed the capacity to provide trainers with adequate support to enable them carry out training and maintain effective groups. Despite this, VSLA groups have generally performed well, showing an effective demand and good potential for growth and expansion. The exiting groups have further accepted social responsibility in supporting JOCDO by partially financing the creation of new groups.

JOCDO still has many challenges based on its current capacity. The newly recruited trainers are inadequately equipped and JOCDO has not clearly defined its core business. Currently it has no business plan.

3 Poverty Outreach and the Socio-economic Profile of VSLA Users in the Socio-economic Context of Zanzibar and Tanzania as well as the Availability and Use of Other Financial Services

The profile of the members is fairly representative of the Zanzibar population as a whole on a range of indicators such as food and shelter. VSLA members were also well educated: 58% of women VSLA members compared to 48% of women in Zanzibar and only 5% in Tanzania had some secondary level of education; for men VSLA members this was 55% compared to 53% for Zanzibar and 9% on the Tanzanian mainland.

4 Usefulness of the Model in the Livelihoods of Members

Members have benefited from the savings services offered by the VSLAs and the majority, especially women, have generally been satisfied with the security of their money, the incentive to accumulate money in affordable amounts and the opportunity to get lump-sum payouts with profits at the end of the cycle for consumption and/or investment. Members have also benefited from the loans, which have mostly been used for business and household expenses. An unusual but significant loan usage was the payment of debts, which was explained as borrowing from friends within the groups. Some members who did not require loans immediately borrowed for their colleagues and such colleagues would then borrow to repay that loan. Despite the fact that men tended to rank loans as a major reason for joining the groups, the survey results suggests that there was no significant difference between women and men in the actual loans taken.

The VSLA members interviewed ranked improved standards of living (22%), improved housing (21%) and increased incomes (20%) as the major changes resulting from the VSLAs. Most of the changes seem to be either related to business growth or household improvements. Notable uses of the money are for paying school fees and for local community or family celebrations.

Although members expressed their appreciation of the services offered by the VSLAs, they found that there were also limitations that led to changes in product attributes. As the groups mature their needs tend to become more varied and so the services offered must be reviewed and adapted.. Changes such as an increase in shareholding or loan sizes can improve the programme but should be done within acceptable limits so that the poor are not discriminated against.

5 Operation of the Internal Group Dynamics over Time

The action audit is a key element for enforcing discipline and ensuring repayment. Due to its predetermined dates, the action audit helps individuals to plan their borrowing. It has also helped officials maintain a good recovery of delinquent loans.

Some groups have adapted the model's bye-laws. On the one hand, the evidence, e.g. from the survey on loan sizes and payouts, suggests that there has been little adaptation, i.e. the rule on loans being three times the shares seems relatively well enforced and most groups had an action audit within 12 months prior to the study in July 2006.. On the other hand, there is evidence of changing interest rates, increasing the share value and lengthening the duration of the cycle. It was, however, noted that only one group out of 25 had delayed the breaking of a cycle due to delinquency caused by one individual. Other groups that changed the length of their cycle did it in order to allow higher payouts.

Adaptations to a large extent therefore seem to be motivated by positive reasons, such as higher payouts and higher loan amounts. These positive changes in the bye-laws can be said to be making the model more appropriate to local people's circumstances.

Evidence suggests that the CARE trainers started with a clear rigid model that to some extent is still being introduced to the new groups. The rigidity of the model's initial implementation has probably been a positive force in maintaining high standards. However, after two or three years group members have realised that it could work better and have looked at what adaptations might be needed.

ANNEXES

Annex 1 Use of Other Savings Services by Socio-economic Characteristics

(% of individuals)	Sample size	Bank	SACCO	ROSCA (Upatu)	ASCA Bisira
Overall	136	0.7	5.9	28.7	1.5
Gender					
Men	49	2.0	0.0	22.4	0.0
Women	87	0.0	9.2	32.4	2.3
Survey type					
Current member	109	0.9	7.3	28.4	1.8
Past member	27	0.0	0.0	29.6	0.0
Marital status					
Married	96	1.0	7.3	30.2	1.0
Single	27	0.0	3.7	14.8	3.7
Separated/Divorced	8	0.0	0.0	25.0	0.0
Widowed	5	0.0	0.0	80.0	0.0
Age					
<40	91	0.0	5.5	28.6	2.2
>40	45	2.2	6.7	28.9	0.0
Education					
Primary & less	59	0.0	5.1	25.4	0.0
Secondary +	77	1.3	6.5	31.2	2.6
Wealth category					
Rich /Above Average	19	0.0	0.0	31.6	0.0
Average	74	1.4	8.1	28.4	2.7
Below average	43	0.0	4.7	27.9	0.0
Main income					
Agriculture	44	0.0	6.8	27.3	0.0
Fishing	26	3.7	3.8	26.9	3.8
Business	43	0.0	4.7	30.2	2.3
Employment	10	0.0	10.0	50.0	0.0
Student	11	0.0	9.1	9.1	0.0
None	1	0	0.0	100	0.0
Other (casual labour)	1	0	0.0	0.0	0.0

Annex 2 Percentage Use of Other Loan Services by Socio-economic Characteristics

(% of individuals)	Sample size	Bank	SACCO	Relatives/Friends	Employer
Overall	136	0.7	2.2	17.8	1.7
Gender					
Men	49	2.0	2.2	18.4	4.5
Women	87	0.0	3.4	17.4	0.0
Survey type				***	
Current member	109	0.9	2.8	13.9	0.0
Past member	27	0.0	0.0	33.3	9.1
Marital status					
Married	96	1.0	3.1	22.1	2.2
Single	27	0.0	0.0	0.0	0.0
Separated/Divorced	8	0.0	0.0	25.0	0.0
Widowed	5	0.0	0.0	20.0	0.0
Age					
<40	91	1.1	2.2	15.6	0.0
>40	45	0.0	2.2	22.2	4.0
Education					
Primary & less	59	0.0	1.7	15.3	0.0
Secondary +	77	1.3	2.6	19.7	3.0
Wealth category					
Rich /Above Av	19	0.0	0.0	5.6	0.0
Average	74	1.4	4.1	20.3	2.9
Below average	43	0.0	0.0	18.6	0.0
Main income					
Agriculture	44	0.0	4.5	20.5	0.0
Fishing	26	0.0	0.0	15.4	0.0
Business	43	0.0	0.0	16.7	0.0
Employment	10	10.0	10.0	20.0	0.0
Student	11	0.0	0.0	0.0	20.0
None	1	0.0	0.0	100.0	0.0
Other (casual labour)	1	0.0	0.0	10.7	0.0

***, Chi-square test for the cross-tabulation was significant at 95%.

Annex 3 Wealth Categories

Village	Wealth category		%	HH headed by VSLA members	Spouses of VSLA members	Spouses of non-VSLA members	Total individual coverage	Total VSLA HH coverage	HH coverage by wealth category, %
Muyuni	Rich	2	2	0	0	0			0
	Middle	48	54	10	1	3	13	13	27
	Poor	40	44	7	3	4	14	11	28
	Total	90	100	17*	4	7	27	24	27
Jendele	Rich	2	4	2		1	3	3	100
	Middle	38	76	3	1	1	5	4	11
	Poor	10	20	2			2	2	20
	Total	50	100	7	1	2	10	9	18
Binguni	Rich	1	2	0	0	0	0	0	0
	Middle	15	30	4	1	1	6	5	33
	Poor	34	68	6	5	3	14	9	26
	Total	50	100	10	6	4	20	14	28
Overall	Rich	5	2	2	0	1	3	3	60
	Middle	101	30	17	3	5	24	22	22
	Poor	84	68	15	8	7	30	22	26
	Total	190	100	34	11	13	57	47	25

Household wealth characteristics: Muyuni		
Rich	**Middle**	**Poor**
• Value of goods in shop more than Tsh.1mn • More than 3 acres of land • Rental houses • Monthly income of more than Tsh.100,000 • Uses banking facilities	• Has about 4 cattle • Has a house worth more than Tsh.100,000 (iron-roofed, bricks/stones, plastered, TV, sofa set) • Monthly income of Tsh.50,000–100,000 • 3 meals per day • Wooden bed with good mattress • Primary schoolteacher • Has food reserves • Owns a motorbike	• Owns bike • Income of less than Tsh.50,000 per month • Less than 3 cattle • Grass-thatched and mud house • Bed made from coconut-tree leaves • Less than 2 meals per day • Hunters • Hired labour • Children go to public schools • –rope straps for a bed • Less agricultural land to farm

Household wealth characteristics: Jendele		
Rich	**Middle**	**Poor**
• Owns car • Owns fairly new motorbike • If he owns a used motorbike, then it is a big one • Has a garden in his compound with trees meant for relaxation • More than 10 acres of land • Coloured TV • Videocassette recorder • Big radio • Permanent house: stone walls, cement floor, iron-roofed • Shop with value exceeding Tsh.5mn • Dresses well • Eats variety of foodstuffs at will • Has more than 50 cows	• Has small, old and used motorbike • Has less than 50 cows • Less than 10 acres of land • A medium-sized house, with iron roof, cement floor and painted walls • Has a small black-and-white TV • Shop with value Tsh.500,000–1mn • Middle-level or junior government employee, e.g. teacher • 3 meals a day	• Thatched mud-walled house • Problems feeding himself and family, mostly 2 meals a day • Has land 0–2 acres • Has micro-business value less than Tsh.20,000 – goods are sold at once and restocked the following day • Has less than 3 cows and mostly owns goats • Poor clothing, tattered, rarely changed

Household wealth characteristics: Binguni		
Rich	**Middle**	**Poor**
• Owns car • Owns fairly new motorbike • Has a lot of land, mostly more than 10 acres • Coloured TV • Permanent house, stone walls, cement floor, iron-roofed • Shop with value exceeding Tsh.3mn • Dresses well • Eats variety of foodstuffs at will • Has 2–3 exotic cows and more than 10 indigenous breed cows • Children are never sent away to school because of lack of school fees or other levies like building funds • Owns several fishing boats	• Has small, old and used motorbike • Has less than 10 indigenous breed cows • Has less than 1 acre of land • Medium-sized iron-roofed house which is not very good • Small black-and-white TV • Has shop value Tsh.200,000–1mn • 3 meals a day • Has problems raising school fees, though he eventually pays • Owns 1 fishing boat	• Owns bike • Thatched mud-walled house • Problems feeding himself and family, difficulty getting 2 meals a day • Has 0–2 acres of land • Has micro-business value less than Tsh.20,000 – goods are sold at once and restocked the following day • Owns chicken • Poor clothing, tattered and rarely changed • Provides cheap labour, hired by boat owners and others

Annex 4 Case Studies

1 Experience with Savings

Case 1 Mboja Hassan

Mboja Hassan is married with four children. She is a member of the Asiobahatisha Hachumi group, which she joined in 2003. She has had two dividend payouts. The first time she received Tsh.110,000. She invested part of it in her *khanga* business and the balance was used to construct the family house. Her second payout was Tsh.310,000. She invested part of it in her *khanga* and Mandazi (Doughnuts) business, and the remainder was used in the continued construction of the house. She was grateful that the savings significantly contributed to the construction of her house and the expansion of her business.

Case 2 Sadi Abdalla

Sadi Abdalla is 25 years old and married with four children. He joined the group in 2002. His weekly share contribution is Tsh.3,000. He is a fisherman and is a member of the Mwanzo mgumu group.

"I have received five payouts. The first was worth Tsh.60,000 and I used it to roof my house with iron sheets. The second payout was Tsh.80,000. I used Tsh.60,000 to cement the floor and put aside Tsh. 20,000 to contribute to my weekly savings. The third payout was Tsh.100,000 and I used all of it to buy a cow for milking. The fourth payout was Tsh.120,000 which I used to purchase fishing nets and repair my boat. My fifth payout was Tsh. 100,000 but they deducted Tsh. 60,000 for a loan that I had taken and had not repaid. The remaining Tsh.40,000 I used for household purposes. The payouts have helped me a great deal and they always came when I needed them most. With the payout system, you get what you want. So if you want to get a bigger payout, then you must save the maximum Tsh.3,000 per week."

2 Experience with Loans

Case 3 Hidaya Saide Jenge

Hidaya Saide Jenge is a 35-year-old mother of three. She joined the Hawavumi group in 2002. Over the past four years, she has taken out eight loans, two per year.

Her first loan was in 2002 and worth Tsh.50,000. She invested it in a fishing business. She was unable to repay the loan in three months. *"I faced serious problems repaying the loan,"* she said. *"I did not have experience in the use and management of loans."* She only managed to repay it fully by the fifth month.

She explained: *"For me, the problems I faced in repaying the first loan were a major lesson and experience in how to manage loans. I learnt the very hard way because I had never managed loans. It* *made me wiser in my latter loan uses. I lost my insurance fee and I will never forget that loan. It was my most significant loan."*

She took her last loan of Tsh.40,000 in February 2006 and invested all of it in her small shop. She repaid it without problems within the three months.

Case 4 Suleiman Abdalla Chembe

Suleiman Abdalla Chembe is 32 years old. He joined the Mwanzo mgumu group in 2002. He has always had problems repaying his loans. *"It is just laziness that makes me delay the repayments."*

However, a noticeable feature of Suleiman's loans is that they were all for consumptive purposes. His first loan worth Tsh.50,000 was invested in building. He says: *"This loan really helped me because after using it to build my house, I was able to attract a wife."* He said that he repaid the loan in small instalments and only cleared it after six months (three months past due date). *"I was penalised heavily for this by the group."*

But Suleiman seems not to have learned his lessons. His last loan which he took in January 2006 was worth Tsh.50,000. He used it to treat an ailing parent. *"I have gone six months without paying the loan but I do hope to pay this month."* This seems to indicate that Suleiman does not take the loan issue very seriously, which is unfortunate for the group if there should be other members with a similar attitude.

He said that his biggest loan was Tsh.30,000 and he employed people to dig a latrine in his house. But he still overstayed the time limit for this loan for six months.

Though Suleiman claims that he is lazy when it comes to repaying the loan, the researcher was of the view that his income was insufficient to repay the loan in three months. He is a junior civil servant and appears to be relying on his salary to repay the loan as well as meet family needs. This seems to be proving impossible

Case 5 Vuai Jaku from Asiobahatisha

"I am a 22-year-old fisherman. I joined the group after its first cycle. The group had only 16 members and so when they finished the cycle, I was one of the lucky ones who were able to get in. Over the past two years, I have been able to borrow twice.

"My first loan was Tsh.100,000 and I took it in 2005. I bought stones, which I intend to use to build my house. I am putting together the required materials for construction. I had problems repaying the loan. I was only able to clear it after four months (went one month beyond the required deadline). That time the fishing business was not doing very well and yet it was my only source of income for

loan repayment. I lost my insurance fee and was also fined Tsh.1,500 for the month the loan was in arrears. Those were really tough times for me. But I eventually cleared the loan.

"My second loan was Tsh.50,000. I am investing all of it in my house. I really need to finish constructing my house. This time, I am better prepared with my fish business and the sales have been good. I do not think I will face difficulties in repaying the loan as happened with the previous one."

3 Changes in Members' Lives

Case 6 Shafau Abdalla

Shafau Abdalla is 22 years old and joined the Riziki Popote group in 2004. She has taken six loans (she said that in a year, she can take up to three loans). Her first loan was Tsh.50,000. She pooled it with her husband's savings and bought electricity poles, which enabled her to connect electricity to her house. She then diversified from her fruit juice business to poultry. *"The electricity has really helped our poultry business to thrive. Joined with husband we bought posts for electricity to bring to our house, which now help with my Poultry Business. I did not have arrears."*

Her last loan was forTsh.80,000. She took it to buy chicken feed. She has started repaying the loan, although she has two months before the expiry of the loan term. *"I anticipate no problem in repaying the loan because I invested it well and I am managing the investment myself,"* she said.

However, Shafau revealed that she faced problems repaying two previous loans. Both loans went beyond the repayment period by two months. *"I had a difficult pregnancy and was always sickly. Though I had used all the money investing in the business, I was never able to manage it properly and therefore, the returns were not so good. I really suffered during that period. But now I am fine and I am sure I cannot face similar problems. My most significant loan was the one I used to bring electricity to the house. I will remember this for the rest of my life,"* she concluded.

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