Linking with Savings and Credit Cooperatives (SACCOs) to expand financial access in rural areas: a case study of CRDB Bank in Tanzania*

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Acronyms

CIA	Central Intelligence Agency
CRDB	Cooperative and Rural Development Bank
DANIDA	Danish International Development Agency
DFID	Department for International Development
DKK	Danish Krone
ESAF	Enhanced Structural Adjustment Facility
IFAD	International Fund for Agricultural Development
MEDA	Mennonite Economic Development Association
MFI	Microfinance institution
MoU	Memorandum of Understanding
NMB	National Microfinance Bank
PAR	Portfolio at risk
PTF	Presidential Trust Fund
RFSP	Rural Finance Support Programme
ROA Kiruvi	Ruaha Outgrowers Association in Kiruvi
SACCO	Savings and Credit Cooperatives
SCCULT	Savings and Credit Cooperative Union League of Tanzania
SELF	Small Entrepreneur Loan Facility

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Abstract: *The case study reviews CRDB Bank, the fifth largest commercial bank in Tanzania, and its desire to do 'something positive' about the majority of Tanzanians alienated from the commercial banking sector. Although this appears to be a story about CRDB's level of corporate social responsibility, it may have more to do with a smart, forward thinking bank strategizing to the deal with the inevitability of a saturated high-end, urban banking market. The author describes CRDB's strategy of linking with Savings and Credit Cooperatives (SACCOs) as a way to cost-effectively increase the supply of financial services in the rural country side. Some of findings from the study are that there must be the willingness and commitment from management to enter the lower-income market, to make a large upfront investment into the model and to have a long-term vision.*

Introduction

This study aims to provide a description and critical review of CRDB Bank Ltd (hereafter referred to as CRDB) and its microfinance linkage strategy with selected savings and credit cooperatives (SACCOs). CRDB is Tanzania's fifth-largest commercial bank. It was established in July 1996 and has launched its microfinance initiative in 2001. Since its inception, the microfinance unit in CRDB has grown rapidly and today serves more than 78 000 clients through 157 partner institutions.

The study is of particular interest given the challenges and importance of rural finance in Tanzania; the political and economic transformation which Tanzania has undergone over the past 10 to12 years; the resulting transformation of the financial sector (including SACCOs); the highly successful transformation of CRDB from a state-owned to a privately owned commercial bank; and the nature and scope of the CRDB linkage model.

The study sets out to examine the main constraints to rural finance service provision in Tanzania, and aims to: identify the important preconditions for this type of linkage to emerge; identify key design factors of the linkage; evaluate the impact of the financial linkage at the institutional and client levels; and draw lessons learned for possible replication elsewhere.

Overview of Tanzania

Political overview

The period under Nyerere – also known as 'Father of the Nation' – was characterised by a one-party state and the introduction of socialism. One-party rule came to an end in 1995 with the first democratic elections held in the country since the 1970s. President Makapa, elected in 1995, is heading the Tanzanian government Tanzania today.

The Tanzanian population represents 130 indigenous tribes, and a small number (1 percent of population) of Asian, European and Arabian descendants. The main indigenous language is Kishwahili (Swahili), with English as a second official language. The historic Arabic influence remains in Tanzania through a strong Muslim following (35 percent mainland and 99 percent in Zanzibar).

Economic review

The structural adjustment process plunged Tanzania into a period of serious economic problems from 1992-1995, but the new government, which took control in 1995, adopted an economic recovery programme from 1995-1998, supported by the Enhanced Structural Adjustment Facility (ESAF) (DFID 2000). Continued donor assistance and the introduction of solid macroeconomic policies have resulted in an increase in industrial production and substantial growth of the mining sectors from 1995 onwards. The economy has been growing steadily since then and registered a GDP growth rate of 5.8 percent in 2004 (CIA, 2005) with total GDP for 2004 estimated at close to US$24 billion. Inflation dropped from a high of 30 percent in 1995 to 5.4 percent in 2004.

An estimated 80 percent of the population lives in rural areas, which is then also where the highest incidence of poverty is encountered. The population density and economic activity of the various regions differ tremendously, with the higher population density and the main economic activity being in the east (including the economic capital Dar es Salaam) and the northern border regions. In contrast, the central regions (including Dodoma) are sparsely populated and economic activity is limited, with even higher resulting poverty levels than elsewhere.

While improving, the infrastructure in rural areas remains poor. Markets for agricultural goods are underdeveloped or nonexistent and there is limited access to finance, particularly for subsistence farmers. This underscores the importance of poverty alleviation programmes and initiatives in rural areas. These include the development of rural farmers and associations, and improving access to financial services for the rural poor.

Social and human development

Tanzania ranks as one of the poorest countries in the world. Despite various economic reforms and strong growth in GDP over the past 20 years, by March 2005, 60 percent of the population was estimated to live on less than US$2 per day.[1]

The financial sector in Tanzania

In 1991, the Government of Tanzania introduced financial sector reforms in line with the broader economic reform policy aimed at liberalization of the economy. The main goals of the financial sector reforms were to enable banks to operate on a commercial basis by allowing private ownership and decision making on institutional level. The key components of the reforms were: liberalisation of interest rates; elimination of directed credit; restructuring of state-owned financial institutions (including CRDB); encouraging the entry of private ownership; and strengthening the regulatory and supervisory role of the Bank of Tanzania. In 1996, NBC was subdivided into a commercial bank, NBC, and the National Microfinance Bank (NMB), and CRDB was restructured and privatized.

The Cooperatives Societies Act was also introduced in 1991. The Act created the legal framework for cooperatives to be established as privately-owned equity-based institutions registered under the Ministry of Cooperatives and Marketing. The Act applies to all types of cooperatives, be that an agricultural production society or a SACCO. The main principle established by the Act was volunteerism and self-regulation.

However, despite these reforms, access to finance for poor Tanzanians – particularly in rural areas – remained limited. In 1996, the government, in collaboration with the donor community, initiated a microfinance policy formulation process that started with a national demand-side study. A draft National Microfinance Policy was discussed by stakeholders in

1999 and approved by the Government in 2001.[2] The policy reflects the government's recognition of the microfinance sector as an integral part of the financial sector.

The policy led to the Microfinance Companies and Micro Credit Activities Regulations of 2004, which govern microfinance companies (under the supervisory authority of the Bank of Tanzania, as well as the Savings and Credit Cooperative Societies Regulations and Financial Cooperative Societies Regulations of 2004). The regulations on savings and credit cooperatives have come into effect in March 2005 and stipulate that cooperatives with capital exceeding Tshs800 million (around US$ 707,280), are subject to regulation and supervision by the Bank of Tanzania. Cooperatives with capital below this amount, is subject to regulation and supervision by the Registrar of Cooperatives under the Ministry of Cooperatives and Marketing.[3]

The market place today

While much progress has been made in the reforms of the financial sector, it has been primarily mainstream banking which showed considerable progress. However, their clients represent less than 20 percent of Tanzanians.[4] In certain respects, the transformation process of the past 15 years has had a reverse impact on access to finance for the rural poor, as major banks restructured and consolidated their performance, in the process withdrawing to regional centres.

The Financial Sector Assessment Program of the IMF (2003) found that micro credit accounted for less than 5 percent of all bank credit in Tanzania, or less than 0.4 percent of GDP (around US$35,3 million).[5] The main form of savings and credit for the rural poor are through Rotating Savings and Credit Schemes (ROSCAs or "Upatus"). Other providers of microsavings facilities and microcredit to the poor are savings and credit cooperatives (SACAs), microfinance NGOs, the Post Office Bank and a few commercial banks.

SACCOs. By January 2001, there were 646 registered SACCOs, of which 60 percent were rural. The total shares and deposits of the 40 percent urban SACCOs far outstripped that of the rural SACCOs.[6] This demonstrates the extreme level of poverty of the rural poor, which mostly eke out an existence through smallholder farming or small/micro enterprises, whereas members of urban SACCOs are often salaried income earners. However, SACAs and SACCOs are often limited in terms of their capacity, access to capital, and outreach. There have also been weak linkages between the informal financial institutions and formal banking institutions.

NGOs. The largest microfinance NGOs are the Mennonite Economic Development Association (MEDA), PRIDE-Tanzania, FINCA and the Presidential Trust Fund (PTF) which has been privatised as a microfinance NGO. However, most of the microfinance NGOs are heavily donor dependent.

Commercial banks with products and services targeted at the lower income segment include the National Microfinance Bank (NMB), CRDB, Akiba Commercial bank and some regional banks. NMB has then also engaged in 'linkages' with SACCOs, by providing loans and deposit facilities to SACCOs. Their focus has been primarily the small-scale sugarcane farmers.

The formal financial sector is generally reluctant to lend to donor-dependent NGOs. The main involvement of the commercial banks in microfinance is usually deposit-taking with a total deposit mobilisation of about US$336 million in 2003, in contrast to US$12.5 million in microcredit.

Support to the informal sector: key players

The relevance of SACCOs among the poor, as well as their restraints, has been well recognised by the government and donors, and various initiatives have been launched to address these weaknesses and assist with capacity building among SACCOs.

IFAD Rural Finance Support Programme (RFSP).[7] RFSP, launched by IFAD in 2001, is a nine-year programme comprising of three phases, with the main aim of enhancing the capacity of the rural poor to mobilise savings and invest in viable income generating activities through the development of viable rural financial services. The programme has five development components, namely: improvement of the managerial capacity and performance of grassroots microfinance institutions (MFIs); rural financial systems development; and empowerment of the rural poor. Capacity building includes the strengthening the linkages between the formal and informal sectors.

The programme was rolled out in three different geographic zones and targeted the poorest households and their financial institutions (SACCOs and SACAs serving them). Various forms of support has been offered to these SACCOs/SACAs, including training of staff, management and members; training-of-trainers; support in developing business plans; loans to SACCOs to increase their outreach, etc.

SELF. In 1999, the Small Entrepreneur Loan Facility (SELF) was launched by the Vice-President's Office, co-funded through a concessional loan from the African Development Bank (ADB). The main goal of the programme has been to improve access to finance for the rural poor by supporting microfinance intermediaries (including SACCOs) to improve their capacity and move towards sustainability. In the pilot phase the project covered six impoverished regions, namely Coast region, Morogoro, Dodoma, Singida, Mtwara and Lindi. In 2002 the project was extended to Unguja and the Pemba islands.

The project has three windows: lending (wholesale) microfinance institutions, for purposes of on-lending; capacity building through training of key stakeholders and train-the-trainer; outreach (marketing) and monitoring of poverty impact of initiative. Lending is based on a rate between that of the Treasury Bills and the market rate, and in June 2005 was equal to 12 percent plus a 2 percent application fee. While the programme has made good progress, rollout has been slower than anticipated because of the high poverty levels within the target communities with limited viable economic activities, and the low existing skills level of MFIs.

SCCULT. The umbrella SACCO body, SCCULT, was reestablished in 1992. Membership is voluntary and appears to be predominantly urban-based. SCUULT provides various services to members through their regional field offices, such as training and a bookkeeping package, as well as access to funds for on-lending. Funds are raised funds through membership fees, some donor support and also through attracting member savings into a central fund. However, SCCULT's capacity seems to be limited and they are facing various challenges in obtaining sufficient funding for on-lending.[8]

CRDB (Cooperative and Rural Development Bank)

The history of CRDB dates back to 1947, when the government established the Land Bank of Tanganyika (LBT), and is marked with a number of mergers and restructurings by the government in an attempt to mobilise credit for rural development and agricultural purposes.

However, CRDB was renamed CRDB Bank Ltd (1996) and the assets and liabilities of CRDB were transferred to CRDB Bank in 1996. Seven shareholders were elected to the board, with a further three members appointed by the DANIDA Trust Fund. DANIDA has since been providing technical and managerial support, while pledging to continue its financial interests in CRDB Bank by owning a minimum of 20 percent and a maximum of 30 percent of the shares on a temporary basis (Table 1). This holding can be sold once CRDB has acquired the necessary financial and managerial resources to operate on sound banking principles.

As at June 2005, the paid-up capital of CRDB equalled US$10,9 million (Tshs12.3 billion), and CRDB has more than 11 000 shareholders.[9]

Table 1 *Shareholding of CRDB Bank*

Shareholders	% Equity
Private Individuals	37.0%
DANIDA Investment Fund	30.0%
Co-operatives	14.0%
Companies	10.2%
Parastatals (NIC, PPF)	8.8%

Before becoming a commercial bank, CRDB had limited branches with staff moving around to serve clients. This changed when CRDB Bank Ltd was formed, and as at June 2005, CRDB had 35 branches, of which seven are in Dar es Salaam and the rest in other regions.

CRDB bank and microfinance

Given the historic involvement of CRDB with rural areas and cooperatives, and the equity holding of DANIDA, CRDB's venture into microfinance seems an almost natural extension of its activities and a reflection of both its broader social goal and the strong emphasis on commercial banking practices adopted by the new CRDB Bank Ltd. However, CRDB could also have chosen to only remain in the 'safer' upper-end of the market, after the multitude of bad experiences with rural credit over the years.

Around 2000, CRDB realised that the institutional reforms it implemented following its restructuring had set it on a strategy which alienated the majority of Tanzanians – those earning less than US$221 (Tshs250 000) or approximately 6,8 million households.[10] The lower end of the market had become extremely impoverished following the structural economic crisis of the early 1990s, while most players in the financial industry were targeting the increasingly saturated high end of the market.

The linkage model was selected, as it was found most appropriate given that it builds on the financial systems of the very communities it wishes to serve. The model was built on the following three assumptions:

- That a large number of community-based financial institutions already existed, and had the ability to act as intermediaries to mobilise deposits;
- That there was a large demand for financial services in rural areas and that the community-based institutions could meet this demand on a self-sustaining basis if they had the necessary capacity and access to capital;
- That both depth and breadth of outreach could be achieved in a self-sustainable manner through local financial intermediaries, which could provide a broad set of services through a large network to the currently under-services segment of the market.

The vision of CRDB is then to successfully serve the broader Tanzanian market, complementing traditional high-end commercial and retail banking with a focus on the lower end of the market, based fully on commercial principles. As CRDB also historically had a strong presence in the regions and a close relationship with agricultural cooperatives, extending this vision to include the rural poor, seemed an easy fit with the organization strengths and culture.

The first linkages were formalised in 2001 in four pilot regions. Towards the end of 2004, CRDB formalised the microfinance initiative and the CRDB Bank Microfinance Company Limited (hereafter referred to as the MFC) was registered as a separate company.

During the initial three-year pilot phase (2001 to 2004), the Microfinance unit was operating as a division of CRDB Bank, and the costs associated with the initiative were not all ring-fenced. Staff was seconded from CRDB Bank Ltd and the unit was using CRDB Bank Ltd branch offices to conduct its work. The salaries of the managers of the microfinance unit, as well as certain overhead costs, were paid by CRDB Bank Ltd. Other direct expenses such as motor vehicles, stationery, and salaries of field officers, were paid for by the microfinance unit. Since the formation of the Microfinance Subsidy, CRDB (MFC), all costs are being accounted for and allocated to the MFC.

On-lending to the SACCOs has been funded by CRDB Bank (backed by the DANIDA guarantee) and by the deposits that the SACCOs have to place with the MFC as loan security (ranging from 10 percent to 25 percent of the loan amounts, depending on the MFIs performance record). With the Microfinance Unit becoming an independent registered company, it is envisaged that all funding will in future be based on the initial equity of CRDB Bank, deposits by linked SACCOs, and lending from external sources based on commercial principles.

Linkage between CRDB and SACCOs

The implementation of the proposed linkage strategy was carefully planned, while CRDB maintained flexibility and an openness to adjust the process as required. The process was not without its challenges, but the commitment and perseverance has yielded phenomenal results, with a total of 157 SACCOs linked in less than five years (some started from scratch by CRDB), representing a total clientele of 78 855 as at June 2005.

Piloting the initiative

In 2000, CRDB started negotiating with existing SACCOs and key players in the market, such as IFAD, on the formation of linkages with CRDB. CRDB also approached various community leaders and existing ROSCAs and SACAs. This presented a lengthy process of negotiation, where a team from CRDB spent much time in the selected regions.

The pilot process is described by the MFC management as one of collaboration, rather than a process of 'selection'. The pilot initially focused on four regions: Dodoma, Iringa, Mbeya and Morogoro. Contrary to the usual linkage model of first approaching the 'easy' areas, CRDB opted for these four regions exactly for the opposite reasons: these regions are of the poorest in Tanzania, with low incomes, and few other financial intermediary initiatives prevalent. The rationale for selecting these 'difficult' regions was that, should they succeed in these areas, the other regions would be 'easy' and a sure success to follow.

In essence, the CRDB linkage model therefore has two options: firstly, identification and recruitment of existing SACCOS based on their potential and meeting the set criteria (below); secondly, to identify potential geographic areas that have no institution that deliver financial services. In these cases the MFC assists with the formation of a SACCU through mobilising the community.

The selection of existing SACCOs is not based on historical performance, as most SACCOs had no records available and international standards could therefore not be used. Rather, SACCOs were selected based on the following:

- Commitment to learning;
- Commitment to make available time;
- Willingness to provide CRDB with required information;
- Experience with/prevalence of fraud;
- How the SACCOs were managing themselves and whether they were serious about what they were doing.

The process followed more from building relationships with the SACCOs over time and mutually negotiated agreements, than a quick assessment of SACCOs' historical performance. The initial assessments were undertaken through multiple field visits by CRDB microfinance staff, but K-Rep was later engaged to further assist in the selection of the SACCOs and to engage with the SACCOs to enable K-Rep to develop a curriculum for future training purposes.

Nature and form of linkage

The nature of the linkage between the MFC and the SACCOs is manifold. Support ranges from assisting a community in the formation and registration of a SACCO, to capacity building and ongoing technical assistance. MFC provided following support to SACCOs:

- Initial assistance
- Management and governance structure
- Systems and reporting
- Training and
- Ongoing technical support and advice.

Profile of the 'linked' SACCOs

Table provides an overview of the SACCOs currently linked to the MFC. There are 157 linked SACCOs. Of these, 33 were formed by CRDB/the MFC while the remainder were already in existence and then linked up with the MFC. The majority (88) are located in rural areas, while the remainder are in urban areas or regional towns. This demonstrates the extent of outreach by the MFC into the very needy and underserved rural areas of Tanzania.

Various types of SACCOs exist, depending on the membership profile and the products extended to the SACCO members differ accordingly. In essence, there are three broad categories of SACCOs:

- **Community-based SACCOs.** These SACCOs can be found in urban areas or regional towns, but are most frequently encountered on village level. A variety of group and individual loans can be found, including women solidarity loans, business loans for individual members, or loans for small and micro enterprises;

- **Employee-based SACCOs.** These represent SACCOs where all the members are drawn from one employer and these SACCOs are generally located in urban areas or regional level. Specific salary-based loans are extended which are often guaranteed by the employer.

- **Agricultural SACCOs.** To date these represent primarily small-scale cane growers in areas such as the Morogoro region. Both individual farmers and farmers' associations can be clients of the SACCO. Loans are extended for various purposes, including agricultural production loans.

Table 2 *Number of Linked SACCOs per Region*

Regions	Dec-02	Dec-03	Dec-04	Jun-05
Dodoma	6	10	14	14
Iringa	10	16	20	22
Mbeya	7	11	17	23
Morogoro	9	12	16	19
DSM	0	18	22	27
Lindi	0	0	0	2
Mtwara	0	0	0	4
Tanga	0	0	0	4
Shinyanga	0	0	0	5
Mwanza	0	0	0	6
Kilimanjaro	0	0	10	15
Arusha	0	0	8	16
Total SACCOs	**32**	**67**	**107**	**157**
Profile of Linked SACCOs as at June 2005				
Formation: In existence pre CRDB			124	
Formed by CRDB			33	
Location/Nature: Peri-urban/Region			69	
Rural			88	

Many SACCOs may have a combination of different clients, including women solidarity groups, individual borrowers for small business purposes, individual salaried clients or farmers. The MFC does not encourage members to discriminate based on gender, but rather to welcome all potential clients who have a need for financial services and a good track record. However, the MFC does encourage SACCOs to extend loans to women solidarity groups in an effort to deepen outreach to the very poor. The split among SACCO members in terms of gender is almost 50/50, with a slight bias to women (Table), though this differs tremendously depending on the target clientele of the SACCO. The loans, in turn, tend to be biased to men.

All SACCOs offer deposit-taking facilities, loans and certain transactional facilities (payment facilities, debit orders, stop orders, money transfers, etc.), but the operations of SACCOs and average deposit and loan sizes differ substantially depending on the type of SACCO and its client profile. For example, the average deposit and loan size of the employee-based and urban/regional town SACCOs tend to be larger than those of community-based SACCOs, as the urban members generally have a higher income than on village level.

Similarly, the average loan and deposit of SACCOs with the MFC differs tremendously depending on the level of maturity of the SACCO, number and type of members. The financial profiles of SACCOs are discussed later in the paper.

Table 3 *Number of SACCO Members per Region*

Regions	Dec-02	Dec-03	Dec-04	Jun-05
Dodoma	2,025	5,284	7,957	9,434
Iringa	4,120	6,462	7,542	9,384
Mbeya	1,027	2,135	3,169	4,954
Morogoro	5,008	7,786	8,961	12,967
DSM	0	10,737	22,564	26,635
Lindi	0	0	0	559
Mtwara	0	0	0	1,190
Tanga	0	0	0	966
Shinyanga	0	0	0	680
Mwanza	0	0	0	946
Kilimanjaro	0	0	7,264	8,326
Arusha	0	0	2,355	2,814
Total Members	**12,180**	**32,464**	**59,812**	**78,855**
Ave nr members per SACCO				
Gender of SACCO Members as at June 2005				
Male			38,430	
Female			39,825	

Products and services offered to SACCOs and members

In addition to the technical support provided to SACCOs, the MFC provides various types of bank accounts and services to SACCOs, and some other services such as money transfers, insurance and the TemboCard to SACCO members.

On-lending to SACCOs

The MFC has a number of loan types available to SACCOs, depending on their financing needs. A SACCO must meet certain basic requirements to qualify for a loan. These requirements include audited accounts for the past three years; details of SACCO members, SACCO share capital, past performance report for individual borrowers, and so forth. SACCOs established by the MFC do not have to meet the initial requirement of audited financial statements, as these SACCOs are well known to the MFC. The main qualifying criteria are the quality of SACCOs' portfolios, management capacity, profitability and portfolio at risk (PAR).

A SACCO can borrow up to 100 percent of its arrears-free portfolio. For a first loan, the SACCO must also deposit 25 percent of the loan amount ('lien') in cash at CRDB. For subsequent loans, the 'lien' could be adjusted downwards based on good loan performance and the loan size of the SACCO.

As at June 2005, the on-lending interest rate charged to SACCOs ranged from 12.5 percent to 13.5 percent, (set at 10 percent above the savings rate of 2.5 percent, plus a 1 percent loan application fee which is equivalent to a commitment fee or loan processing fee. This percentage is applicable to the outstanding loan (declining balance approach). CRDB Bank's prime lending rate at the time was 19 percent, and CRDB's cost of funds was reported as between 5 percent and 6 percent.

SACCOs' lending rates to individual members differ greatly, depending on the economic activity of the members and the borrowers, duration of the loan, collateral, competition from other lenders, start-up and administration costs, and so forth.[1]

Loan surety and guarantees

There are different levels of surety in place – SACCO-member level, SACCO-MFC level, and MFC/CRDB level – to encourage a strong culture of loan repayment, mitigate risk to the MFC and to SACCOs, and to encourage the SACCOs and the MFC to extend outreach to lower income areas and for activities which are usually viewed as high risk (e.g. agricultural production loans).

Firstly, an MFC loan to a SACCO is guaranteed as follows:

- The agreed 'lien' for the specific SACCO, over the fixed deposit account, with the coverage as specified in the partnership agreement (initially minimum 25 percent of the loan amount).
- One hundred percent of the arrears-free loan portfolio is pledged as guarantee.
- In addition to the above surety for individual SACCO loans, DANIDA has provided a blanket guarantee to CRDB Bank to encourage it to lend to the lower income groups. An amount of DKK 12 million (US$1.96) has been deposited with CRDB Bank Limited, and CRDB Bank is allowed to issue loans to SACCOs (through the MFC) for up to 133.3 percent of the guarantee fund. The fund therefore guarantees 75 percent of the loans issued, while the SACCOs are required to provide for the remaining 25 percent through the 'lien' deposited with the MFC. In the case of a default, CRDB must first recover the outstanding loan amount from the 'lien' deposited by the respective SACCO, before the DANIDA guarantee can be accessed.

  As at June 2005, the DANIDA guarantee fund had not been accessed and in theory should never be accessed as long as the initiative is well run.
- The Danish Private Agricultural Sector Support programme (PASS) provides a guarantee to the MFC for loans issued to finance SACCOs established by sugarcane growers, and the guarantee is structured in the same way as the DANIDA guarantee fund. The PASS guarantee was brought in when the DANIDA fund was exhausted due to the high volume of SACCO loan applications, but is limited to SACCOs focusing on small-scale sugarcane outgrowers.

Various other forms of surety or guarantees are also prevalent, based on the type of loan and/or SACCO:

- A **group guarantee** from all the members on SACCO level (no monetary value).
- **Tiered cross-guarantee.** This refers to loans by SACCOs to individuals, which are guaranteed by the group. These guarantees are often used for agricultural purposes, where an individual loan to a farmer is partially secured by the farmers' association's guarantee to purchase the farmer's produce.
- **Employer guarantee loans.** There are two types of employee guarantee loans:
  - A SACCO may have some members who are formally employed, and their loans are guaranteed through a salary-based deduction by the employer.

- In contrast, an 'employee-based' SACCO would have drawn all its members from one employer and the SACCO may receive a general guarantee from the employer for all its members. The guarantee is to the MFC, and stipulates that for the loans issued by the MFC, the employer is committed to effect salary deductions and deposit them in the SACCOs' account with the MFC. In this way, CRDB Bank forfeits the 25% of the approved loan amount and the SACCO does not give any tangible security apart from the employer guarantee.

- **Women groups.** SACCOs are encouraged to allow women groups to operate at the SACCO level under group solidarity lending methodology.

Savings accounts for SACCOs

MFI Juhudi Account. This is the main account held by SACCOs at the MFC and has been specially designed for the linked SACCOs. 'Juhudi' means 'effort' or 'endeavour' and the savings account allows for multiple signatories and the withdrawal of funds on demand, with no withdrawal limit as long as the account is not overdrawn. Cheques can be used against the account and interest is earned on balances exceeding US$88.41 (Tshs. 100,000). As at June 2005, the interest rate was 2.5% per annum.

An overdraft facility is also available on the Juhudi account. The facility normally includes term loans and lines of credit. These are handled on a case-by-case situation, as the MFC stated that it is difficult to monitor the overdraft facilities.

Fixed deposit accounts. These accounts enable SACCOs to earn a higher interest rate than with the Juhudi account, and are normally used by SACCOs to deposit the mandatory 25 percent of the approved loan amount as security for the loan. As at June 2005, the interest rate on fixed deposit accounts was 4.5 percent per year.

Other products and services offered to SACCOs and their members

Cash-taking facilities. MFC collects cash from the SACCOs for safe-keeping. To this end the MFC hires a vehicle and security from the regional CRDB branch.

Insurance Services. CRDB Bank Limited is an agent for Royal Insurance. Thus the SACCOs secure their cash in custody, transit and teller cubicles against burglary through the CRDB Insurance agency.

Money Transfers. Money transfer facilities are available to SACCO members through deposits made at any CRDB branch, or from the SACCO via the MFC to a CRDB branch.

TemboCard. CRDB Bank's TemboCard is also available at some SACCOs. There are two versions of the TemboCard: the one is a debit card which allows clients to transact at CRDB and partner ATM's anywhere in the country. The other is a smartcard version, and is usually issued to rural SACCO members who do not have access to CRDB ATMs. The SACCOs have point-of-sale equipment which enables them to load value onto the account for a client. The clients generally use these smartcards for merchant-related purchases, such as paying for their agricultural inputs or stock.

Case studies of two SACCOs

ROA Kiruvi SACCO

The ROA Kiruvi SACCO in Kilombero near Morogoro, was established with the assistance of CRDB. Through educating and mobilising the Kilombero community into forming the SACCO over a period of three months, ROA Kiruvi was registered as a SACCO in July 200, and the MOU with CRDB was formalised by August 2001. At signing of the MOU, ROA Kiruvi SACCO had only 325 members. By June 2005, membership had grown to 1 717 members with member share capital of US$178 712.

Support from the MFC. In addition to assisting in the formation and registration of ROA Kiruvi, the MFC also provided support by providing front office equipment, training of 18 staff and management, and 538 members (June 2005). As at June 2005, the MFC has extended loans of US$ 2 016 251 (Tshs 2 280 million) to Kiruvi, and held deposits of US$3 718 (Tshs 4 205 771).

The MFC also provides on-going technical and marketing support.

Membership and Loan Profile. The membership profile of the 1 717 members of ROA comprises individuals, women solidarity groups (about 10 members each) and institutions such as schools, churches and the local sugarcane farmers association (Table 4). Most of the individual clients are then also sugarcane farmers. While individual membership and loans have a strong male bias, the number of women benefiting through membership, deposits and loans are boosted significantly through the 54 solidarity women groups with an average of 10 members each.

Table 4 *ROA Kiruvi SACCO - Membership and Loan Profile (Jun. 2005)*[11]

	Membership Profile		**Loan Profile w.r.t. Member Profile**	
	Nr of Members	Percentage	Nr of Loans	**Tshs.**
Male	1,262	73%	2,826	68%
Female	380	22%	1,228	30%
Groups (women solidarity)	53	3%	93	2%
Institutions	22	1%	-	0%
Total No. of Members	**1,717**	**100%**	**4,147**	**100%**

Based on the loan volume reported below and the total number of loans disbursed, the average loans size appears to be about US$589. This is relatively high and probably influenced by the large number of annual agricultural loans. The women solidarity group loans start off with a loan amount of maximum US$95 (Tshs.100000) per member, or just less than US$1 000 for a group of 10 women.

Products. ROA Kiruvi has a variety of products, customised for their specific client profile. These include three forms of savings account:

- Regular savings account with interest at 3 percent;
- Fixed deposit account with interest at 5 percent; and

- Junior account for children's education with interest at 4 percent.

Loan products include the following:
- Emergency loans at 5 percent per month;
- Agricultural loans at 16 percent per year;
- Business loans and development loans at 2 percent per month; and
- Women solidarity group loans at 2 percent per month.

The portfolio is dominated by agricultural loans, reflecting the main economic activity in the area (sugar-cane farming). Women loans were introduced more recently (Table 5).

Table 5 *ROA Kiruvi SACCO – Loan Profile i.t.o. Sector (June. 2005)*[12]

	US $ '000 (1:1110)	Tshs. '000	Percentage
Of which:	-	-	0%
Agriculture	2,182	2,422,144	82%
Trade	311	345,557	11%
Processing	63	70,390	3%
Emergency/Social	103	114,860	4%
Total	2,660	2,952,951	100%

In addition to the savings and loan products offered by ROA Kiruvi SACCO, members can also hold CRDB's smartcard-based TemboCard. This enables members to make large payments to suppliers for business and agricultural purposes.

Performance. ROA Kiruvi SACCO has demonstrated phenomenal growth since its inception in 2000. Not only has membership and paid-up share capital grown tremendously, but cumulative loans of more than US$2,6 million have been disbursed with an outstanding loan portfolio of close to US$1,2 million (Table 6).

Table 6 *ROA Kiruvi SACCO - Financial Performance as at June 2005 (US$)*

US$ (1:1110)		**06/2005**
Fund Mobilisation	Paid up Shares	178,712
	Members Deposits	48,999
	Total Funds Mobilized	**227,711**
Lending Activities	Total Loans Disbursed	2,660,316
	Total Capitalized Interest	252,788
	Loan repayment (Principal)	1,460,721
	Interest paid	253,766
	Total repayment	1,714,487
	Outstanding Balance	**1,199,595**
Deposits with CRDB	MFI Juhudi Account	3,789
	Deposit Accounts	-
	Other	-
	Sub Total	**3,789**
Deposits with other Financial Institutions	A/C NO.1-NMB	13,761
	A/C NO. 2-CFP	180
	Sub Total	13,941
	Total Deposits	17,730
	Cash on hand	10,527
	Total Cash Balances	**28,257**
Loans from CRDB:	Loan No.1	5,405
	Loan No.2	21,036
	Loan No.3	125,739
	Loan No.4	389,189
	Loan No.5	45,045
	Loan No.6	619,369
	Loan No.7	90,090
	Loan No.8	758,694
	Total CRDB Loans	**2,054,568**
Repayment of CRDB Loans		1,219,539
Balances of CRDB Loans		835,029
Loans from other Institutions:	Loan No.1	-
Total Loan Balances		835,029

As at June 2005, ROA Kiruvi's repayment rate to CRDB has reportedly been 100 percent. However, sugarcane farmers experienced some problems as a result of too much rain earlier in 2005, with the consequence that they were not able to meet their loan obligations timeously. These loan obligations have been rescheduled based on an agreement between the SACCO and CRDB. It was the first time that this happened and has been a once-off within the MFC-SACCO linkage model (Table 7).

Table 7 *ROA Kiruvi SACCO - Quality of Loan Portfolio as at June 2005*[13]

	US$ '000 (1:1110)	Tshs.	
Arrears Free	1,096	1,216,944	100%
Arrears > 30 days	3	2,781	0.2%
Arrears > 60 days	0	0	0%
Arrears > 90 days	1	959	0.1%
Arrears > 180 days	0	0	0%

ROA Kiruvi SACCO aims to increase its membership to 3 000 members by 2006. It also wants to acquire its own premises and computerise all its operations. The main problems voiced by management were the lack of education of most of their members and staff, and the lack of title deeds among members (borrowers). The latter should improve with the recent changes in the Lands Act allowing for title deeds by individuals.

Kibaigwa SACCO

Kibaigwa SACCO, situated in a rural village about 50 km from Dodoma, was one of the first SACCOs to be formed by CRDB. Some of the members were members of a farmers network (*Mtandao wa Vikundi vya Wakulima*) which spanned six villages. An MOU was signed with CRDB in 2001. Over the next three years, membership grew to 1 742 and the total client base to 2 174. Paid-up member share capital also increased from just more than US$31 000 to US$310 343.

Support from the MFC. The support included the provision of furniture, a safe and a counter, mobilisation campaigns to attract members, stuff and management training, technical support, marketing and promotional advice.

Membership Profile. The communities served by Kibaigwa are primarily dependent on agriculture and agricultural business and trade. Agricultural products produced in the area include groundnuts, maize, simsim and cow peas. As with ROA Kiruvi, membership is predominantly male, with individual female members representing about one quarter of all individual clients. However, in addition, they had 58 women solidarity groups by December 2004, each with approximately ten members. Whereas ROA Kiruvi does not have any non-member clients, Kibaigwa has a substantial and growing number of non-member clients[14], totalling 432 or almost one quarter of the total number of clients by December 2004 (Table 8)

Table 8 *Kibaigwa SACCO - Membership Profile*[15]

	12/2001	12/2002	12/2003	12/2004
No. of Male Members	378	477	945	1272
No. of Female Members	106	144	286	412
Groups (women solidarity)	25	34	46	58
Total No. of Members	509	655	**1277**	**1742**
Non-member Clients	8	42	309	432
Total No. of Clients	517	697	**1586**	**2174**

Products. Kibaigwa SACCO offers a variety of products to members, including savings accounts and loans. There are various types of loans available, such as agricultural loans (redeemable over eight months) and trade loans (redeemable over six months), both at an interest rate of 7 percent per year. Loans for the purchase of agricultural equipment are also available, as well as emergency business loans. The latter has a maximum loan amount of US$5 746 (Tshs. 5 million). Social/emergency loans are available, with a maximum loan amount of approximately US$28 (Tshs. 30 000), redeemable over three months. These social/emergency loans are common phenomena among Tanzanian NGOs, and enable the SACCOs to effectively compete with NGOs which offer solidarity group lending. In this instance, FINCA is active in the Kibaigwa SACCO area.

Agricultural-related loans initially represented more than 50 percent of the total loan portfolio (2001). However, while the outstanding agricultural loan portfolio has been expanding rapidly from US$45 806 (Dec 2001) to almost US$700 000 by December 2004, the growth in trade-related loans has outstripped the agricultural loan portfolio, and the trade-related loan portfolio represented 53 percent of the outstanding loan portfolio by December 2004 (more than US$800 000). This growth in trade-related loans reflects a deliberate strategy by Kibaigwa to diversify its loan portfolio. It also demonstrates the impact which Kibaigwa had on the communities, enabling individuals to start small businesses with the loans which they have received from Kibaigwa (Table 9).

Table 9 *Kibaigwa SACCO - Loan Profile i.t.o. Sector*[16]

Total Amount Disbursed:	**12/2001**	**12/2002**	**12/2003**	**12/2004**	**% 12/2004**
US $ (1:1110)	75,283	225,936	712,172	1,511,969	100%
Agriculture	45,806	129,702	314,355	678,573	45%
Trade	26,864	90,983	380,227	800,211	53%
Processing	-	-	-	-	0%
Social	2,613	5,250	17,590	33,185	2%

In addition to the savings and loan products offered by Kibaigwa SACCO, members can also hold a CRDB smartcard-based TemboCard. This enables members to make large payments to suppliers for business and agricultural purposes.

Performance. Unlike ROA Kiruvi, which only holds loans and deposits from the MFC, Kibaigwa SACCO has deposits with NMB and loans from the SELF project. Though these deposit and loan amounts with other institutions are small, it demonstrates the ability of SACCOs to manage their own finances by using services from different institutions, depending on their needs at the time.

As reflected in Table 10, the growth of Kibaigwa SACCO has been almost exponential over the three years since it signed an MOU with CRDB. Not only did paid-up share capital increase tenfold, but members' deposits increased from US$6 447 to more than US$82 000, and outstanding loans to members from US$57 631 to over US$ 700 000. At the time of writing, Kabaigwa's repayment performance to CRDB and SELF has reportedly been 100 percent. As illustrated in Table , the loan repayment performance of members to Kibaigwa SACCO has also been strong, with less than 1 percent of the outstanding loan portfolio in arrears.

Table 10 *Kibaigwa SACCO - Quality of Loan Portfolio*[17]

US$ (1:1110)	**12/2001**	**12/2002**	**12/2003**	**12/2004**	% of 12/2004 Portfolio
Total Portfolio	57,631	115,067	343,070	700,771	100.0%
arrears free	55,442	108,980	329,710	698,492	99.7%
arrears >30 days	1,865	9	8,613	901	0.1%
arrears >60 days	324	234	2,811	243	0.0%
arrears >90 days	-	5,845	1,937	1,135	0.2%
arrears >180 days	-	-	-	-	0.0%

Kibaigwa SACCO plans to expand to 19 villages, with a planned membership base of 5 000 over the next five years. They are also looking at expanding their products and services, including the development of a housing loan product. Kibaigwa would like to become a fully-fledged cooperative bank and also serve other smaller SACCOs in the area. They are currently investigating the purchase of a four-wheel drive to assist them in their geographic expansion plans.

Table 11 *Kibaigwa SACCO - Financial Performance*

US $ (1:1110)		**12/2001**	**12/2002**	**12/2003**	**12/2004**
Nr of Members		509	655	1277	1742
Funds Mobilisation	Paid-up Shares	31,405	43,439	137,904	310,343
	Members' Deposit	6,447	22,393	65,737	82,682
	Total Funds Mobilised	**37,852**	**65,832**	**203,641**	**393,025**
Lending Activities	Total Loans Disbursed	75,283	225,936	712,172	1,511,969
	Total Capitalised Interest	4,209	25,438	164,818	267,090
	Total repayment	21,861	136,306	369,103	811,198
	Interest Paid	-	-	164,818	267,090
	Total Repayment	-	-	533,921	1,078,288
	Outstanding Balance	**57,631**	**115,067**	**343,070**	**700,771**
Deposits with CRDB	Juhudi Account	-	1,061	509	73,308
	Deposit Account	168	-	33,784	33,784
	Fixed Deposit	5,743	13,514	22,760	324
	Sub-Total	5,911	14,574	57,053	107,416
Deposits with other Fin Institutions	**NMB DODOMA**	-	-	90	90
Total Deposits		**5,911**	**14,574**	**57,143**	**107,506**
	Cash on hand	-	-	-	52,446
	Total Cash balances	**-**	**-**	**57,143**	**159,952**
Loans from CRDB	Loan No.1	22,973	23	22,973	22,973
	Loan No.2	-	54	54,054	54,054
	Loan No.3	-	-	135,135	135,135
	Loan No.4	-	-	-	350,450
	Sub-Total	22,973	77	212,162	562,613
Repayment of CRDB Loans		-	-	77,027	212,162
Balances of CRDB Loans		-	-	135,135	350,450
Loans from other Institutions:	Loan No.1: SELF	-	-	11,712	11,712
	Loan No.2	-	-	-	63,063
	Sub Total	-	-	11,712	74,775
Loan repayment to other Institutions		-	-	8,784	36,937
Outstanding Loans Other Institutions		-	-	2,928	37,838
Total Outstanding Loan Balances		-	-	138,063	388,288

Performance of the Linked SACCOs

The success of the linked model has been phenomenal, as is illustrated in Tables 12 and 13 below. Considering the small number of staff employed on regional level to assist in forming and providing technical assistance to the SACCOs, CRDB certainly met its objectives of leveraging: as at June 2005 the average number of SACCOs serviced per regional staff member totalled 14, and the average number of SACCO members 5 632.

Table 12 *CRDB (MFC) Staff*[18]

	Dec-02	Dec-03	Dec-04	Jun-05
MFC Regional Staff	4	5	8	11
Ave Nr of SACCOs per Staff Member	8	14	14	14
Ave Nr of SACCO Members per Staff Member	1,552	2,318	4,272	5,632

Paid-up share capital of SACCO members exceeded US$3,8 million by March 2005 and total funds mobilised by SACCOs (share capital and member savings) exceeded US$16 million, with deposits at 316 percent of share capital. Of these, almost US$1,5 million has been deposited with the MFC and total loans of US$50 million have been made to SACCOs.

Major differences in performance exist between SACCOs formed by the MFC and those already previously in existence, with the former outperforming the latter. Firstly, this can be ascribed to the political basis on which many SACCOs were originally formed, with the result that in some instances the economic activities do not support the presence of viable and sustainable institutions. In contrast, the MFC focuses on the areas that with an economic potential and with justifiable demand for financial services.

Table 13 *Consolidated Performance of Linked SACCOs*

	Dec-02	Dec-03	Dec-04	Mar-05
Paid-up share Capital	990,833	3,402,872	3,632,625	3,869,821
Member Deposits	534,874	6,516,558	9,852,508	12,226,861
Total funds Mobilised	1,525,708	9,919,429	13,485,133	16,096,681
Deposits with CRDB	472,781	804,235	2,037,383	1,450,032
Loans Disbursed by SACCOS	4,773,713	25,862,155	42,170,552	50,798,363
CRDB Loans to SACCOS	1,727,485	4,625,482	8,768,119	10,413,709
Member Deposits as % of paid up share capital	54%	191%	271%	316%
Deposits with CRDB as % of Funds Mobilised by SACCOS	31%	8%	15%	9%
Deposits with CRDB as % of CRDB Loans	27%	17%	23%	14%
CRDB Loans as % of Paid-up share capital	174%	136%	241%	269%
Total SACCOs	32	67	107	157
Total Members	12,180	32,464	59,812	78,855

Secondly, the legacy of the poor history of the cooperative movement still exists among many Tanzanians. The absences of member's awareness, limited range of products and services, and historical poor governance are typical features of the existing SACCOS. People also remain reluctant to join and invest in these institutions. It often takes a long time for these existing SACCOS to adopt best practices, despite the numerous training programs intended to build their capacity.

In contrast, where SACCOs are formed by the MFC, best practices are instituted from the beginning, and the MFC facilitates guidance on placement of quality board members and professional staff who can deliver on members' expectations. This involvement by the MFC, has generated confidence in the public and has resulted in rapid growth of the institutions

Thirdly, the MFC facilitates the development of a wide range of products and services tailored to suit members'/client needs. Unlike the pricing strategies of traditional SACCOs, pricing guidelines by the MFC results in strong profits, which in turns enables the payment of dividends to investors (members). This further serves to attract new investors while also setting the SACCOs on the path to financial sustainability.

Challenges facing the linkage model

While the linkage-model has performed well, it is not without its challenges. Some of the key challenges mentioned are as follows:

From an MFC perspective

The challenges facing CRDB (MFC) are primarily, although not exclusively, from a legal/regulatory nature:

- The implementation of the 2005 Cooperative Law requires that MFIs conduct elections of new Board Members which will require on-going additional training of Board Members and professional staff. This will provide a challenge for the MFC to provide on-going training with limited resources.

- The supervisory mechanisms in place for SACCOs remain weak, which places an on-going burden on the MFC.

- The 2005 microfinance regulation does not make provision for wholesale funding to microfinance institutions and raises issues such as the loan concentration ratio which is limited to 1% of the core capital and 3% of fully secured loans. This may prove restricting to entities such as the MFC.

- Furthermore, issues such as the establishment of microfinance subsidiaries by banks have not been made provision for by the new regulations.

- The high initial cost of developing intermediaries because of the dispersion of the rural population and the lack of knowledge and experience in banking among the target population.

- The linked SACCOs have experienced growth of up to 4000% in their assets and client deposits, and had to undergo drastic transformation and commercialization. This has in instances resulted in tension between the SACCOs and their clients, while confidence and monitoring is put to the test.

From a SACCO perspective

- Lack of education and skills among staff and clients.
- The on-going expansion and deepening of outreach into rural areas, has significantly increased the volume of transactions and appropriate MIS is an increasing challenge.
- Appropriate technology to reach an increasingly diverse set of customers.
- Appropriate strategies to achieve and maintain operational and financial sustainability over the long run.
- Developing the capacity to provide tailor-made products and conduct research and development.
- Government interference which forces SAACOs to grant credit only in specific geographical locations or for specific purposes could have various adverse implications for SACCOs and result in confusion relating to ownership and distor institutional development.
- The Government's intention to use SACCOs as a strategy for poverty reduction may jeopardize institutional best practices due to political pressure.

Competition

As SCULLT and SELF both provide training and access to credit for SACCOs, they effectively compete with CRDB, and some of CRDB's linked SACCOs also receive assistance and access loans from SELF and SCCULT. From a different perspective, these initiatives are supporting and complementing one another, and are all working towards the same goal of building capacity of SACCOs and improving access to credit for the rural poor through on-lending to SACCOs.

What differentiates the MFC from SCCULT and SEL, is that the MFC is part of a private commercial banking group, and offers a much broader range of products and services to linked SACCOs and the SACCOs' clients, including deposit taking, cash handling, transactional facilities and the TemboCard. Furthermore, the MFC adheres to cooperate laws, insofar as they demand certificates for maximum liability issued by the Registrar when requesting a loan; and insists on SACCOs adhering to best practices.

The main competitor of CRDB in terms of the broader commercial banking sense is commercial and microfinance institutions – and in particular NMB, which has also been targeting SACCOs, primarily in the cane-growing areas.

Another level of competition for CRDB are SACCOs not linked to CRDB, but operating in the same villages as linked SACCOs. These include independent SACCOs or those accessing services from any of the abovementioned players. They pose competition indirect competition for CRDB, as the SACCOs must compete for members within the particular communities.

Benefits of the linkage model to CRDB, SACCOs and clients

Benefits to CRDB

The immediate benefit to CRDB Bank is that the linkage model has enabled it to increase the outreach to previously underserved communities tremendously. While this model requires a larger upfront investment than the direct provision of services to low income markets, it should become self-sustainable over the long term and yield the following benefits:

- Leveraging: Broad outreach has already been attained with a small number of staff. Once the SACCOs become profitable, the operating cost of the MFC relative to the number of clients reached (SACCO members), will be exceptionally low;
- The model enables CRDB to reach into distant geographical regions, as well as to service the very low-income groups. This can not easily and cost-effectively be achieved through other models;
- The linkage model has enabled CRDB to developing a strong position in the low income market – and particularly rural areas – which represents the majority of the Tanzanian market, and provides CRDB with a competitive edge over its competition which are primarily clambering for the over-serviced higher income urban markets; and
- Over the long term, CRDB will also reap the financial benefits of investing in the SACCOs.

Benefits for linked institutions

The main benefits to the linked institutions are probably the credibility and legitimacy that they receive through their association with CRDB, the institutional capacity building and transformation, and then the improved efficiencies and (eventually) profitability. Through the support from and association with CRDB, the linked institutions have gained a new positive image in the market place. Communities regained confidence in SACCOs that client deposits would be safe with them, attracting newcomers to the market and attracting customers away from competition.

Profitability is further improved through the following factors:

- SACCOs have been able to expand their product offering tremendously, attracting new members and increasing their customer base and the volume of their operations.
- Without the access to credit from CRDB, SACCOs would have remained cash-strapped and would not have been able to achieve the phenomenal growth witnessed of their loan portfolios.
- Improved operations, management and governance have led to newly gained efficiencies and improved loan performance.
- Through stronger internal controls and improved systems, loan performance has improved.

- Through access to interest-bearing deposit facilities, interest income has soared: A survey conducted in 2004 indicated that deposits with SACCOs increased 18,8 times since the institutions formalised the link with CRDB (MFC).

Benefits to clients

The main beneficiaries of the linkages are probably the end-clients or SACCO members.

- The main benefit of the CRDB linkage model is that SACCO members now have access to secure financial institutions thanks to the support provided by the MFC to the SACCOs.
- As owners of the SACCOs (as opposed to clients only of a large institutions), the members can influence the strategy of the SACCOs:
  - Members therefore have greater security in having ongoing access to the SACCOs, as they are not dependent on the decisions and possible changes in strategy by some large formal institution;
  - The members decide on their product needs, ensuring that product development is a customised demand-driven approach; and
  - Members also have the potential financial benefit of sharing in dividends once the SACCO becomes profitable with the support of CRDB.
- With the support of the MFC, the SACCOs have been able to develop and provide their members with a variety of products and services. Two out of three SACCOs have introduced new products after linking with CRDB. These product offerings include:
  - Various types of safe, secure savings products with a positive interest rate;
  - Access to affordable low-cost credit for a variety of needs, on suitable terms;
  - Various types of payment and transactional facilities, including the TemboCard and business payment facilities;
  - Ability to send or receive remittances to/from anywhere in Tanzania;
  - A reduced need for cash, providing improved financial safety and security through the Tembo card - debit Card and Smart card version; and
  - Access to their accounts country wide through Tembo card.
- All the above benefits are offered to members' right at the doorstep, through CRDB's linkage with local village-level member-based institution, even in areas traditionally neglected by financial institutions. In many instances, no SACCO or other form of access to finance existed in the villages, until CRDB facilitated the formation of such SACCOs.

As prove of the high perceived level of benefits offered by the CRDB-linked SACCOs, a study conducted by CRDB into the linkage model in October 2004[19], demonstrated that approximately 32 percent of SACCO members defected from competitor institutions. This also displays the high level of confidence which members have in these linked institutions.

Impact of linkage

While no attempt has been made to quantify the impact of the CRDB/SACCO linkage model in this study, through observation and analysis of the performance of the MFC and the linked SACCOs, various current and potential dimensions of improved access to finance and more secure livelihoods can be derived. There is no doubt that the initiative has resulted in both improved breadth and depth of outreach – extending to rural areas and the poor – and as such has contributed to deepening the financial services in Tanzania, positively impacting on access to finance for many ordinary Tanzanians.

The number of SACCOs linked (157) in such a short period of time, and the number of members reached (78 855), speaks for itself in terms of the breadth of outreach. According to the survey conducted by CRDB on the linkage model (October, 2004), almost 40 percent of members opened a savings account or applied for credit for the first time in their lives through the CRDB-linked SACCOs.

In effect, the injection of credit into these previously underserved markets has had a catalyst effect on the level of economic activity in communities. SACCOs report increased employment in communities – both directly with the SACCO as an employer, and indirectly through enabling individuals to start businesses and, at times, employ others.

Of the major impacts of the linkage model, is that on financial sector level. The development of this linkage model is an excellent example of closing the gap between the formal and the informal sector, as the informal sector (SACCOs) is gradually being integrated with the formal sector. This is an evolving process, and it can be expected that the SACCOs will become stronger and more sophisticated over time, further closing the gap by bringing their members even closer to the formal sector.

Through the MFC linkage model, CRDB has then also demonstrated to other commercial banks that it is possible to reach out to lower-income Tanzanians on a large scale and in a profitable manner. The opportunity is there. However, it does call for a long-term vision, the willingness to invest in the market, the ability to listen to the market and adjust the approach as required, and the dedication to follow through with the plan.

Conclusions and lessons learned

There are many potential lessons that can be derived from this study, some of which may be relevant to practitioners, others to donors or government. Many of these are indeed replicable in other institutions and or countries in similar or even different circumstances:

- First and foremost, there must be **the willingness and commitment** from management to enter the lower-income market. In this particular instance, the role of DANIDA as guarantor, shareholder in CRDB, and part of the management team, certainly played a key role in setting CRDB on the path of targeting the lower income market. The initiative received broad support within CRDB, and, unlike many donor-supported initiatives, has been launched on commercial principles with MFC as an integral part of CRDB's business.

- While some may argue that such an initiative would not have been possible without the guarantee provided by DANIDA, to date the guarantee has been more symbolic and has played the role of motivator rather than as a financial catch net, as the guarantee has indeed not yet been accessed – the outcome of a well-managed initiative with a **strong commercial focus**, and various guarantees built into the system on different levels.

- One major requirement of this approach is the ability to make a **large upfront investment** into the model, and a **long-term vision** with the willingness to see this through. While many commercial banks or donors may have the means to do so, they should also have the dedication to stick to the programme over the medium to long-term, and should not be hampered by a short-term vision or a desire to reap immediate financial benefits. In the case of CRDB, their roots always having been in rural areas, and they had the support of one of their largest shareholders in the form of DANIDA. Whereas part of the management of CRDB was initially sceptical, they are now full of support given the strong performance of the linkage model, and after realising that it represents a good business opportunity for the bank.

- The challenge for many banks and donors is then not as much to obtain the required capital to invest in such a programme, but to **spend it in the most appropriate manner**. CRDB has demonstrated that a relatively small capital investment in the actual SACCOs (such as equipment and strong rooms) may be necessary to get the SACCOs up and running in a professional manner. However, more importantly is the much larger investment that has to be made for a period of time in building the capacity of SACCO staff and management, and to develop an understanding of the approach and benefits among members and even the broader community.
- The support provided by other players in the market – notably IFAD and to a lesser extent also programmes such as SELF – of investing in capacity building of SACCOs, has also played a key role in preparing the market place. This linkage model therefore also demonstrates the benefits and synergies of introducing **complementary initiatives.**
- At the core of the SACCOs' success have been the strong **market-driven approach** and a willingness to collaborate with communities and existing SACCOs. Rather than adopting an approach of applying some international best practice in selecting the SACCOs to be linked, CRDB went to the villages and, together with the communities, developed a workable approach. Products are also not set from the top-down, but are developed on SACCO level, depending on the financing needs of the particular community. A truly demand-led approach.
- That said, CRDB has been tenacious in its application of basic **commercial banking principles,** when it came to issues such as managing the operations of the SACCOs, controls, loan repayment, reporting, and so forth.
- The end vision of the model is then to create **self-sustaining profitable institutions**, and to do so through a process of **leveraging** to achieve maximum outreach while containing institutions (in this case CRDB) costs.
- It has also been (and still is) a **process of learning**, with the model constantly being reassessed and improved to better meet the needs of SACCOs and their members, while improving performance and efficiencies.
- It should be noted that in the instance of CRDB, they have been a major player in rural areas – albeit it through various unsuccessful interventions – and there has therefore been a certain '**strategic fit'** with CRDB's heritage and a renewed effort in accessing the rural (and agricultural) market. This has not altogether been virgin territory for CRDB.
- It is interesting to note that, apart from some expatriate managerial expertise on CRDB level and initial training by external experts in member-based institutions (paid for by DANIDA), the implementation of the linkage-model has by and large been done by local Tanzanians (including the management of MFC), working with local institutions and groups. This reflects a predominantly **indigenous approach**, with no high-cost expatriate salaries to be carried by the MFC for long-term implementation.
- The **legal and regulatory framework** has not been ideal at the time that the initiative was launched: SACCOs fell under the Ministry of Cooperatives and Marketing with poor supervision and regulation, while banks were registered and regulated with the Bank of Tanzania; and commercial banks were (still are) restricted in terms of the maximum value of loans to a single entity. However, a regulatory framework did exist which allowed for the legal existence of both SACCOs and microfinance institutions, and CRDB worked around the other shortcomings by, for example, implementing their own strict set of reporting criteria and controls.

- The MFC model has proven that the lack of confidence in institutions – in this instance, cooperatives – following previous bad experiences, can indeed be overcome if the **strategy is well executed**. The legacy of the past need not hamstrung future initiatives.
- The volume of credit of a community is limited by the ability to mobilise savings – a big limitation in poor remote rural villages. The injection of capital into the community through effective provision of credit has a **catalystic effect** which benefits the broader community as a whole. It also helps smooth out the effects of seasonality, which often impacts an entire community because of their overriding dependence on one or a few select commodities.
- The provision of a broader set of financial services is also limited by the capacity and skillset of the community. 'Injecting' skills into the community through training and support, benefits the members of the institution as well as the broader community directly through improved financial services, but also indirectly through increased capacity in the community as a whole. In this sense, it serves to **empower communities** to take better care of themselves.
- **Success has a snowball effect**, and as communities learn about the success of SACCOs in other communities, they become more open to engage in a similar process.
- The CRDB linkage model is a classical example of how the formal and informal sectors can be linked – despite various challenges – resulting in closer **integration of the formal and informal sector,** to the benefit of all parties. The success they have achieved will hopefully also act as catalyst to inspire other institutions to follow suit.

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