THE FACTORS HINDERING ACCESS TO LOANS: A CASE OF ARUSHA DISTRICT IN TANZANIA

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Open University of Tanzania the dissertation titled: **"The Factors Hindering Access to Loans: A Case of Arusha District in Tanzania",** in partial fulfillment of the Requirements for the Degree of Master of Business Administration in Finance of the Open University of Tanzania.

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Date

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DECLARATION

I, **Ray J. Elimuu,** do hereby declare that this dissertation is my own original work and that it has not been and not currently submitted to any other University for a similar degree award.

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Signature

………………………………………

Date

DEDICATION

I dedicate my work to my wife Elisia James and my family.

ACKNOWLEDGEMENT

I would like to express my heartfelt admiration to those who have contributed for any how the success of my report.

My first acknowledgement is to my almighty God who's for his endless love enabled me to complete the study and this report.

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ABSTRACT

The study aimed to examine factor, hindering access to loans in promoting sustainable life and cost effective community finance. The study was limited to Arusha District Council; where by sample of 50 people were drawn from targeted population of 100 people at 5 wards. Both primary and secondary data were collected through questionnaires, interviews, and review of documentary records. Purposive and simple random sampling techniques were used in data collections. Scientific Package for Social Science (SPSS) Version 22 software was used on data analysis. The findings show that there is unequal distribution of finance sources and narrow alternative sources of finance available between rural and urban areas. The respondents confirm that loan is the great source of finance to start their own business, and it will be encourage to them if the interest on loan will be reduced. Also researcher reveals that it's very difficult to access loans from some financial institutions if borrower does not have collateral. Population density is a hindering factor in development of micro financing institutions in village argued by female respondents while males' respondents have the feeling that is not a cause. But knowledge gap can be a reason which hindering access to loans as members of SACCO's lack the basic and necessary financial management education, which is very important to them on their success. Therefore, storytelling via publications, videos, conferences, and advocacy can be used to educate savings and loans group members to strength their relationship, networks, flexibility, transparency, and security. Hiring financial management knowledgeable people will be helpful on problem solving, performance evaluation for the better improvement of savings and loans groups, example proper financial records keeping. Also government should make deliberate effort to support access of loans to residents of rural and urban areas, example review financial policies.

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LIST OF ABBREVIATIONS

BAAC	Bank for Agriculture and Agricultural Cooperatives
BOT	Bank of Tanzania
CRDB	Cooperatives Rural and Development Bank
EOTF	Equation Opportunity Trust Fund
FINCA	Foundation for International Community Assistance
IASCF	International Accounting Committee Foundation
IFAD	International Fund for Agricultural Development
MEDA	Mennonite Economic Development Associates
MFIs	Microfinance Institutions
NMB	National Microfinance Bank
PRIDE	Plan of Recovery Individual Development and Employment
S&L	Saving and Loans
SACCOS	Savings and Credit Cooperative Society
SEDA	Small Enterprise Development Agency
SPSS	Statistical Package for the Social Sciences
USLA	Urban Savings and Loan Associations
VEO	Village Executive Officers
VSLA	Village Savings and Loan Associations
WAO	Ward Executive Officers

CHAPTER ONE

BACKGROUND INFORMATION

1.1 Introduction

This chapter is all about the context and key research problem. It discusses issues related to background of the study, a statement of the problem, objective of the study, and hypotheses/research questions.

1.2 Background of the Study

Arusha District has two agro-ecological areas, which are the highlands and the lowland in both of which contain farming predominates. The highlands are valued in fruits and vegetables (banana, avocado, carrot, tomato, pepper, Iceberg lettuce, cabbage, potatoes, pumpkin, leek and onions), cash crops (coffee, maize, and beans) and animal keeping such as cows and goats. The low lands on other hand are valued by availability of maize, beans and animal keeping.

Before formation of SACCOS, Arusha inhabitants were performing another form of togetherness whereby they farm together in groups. The compressive developing financial plan idea for a group seemed to develop as days goes on. Some of the groups with members 2 to 6 were able to save and loan after another until the cycle completed. Government workers and non-government workers were doing this as one way of overcoming life hardship such as purchasing Iron sheets, plots, motorbike etc. During early 1961 the Diocese of Western Tanganyika established saving and loans schemes to various groups.

The scheme was concerned with promoting sustainable and cost effective in rural and urban finances. The scheme realized to be helpful on training human rights, empowerment, health issues, and adult literacy. It gives opportunities for keeping (accumulates) money, getting loans and skills based on self-reliance like savings, poultry keeping and agriculture projects.

In 1988 the design of the financial sector reforms was established through Presidential Commission of Enquiry into Monetary and Banking System. The commission examines the banking sector and provides the broad recommendations on its overall performance improvement to support economic growth. The proposed reforms were enacted from Banking and Financial Institutions Act (1991). The Act gave legal framework, which permitted major changes in financial sector such as the entry of private banks in the market, and vested BOT with its supervisory and regulatory role. The 1991 Act continued to be in operation until the current cooperative society Act was enacted in 2003. This Act is still in operating with the aim of making better provisions for the formation, institutions, registration and operation of Cooperatives Societies.

Currently saving and loan programs are being updated since early 1991 and SACCO's groups and NGO's took off are such as FINCA, PRIDE, MEDA, and SEDA. This was due to the concept of community finance, investments opportunities and business. The cost of providing financial services increases due to increases financial needs to the community residents. MFIs focused on the delivery of micro-manage, encourage clients to take out larger and larger loans for their beneficiaries, so that they can increase their income and overcome life hardship.

1.3 Statement of the Problem

Distribution of finance in community is uneven, example less than 1 percent of farmers in certain African farmers obtained access to subsidized lending, where a country like Taiwan almost all farmers had access (World Bank 1975). Most of the young generations desired to venture into self-reliant project fail to access funds; some of the factors includes cost of borrowing and collateral.

Borrowing costs increase the risk of default as it leads to a global interest rates expansion that affects funding for banks. So the borrowing cost would turn out to be higher than the return on investment (Waari, 2015). Also when microfinance institutions fix a lower interest rate, borrowers increase dramatically, compared to higher interest rates, which drives borrowers into over-indebtedness they cannot afford to repay (Aston et al, 2017).

Lemessa et al, 2016 that lending institutions controls misuse of borrowing funds and minimizes the risk of defaults by imposing collaterals to households/applicants access to credit as a criteria to lending loans (Ferreira et al, 2017). It is the financial intermediary response to these problems that mainly distinguishes formal financial institutions from the informal credit associations (Eboh 2000). It is evident that that the development of a robust rural financial system requires both careful state attention to the fundamental institutions that undergird financial contracts, and the freedom to transact without direct state regulation (Stiglitz 1994; Rajan and Zingales 2003). The study was aimed to determine whether there is a limitation in the accessibility of funds and revealing other sources of finance in community based on training and supports provisions through groups.

Aleem (1990) shows that moneylenders in a semi-urban setting in Pakistan charged highly variable interest rates to different borrowers where by caused burden of debt or loan repayment to the borrowers. Mckenzie and Woodruff (2004) find that the rate of return is as high as 15 percent per month for microenterprises in Mexico. The study was intended to investigate on the correlation of finance costs between savings and loan programs against other sources of finance. Some of the savings and loans associations are inadequate savings, so they depends borrowing from other low interest rates financial institutions such as NMB and CRDB, as recently (2018 year) they have reduced their interest rates on loans from 19 percent to 17 percent and 17 percent from 21 percent respectively to attract more customers.

The study investigated some group members to see if they are able to loan since they lack enough knowledge of business plans, which is the vital criterion of loan provisions. Also it covered the knowledge gap by providing useful information as intended by researcher.

1.4 Objectives of the Study

The study was guided by the following objectives:

1.4.1 General Objective

The general objective of this study is to examine the factors hindering access to loans.

1.4.2 Specific Objectives

(i) To examine the relationship between credits history and access to loans.

(ii) To assess the relationship between cost of borrowing and access to loans.

(iii) To examine the role of collateral on access to loans.

1.5 Research Questions

These are statements in questions created based on the main and specific objectives of the study; this study was guided by the following questions:

1.5.1 General Research Question

The main question of this study is what are the factors hindering access to loans?

1.5.2 Specific Research Questions

(i) Is there relationship between credit history and access to loans?

(ii) What is the relationship between cost of borrowing and the access to loan?

(iii) What is the role of collateral on access to loans?

(iv) Is there equality in distribution of financial sources between rural and urban areas?

1.6 Significance of the Study

The study will be useful to the community since the financial distribution sources between rural and urban areas reminds the community on how principal and best practice are essential to be followed (business plan). The results of the study is expected to influence community to adhere information management and better record keeping since financial management is key for success of both entrepreneurship and personal financial planning. Accomplished study will describe the way community will overcome difficulties on access to loans in rural and urban areas.

The study will enable entrepreneurs (both individual and SACCOS) to know how they will obtain funds from various financial sources and how they will make financial allocations for better economic development and profit maximization. Personal financial planning enable individual to have better household cash flows management and saves for school fees, assets (such as purchases of land, motor vehicle, livestock) and meet emergency health care costs. Also the study will helps researcher to wide up his knowledge and skills on business issues.

1.7 Delimitations of the Study

The study was conducted among financial group users (SACCO's members) in Arusha District Council. The study was on financial sources, accessibility to loans in rural and urban areas. Researcher also focused on finance cost from finance sources that is efficient to the community. The study was based on financial groups like SACCOS's since they are among of the entrepreneur shop groups. Also the research was extended to other financial sources such as banks to see whether its services reach rural areas residents.

1.8 Limitation of the Study

Key, et al (1998: 10) defined limitation of the study as the practical constraints that the research has little or no control over it. The limitations of this study were financial constraints, communication, transport, and respondent's transparency on provision of required information.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter introduces different literatures reviewed in the due course of undertaking the study. Literature review is a vital part of this study since enabled the researcher to appreciate potential contributions done by other researchers including enlightening more knowledge of researcher.

2.2 Theoretical Framework

Aston at el, (2017) tried to show when financial intermediaries fix a lower interest rate, borrowers such as households increase dramatically, while higher interest rates drives them into over-indebtedness which they cannot afford to repay. Development economists have spent much effort in recent years trying to measure the extent to which households appear to be insured against idiosyncratic shocks and the structure and performance of local financial contracts such as bilateral credit and insurance arrangements with landlords, money lenders, family or friends, or group-based Banerjee (2003) provides a very useful review of some of the salient empirical literature on rural financial markets. He argues (p. 4) that there is “extreme variability in the interest rate charged by lenders for superficially similar loan transactions within the same economy.”

Aleem (1990) similarly shows that moneylenders in a semi-urban setting in Pakistan charged highly variable interest rates to different borrowers: the standard deviation of interest rates was 40% per annum, while the average rate was80%. Timberg and Aiyar

(1984) document that Shikarpuri lenders in India charged rates varying between 20% and 120%, depending on the market.

Dasgupta (1989) reports high variation in the rates charged by money lenders, with substantial numbers of loans made at rates higher than 60%, while many others are made at rates below 30% Ghate (1992) cites results from a case study from Thailand which finds interest rates of 2-3 percent per month in the Central Plain, but 5-7 percent p.m. in the North and Northeast. Udry (1991) finds large variation in interest rates within 4 small villages of northern Nigeria: nominal monthly interest rates exceeded 7.5 percent on about 20 percent of loans, but the median nominal interest rate was 0 percent. Banerjee (2003) also reports substantial evidence of very large spreads between borrowing and deposit rates in many financial markets in developing countries. Timberg and Aiyar (1984) report spreads of approximately 16 percent, while Aleem (1990) reports a spread of over 40 percent in Pakistan.

Ngugi (2001) shown that the spread in Kenya in the late 1990s ranged between 15 and 30 percent. In rural southern Ghana, deposit takers charge a fee to depositors, and pay no interest, while loans are made at variable rates up to 10 percent per year (Aryeetey and Udry 2000). There is also strong and growing evidence that many enterprises, particularly rural enterprises, have very high rates of return to capital that may persist over time for some enterprises because of the highly fragmented nature of financial markets. Schündeln (2004) shows that the marginal rate of return for small firms in Ghana is about 50 percent, while the return for large firms is less than 10 percent.

Mckenzie and Woodruff (2004) find that the rate of return is as high as 15 percent per month for microenterprises in Mexico. Banerjee and Duflo show that samples of medium sized firms that borrow from a large Indian bank have rates of return of almost 100 percent per year. Goldstein and Udry (1999) estimate the rate of return to capital for farmers entering pineapple production to be over 1200 percent per year. These examples, of course, could be multiplied.

The key challenge of theoretical work on rural financial markets, therefore, is to provide a framework to make sense of these striking features of rural financial markets. Why are there such high rates of return on investment to borrowers? How do large spreads persist between deposit and borrowing rates? Why is there such a diversity of contract forms and intermediary structures? How are different households and firms matched to each, and why do such highly variable interest rates persist in equilibrium across borrowers? Moneylenders and financial intermediaries in the rural economy include most importantly input suppliers, rural product traders (including agro-industry and exporting firms), and banks. They often invest heavily in screening and monitoring their clients, and may also intervene to significantly shape their clients' choice of technology and other production decisions.

Writing in the early 20th century, British colonial officer Sir Malcolm Darling (1925) had this to observe about the rural moneylender of Punjab: "He is always accessible, even at night; dispenses with troublesome formalities, asks no inconvenient questions, advances promptly, and if interest is paid, does not press for repayment of principal. He keeps in close personal touch with his clients, and in many villages shares their occasions of weal or woe. With his intimate knowledge of those around him he is able, without serious risk, to finance those who would otherwise get no loan at all." Traders and contract farming firms typically contract to market or process a farmer's harvest in exchange for credit and often other services like technical assistance and farm input sales. An important characteristic of this form of lending is that the loan contract often involves much less collateral than would a similar bank loan, and at times, no collateral other than a crop pledge.

These loans are however usually quite heavily monitored in the growing season and prior to repayment. The purpose appears aimed at limiting the farmer’s scope to divert resources or effort away from the financed project and toward other activities where the lender may not be able to establish clear claims. Traders become financial intermediaries on their activities as product buyers they acquire knowledge and skills. They incur costs to monitor a farmer's compliance in meeting the terms of a loan, and in meeting quality standards on delivered produce. They are also often able to better value some of the items a farmer might provide as collateral. It helps institutions controls misuse of borrowing funds and minimizes the risk of defaults by imposing collaterals to borrowers (Lemessa et al, 2016).

At the time of contracting the trader may have the farmer sign a bill of exchange for the amount of funds to be advanced. The outside creditor(s) may then lend the intermediary a fraction of the funds required to on-lend to the farmers, using these bills and other guarantees as security. By lending only a fraction of the total required finance, the outside lender forces the intermediary to make up the difference out of her own equity thereby acquiring a sufficient stake in the borrower’s project to have the incentive to monitor the farmer in ways that safeguard the value of the overall investment.

Governments have intervened in rural financial markets since the earliest days of markets. Hammurabi's codes, a set of 282 laws set in stone by the ruler of Babylon and Mesopotamia over 37 centuries ago included many to regulate the operation of credit for farmer and merchants, including caps that limited interest rates to 33 and one third percent on loans of grain and regulations that limited what could be collected on agricultural debts in the event of drought or certain other natural disasters (Goetzmann 1996).

Some types of government intervention can clearly serve the useful purpose of promoting financial market trade between private parties. For example transaction costs between private parties may be reduced if the state is able to provide impartial and accessible legal mechanisms for the arbitration and enforcement of contracts. Similarly, the prudential regulation and supervision of deposit-taking financial intermediaries may promote deposit mobilization and encourage efficiency-enhancing market competition between banks. Even some forms of more direct government intervention, including direct loans and government loan guarantees, may arguably at times help 'crowd-in' private sector financial intermediation or provide efficiency enhancing financial services in contexts where private sector actors may have otherwise been reluctant to operate. Even in advanced economies, governments sponsor or directly support elaborate farm lending systems.

In the United States, the Farm Loan Act of 1916 established the first government-sponsored enterprise via the creation of a system of regional Farm Loan Banks to grant loans to farm cooperative associations that lend directly to farmers. In 2001 the Farm Credit System stood behind some 91 billion dollars of loans or about 30 percent of farm sector's total loans outstanding (General Accounting Office 2001). The system continues to enjoy implicit and explicit government guarantees and tax benefits that enhance the financial services cooperative institutions ability to raise funds.

At other times, government involvement has been much more heavy-handed. Governments have, for example, enforced strict 'anti-usury' laws that capped market interest rates or acted to prohibit or constrain the participation of certain types of intermediaries. Directed credit programs have compelled national banks to open rural branches and allocate a specified fraction of total lending to agricultural lending. For decades, state-sponsored finance was the dominant form of institutional lending in most developing countries, although access by different strata of farmers varied greatly by region.

During 1975 World Bank Report on Agricultural Credit, written at about the height of the Bank's lending for agricultural lending, noted that less than 1 percent of farmers in certain African farmers obtained access to subsidized lending, where a country like Taiwan almost all farmers had access (World Bank 1975). The report also noted that in Latin America and Asia it was not uncommon for 70 to 80 percent of small farmers to have virtually no access to such credit. Where such farmers did have access to institutional credit, it had generally been used for short-term loans to finance current inputs, such as seed, fertilizer and pesticides. Although institutional lines of credit to buy animals, tractors or equipment are sometimes provided over a period of two to five years or longer, longer-term institutional credit has typically remained scarce (Deininger, 2003).

A large literature has made clear that financial repression as a result of directed credit, interest rate caps, and excessive regulation and state involvement in banking has been a principal culprit of the relative lack of more effective intermediation in developing countries (Adams, Graham, and Von Pischke 1984; McKinnon 1973).

Although often well-intentioned, these policies often created extremely poor incentives for private financial intermediaries to enter the sector to make sensible loans. State lending programs on the other hand were very often characterized by high arrears and political capture. Cole (2004) finds that over the 1985-1999 period, agricultural lending by public banks in India grew 5-10 percentage points faster in election years than in years after an election, that election year loans were more likely to be made to districts with more heavily contested elections, that these loans were less likely to be repaid, and that they did not measurably affect agricultural output.

Warning and Sadoulet point to similar evidence of political capture and loan arrears in Senegal (1998). Interest rate ceilings have been a particularly common intervention in rural financial markets. The traditional analysis of interest rate ceilings is that, by limiting supply and increasing demand, such interest rate caps will create an artificial excess demand for credit, leading lenders to ration supply. While interest rate caps clearly harm savers and will lead to reduced rural deposits, the impact on farm borrowers is a priori ambiguous since what an individual farmer loses by receiving a smaller loan may be more than compensated for by a lower interest rate. It is clear however that in many, if not most cases, the resulting rationing has often ended up favoring larger farmers at the expense of smaller ones.

Many country case studies have similarly observed that the lion's share of subsidized institutional credit goes to medium and large farms, even though many of these programs are justified politically as ostensibly being aimed at helping small farmers (Adams, Graham, and Von Pischke 1984; Von Pischke, Donald, and Adams 1983; Burgess and Pande 2003). This outcome has been found to be so common that Claudio Gonzalez-Vega (1984) has dubbed it 'the Iron Law of Interest-Rate Restrictions.' Several explanations have been offered.

One explanation is that if under market conditions higher interest rates must be charged of smaller farmers to recover fixed loan processing costs, legal interest rate caps will lead lenders to ration these farmers first. Since capped rate loans transfer rents to farmers lucky enough to obtain them, the credit allocation process is also susceptible to political capture, and larger farmers will typically have the upper hand. Bates (1981) gives historical details of the pattern of political capture of marketing boards, which also often direct subsidized credit toward better off farmers. Explicit corruption in the allocation of low-interest loans was also common. State-owned financial institutions were often confronted with only a soft budget constraint, and received repeated financial bailouts, further reducing the incentive to put resources into enforcing contracts or mitigating problems of asymmetric information. In this context, a movement away from bad policies is a far more important step than any pressing need for policy innovation (Adams1992; Adams, Graham, and Von Pischke 1984; Von Pischke 1997; McKinnon 1973; Rajan and Zingales 2003).

Directed credit programs have been similarly strongly criticized as being distorting and inefficient and usually part of a package of other financial repression measures that set back the development of many rural financial markets (Adams, Graham, and Von Pischke1984). Although these criticisms no doubt hit the mark in describing the impact of policies in many countries, other researchers have pointed to evidence suggesting that directed credit has had several of its intended effects in some contexts.

For example the Bank of Thailand (BOT) mandates portfolio allocation targets for commercial banks to lend to the agricultural sector. These include mandates to charge interest rates for agriculture not higher than non-agriculture lending and government efforts to expand the capitalization of the Bank for Agriculture and Agricultural Cooperatives (BAAC), which has facilitated the aggressive expansion of BAAC activities. There is substantial evidence of important positive impacts of this expansion on agricultural output and farmer welfare (Fitchett 1999).

A recent study by Burgess and Pande (2003) reviews the literature on directed credit in India and analyzes a panel of state-level data to conclude that directed credit policies had the intended effect of expanding rural bank branching and that this lowered poverty and expanded non-agricultural rural output while leaving urban policy unaffected. As the authors note, at the time of independence less than one percent of rural household debt in India came from commercial banks and the vast bulk of rural borrowing was via informal sources, with moneylenders accounting for close to seventy percent of the total. By 1971 the share of debt to commercial banks had grown scarcely to3 percent.

A Central Bank mandate adopted between 1977 and 1990 which required banks to open up four new branches in under-served areas for every new branch opened elsewhere led to significant expansion of new rural branches, which varied by state. Largely as a result of these policies by 1991 the share of rural debt held by commercial banks had increased tenfold to 29 percent, while the money lender share of rural household debt more than halved from 35 to 15.7 percent. After carefully controlling for other factors, the authors find that rural non-farm activities expanded, wages rose, and rural poverty fell relatively more in areas in which banking services expanded relatively quickly as a consequence of this policy of directed credit. The debate over this issue is rather like the debate over trade policies.

There is little doubt that protectionism and industrial policy can lead to inefficient distortions in relative prices that lowers welfare and suppresses trade, but the experience of a few countries has led some observers to believe that such policies may at times be used to address market failures and/or to break local market power. Similarly, despite the overall record of costly failure, it is clear that directed credit policies may serve valuable social objectives in the right circumstances.

The apparent failure of many programs of state intervention in rural financial markets, and the wave of structural adjustment programs that moved through developing countries beginning in the 1980s did away with much of the legacy of financial repression. The policy change was dramatic. For example, annual World Bank lending for agricultural credit projects was over US$ one billion in the 1980s, but fell to under $250 million by the end of the 1990s (Zeller 2003).

There was large-scale privatization, restructuring and closure of many state banks. This was associated in many countries with more widespread liberalization of rural financial markets. The reduction of financial repression was usually associated with a package of other reforms including trade liberalization and privatization of other state-owned enterprises. These reform packages led to new financial intermediaries in many cases, but nowhere near the supply response that the most optimistic ‘financial repression’ school people predicted (Carter, Cason, and Zimmerman 1998).

It is evident that that the development of a robust rural financial system requires both careful state attention to the fundamental institutions that undergird financial contracts, and the freedom to transact without direct state regulation (Stiglitz 1994; Rajan and Zingales 2003). Section 3 of this chapter is devoted to providing a framework to understand the role of public goods in property rights and contract enforcement, information sharing, and prudential regulation. The task of promoting, improving or even creating the rural institutions required to support rural financial transactions is one of the fundamental challenges facing governments of developing countries. The range of feasible financial contracts can be expanded in the presence of institutions for information dissemination or that facilitate the verifiability and enforceability of contracts.

More specifically, governments have a crucial role to play in the creation and support of reasonably impartial courts to enforce private contracts and arbitrate or settle disputes, records offices to register and title property and increase the collateralize ability of assets and the registration of liens, credit bureaus to record and share credit histories, and external audit mechanisms to solve problems of verifiability. Some of these institutions can be run as government offices some can be supported as private enterprises, while others might be private but depending on government supervision.

Some might argue that these institutions emerge wherever they are needed. Early neo-classical institutional economics sees contract and institutional innovations emerging to economize on transaction costs and information asymmetries (North and Thomas 1973; Demsetz 1967).

This is a generalized induced innovation hypothesis, strongly related to Coasian notions of contracting. But this view has largely been abandoned (North 1990). Dysfunctional institutions can sometimes persist over long periods of time in any particular society, even as other societies have managed to adapt their own institutions to overcome similar problems. The path of institutional change may be strongly influenced by historical precedent and by the workings of political processes (Bowles 2003). In the context of discussing credit market institutions in modern day Africa Fafchamps (2004) discusses innovation failure (institutions may simply not have been invented), authority failure (central government coercion may be weak or misdirected), coordination failure (public goods require the solution to collective action problems that may remain unsolved).

Institutional change may be opposed by those who see themselves as losing out in the new distribution of wealth and political power that may emerge or they may be holding out for a better bargain. One hypothesis is that institutional failures of this sort are the consequence of the lack of a catalyzing agent or organization to coordinate actions to spur change. This has led to some hope that state banks and government guarantees can contribute by 'crowding in' new forms of private financial intermediation. Alternatively, non-convexities in the technologies associated with institutional innovation can be associated with institutional failure when there is insufficient local intermediary capital, or a too-small market. In this case, the relative absence of intermediaries may be a simple function of the low levels of income and wealth in developing countries. Some authors argue that growth and financial deepening go hand in hand: as the economy grows there are more opportunities for diversification, and this in turn induces agents to invest in riskier but higher return projects, so the economy grows faster (Acemoglu and Zilibotti 1997).

In order to move towards a theory of the evolution of the institutions that might support a flourishing rural financial sector, we must first understand economics of financial markets in the context of incomplete information and imperfect contract enforcement. It is to that task that we now turn. We then use this general framework to examine the potential for ‘crowding in’ of new forms of intermediation, and the role of new semi-formal institutions of microfinance.

Historically, a good part of the theory of rural financial transactions developed in parallel to, and sometimes ahead of, more general results in the literature on information asymmetries, and the microeconomic theory of banking and corporate finance (Stiglitz 2002). For example, Stiglitz’ (1974) famous paper on “Incentives and Risk sharing in Sharecropping” inspired a good deal of later literature on how moral hazard could shape the structure of labor, insurance and credit and equity contracts and Akerlof’s (1970) early analysis of adverse selection or the ‘lemons problem’ was, by his own account, partly motivated by his observations on the operation of informal rural moneylenders in India.

Ruffeisen, Frederich W. is the founder of the idea of savings and credit in Germany. He was the first person to organize a rural credit union in 1846. Also Schulze- Daltzch was busy establishing a self-supporting loan scheme to extend credit to wage earners of low – income groups, such as artisans and shopkeepers. (Teaching manual Cooperative College, Hyden (1990:2) Clarck David et al (1995) page argued ‘If the distribution of income to households produced by a free market is felt to be unacceptably unequal, governments may interview to alter the position’. This is what the 4th Government of Tanzania have performed by providing loan to small and medium enterprises amounting to 21billions shillings distributable to every region to facilitate business opportunity growth to Tanzanians.

Collateral is an asset pledged by a borrower to a lender until a loan is paid back. So this is the one of the criteria that the formal financial scheme attempt to overcome repayment risk to their customers when default happen (Ferreira et al, 2017). This may screen out potential borrower who may be willing to repay but lack collateral. The informal savings and loans associations respond to this by pooling risk and using age-group and social ties to gather information that may give the true financial position of the borrower. This helps to solve other associated risks that balanced between the borrower and the lenders.

Community informal saving and credit associates intermediate financial transaction, made implicitly or explicitly between individual or group within the community and which is based on social cohesion, trust, mutual dependence, peer connections, within this community individual are linked within numerous social, ethic and economic relationship with each other’s. This links provide smooth and almost costless medium of gathering information about each other.

Individual and group within this community have social ties that preceded economic relationships. In some community information asymmetric is reduced by exploiting locally available information concerning reputation, indebtedness, wealth and history of potential borrowers at relatively low cost trough repeated social and economic interaction (Eboh 2000).

Saunders (1997:18) forwarded on the nature of savings and credit unions as “the lending activities are funded by savings deposited contributed by credit union members who share the same common thread or bond of association, usually geographical or occupational in nature”. According to Cliffe et al, they believed that the level of SACCOS efficiency and honest in managing their financial affairs will contribute positively on sustainability of the SACCOS and contribute towards National development.

2.3 Empirical Literature Review

Aston et al, 2017 shown that higher interest rate drives borrowers into over-indebtedness which they cannot afford to repay especially in rural residents and its return on investment turn higher due to increase on cost of borrowing (Waari, 2015). HttpHwww.ifad.org on challenges of rural finance discussed on the importance of the appropriate enabling environment: they argued that it is very difficult to establish a sustainable rural finance programme in a legal, regulatory, and /or financial environment that hinders financial sustainability (i.e. caps on interest rates), inhibit the decision making ability of management, or overburdens it with inappropriate rules and reporting requirements.

Host governments have an important role to play in establishing the appropriate enabling environment for rural finance, and it is donors and practitioner's responsibility to raise these issues with the governments before proceeding with the proposed programme. Evidently the risk associated with formal financial sectors flow from imbalance information between the lenders and the borrowers. This information gap becomes wider under a rural setting where government-led, top-bottom rural credit scheme as seen as an outside scheme created by the government to disburse government fund. This scheme always originates from the government not the community households whose are the access to credit in which their limited with collateral (Lemessa et al, 2016). It led to information imbalances, which increase the risk of default as it leads to moral hazard and adverse selection from the informal credit associations (Eboh 2000).

Illo A. (2000) analyzed that factors contributing to low economic and social status of S&L groups are breakdown of social support systems, limited access to health services, limited access to production resources, financial assistances, business skills and information; literacy and professional skills, effectives legal and judicial systems (customary laws) and group insensitive development policies. Low population density and difficulty to reach remote areas in many counties translate into high costs for financial institution contemplating an entry to these areas on access to credit to households (Clowes, et al (2004). Limited economic opportunities in many rural areas result in small transaction hence further increasing over all transaction costs.

According to Kloeppinger- Todd R. paper on renewed approaches to rural finance presented to the World Bank argued that matching grants should be provided to enable very poor populations to acquire assets, which will result in future income generations. Also implementer must not be pressured to undertake certain activities, or expansion, just to meet the donor's own goals just as Indonesia did; created 1,200 villages based CBFOs, called UPKD, in five of its provinces from 2,000 through

2,004, whereby World Bank funded RLF about $25,000 per village with no restrictions (Agriculture and Rural Development, 2007). The risk of political investigations can strongly influence the overall risk from the perspectives of the intermediaries, as payment morale can be completely undermined for debt forgiveness granted at the Government's instigations and interest rate caps can eliminate what may already be very slim margin.

Nickels et al (1999) pointed out that "savings and loan associations are the financial institution that accepts both savings and taking deposits and provides home mortgage loans". Most widely used sources of short term funding, is the least expensive and best convenient form of short term financing many firms obtain short term funds by borrowing money from family and friends such loans sometimes can be dangerous, however if the firm doesn't understand cash flows.

Nickels, et al (1999) say that banks are highly sensitive to risk and therefore often reluctant to lend money to small businesses. The most difficult for of a loan is unsecured loans that are the loans not backed by a specific asset. Secured loan on other hand are backed by something valuable such as property. If the borrower fails to pay the loan, the lender may take possession of the collateral.

The report entitled, women and men in South Africa five years on (2002), women are poorly educated. A women's life is greatly determined by her level of education which in turn influences her working stakes which determine her poverty status but can be minimized through community in productive project (Pearce, 1978). Savings and loan activities can bring communities together, helping them to address their needs in a very practical way, but also bringing about political change within the community itself just a Thailand does (Boonyabancha, Somsook 2001). Savings and Loan Associations (VSLAs) provide an alternative to existing informal networks and provide more flexibility, transparency, and security (Ksoll, Christopher et al 2013).

Also, even if participants do not have time inconsistent preference, VSLAs might allow the participant to commit the rest of the household to his or her own preferences (Anderson and Baland, 2002). Every week, a member must buy at least one share and is permitted to buy up to five. The share value is set by the group and written in the group constitution, and loans are provided at every fourth meeting (Hendricks, L. 2011).

In Sri lanka's NEIAP based on irrigation, poor women in project villages were financed to their economic activities through Women's Rural Development Societies (WRDSs). The finance funded (loan) is difficult to access its collection performance but sustainability is more than just financial performance, and is a strong indicator for long-term survival of the group (Fergurson & Co. 2,005). This means that group members should have other economic activities, which will help them when their project fails and even on loan repayment.

Wangwe (2004) on his paper for the Third Annual Conference on microfinance at the AICC, Arusha postulate that pooling saving through institutional arrangements such as SACCOs help to address the problems associated with regulation limits access to loans by the poor farmers. Murray and Rosenberg (2006) says, saving-based group are often successful when loans are financed by members' own savings, and there is either no external funding, or such funding arrives in modest amounts after the group has a solid track record of lending and recovering its own savings. This can be a strongly success linked to the source of funds group receive.

Therefore, according to Ashe, J. (2011) on his paper **"The savings Group Revolution"**, the Rural Prosperity Initiative has five pillars; Document breakthrough experiences among other savings group practitioners and self-help group, use the existing saving group to all new components, expanding the number of group, evaluate operational effectiveness of each components, and tell the story through publications, videos, conferences, and advocacy.

2.4 Gap of Knowledge

Although the huge amount of money provided to the community, they have seen of not promoting the growth of entrepreneurship. The study was conducted to fill the gap based on the factors hindering financials access to the community on urban and rural areas demographic distribution.

2.5 Conceptual Framework

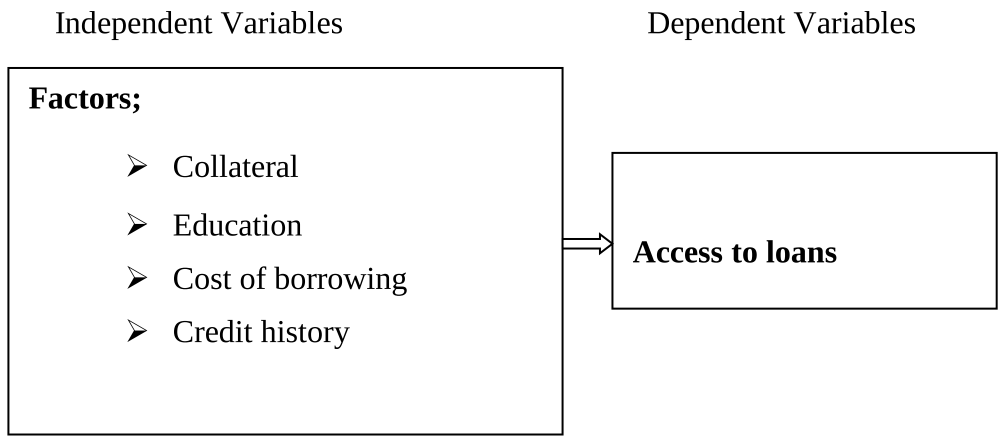

Figure 2.1: Conceptual Framework

Also the study was conceptualized on the mobilization of groups in form of savings and loans associations and establishes their performance. Finally the study was established whether the opportunities offered by savings and loans associations are affected by cultural diversity and the life style of people in Arusha District.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter present key issues on the methodology employed in this study. The chapter provides brief explanation on how the study was conducted. It explores the type of data collection and the methodology of data collection; the research instrument, research design, research location and procedures were used by a researcher in this study.

3.2 Research Approach

According to Kothari (2004), Research methodology is a way to systematically solve the research problem. It may be understood as a scientific study of how research is done.

3.3 Area of Study

Arusha District is one of the five districts of the Arusha Region of Tanzania, and it contains the regional and economic capital. It is bordered on the south by the Monduli District and to the north, east, and west by the Arumeru District. Arusha is one of Tanzania's 26 administrative regions and is the regional capital and largest. Arusha region is located in the north-eastern corner of Tanzania. It lies below the equator between latitudes 2^0 and 6^o.Longitudinally the region is situated between 35^0 and 38^0 east of Greenwich.

The region has a common border with Kenya in the north, to the east it borders with Kilimanjaro and Tanga regions. To the south it shares a border with Dodoma region and to the west with Singida, Shinyanga and Mara regions. The region is a global tourist destination and is the centre of the great North Tanzanian Safari Circuit. Some of dogma matters links customers and traditions (Norms and believes) participation in decision making, lack of control and ownership over house hold assets still exist within the Arusha residents.

3.4 Population, Sample and Sampling Techniques

3.4.1 Population

Kothari (1990) said "Population refers to the large groups from which the sample is drawn". The study involved 100 people in Arusha district.

3.4.2 Sample

The sample of the study was 50 people drawn randomly from 100 people in 5 wards of Arusha District which includes Olturoto, Moivo, Sokon ii, Kimnyak, and Muklat.

3.4.2.1 Sampling Techniques

Taking into consideration on the nature of the study, both probability and non-probability were adopted. Equal chance has been given to every element under probability sampling techniques in the selection of only those who gave positive relevant information in this study. Probability method used includes random sampling, stratified sampling, non-probability sampling techniques considered the use of judgmental and purposive sampling techniques.

3.4.2.2 Random Sampling

Random sampling means drawing number of items any sort from a large group or population in which every individual item will specify probability to be chosen. In this all respondents were given equal chance of being selected to be included in this sample frame.

3.4.2.3 Stratified Sampling

Stratified sampling can be used when the population from which the sample is to be drawn does not constitute homogeneous group. The researcher has used this method to obtain more reliable and detailed information in this study.

3.4.2.4 Purposive Sampling

The researcher has used this method to obtain the list of SACCO's managers, ward executive officers and other officers who were interviewed in order to obtain relevant information or data. Also books and other documents have been selected according to their sustainability in relation to the study. Purposive, random, systematic, and stratified sampling techniques were used in this study by the researcher depending on representativeness, accuracy and the size of the sample.

3.5 Data Collection Procedures

The study based on two main sources of data which are primary and secondary data. Primary data gathered via interviews, questionnaires, and observations while secondary data obtained through in-depth review of past various studies, records and statistics.

3.6 Research Instruments

The researcher collected data from questionnaire, interviews, observation, and documentary (journals, books, magazines, paper, and museums) depending on the respondents, degree of efficiency and nature of the data. The instruments composed depending on the research objectives, variables in the objectives, measurements of variables, type of data and source of data.

3.6.1 Questionnaires

The questions were prepared and distributed to staff members selected from loans and savings associations, WEO's District corporative officer basing on research questions formulated and sample size.

3.6.2 Interview

The researcher interviewed the staff members selected from loans and savings associations, District corporative officers, SACCO's and representatives from different committees (executive committee, supervisors committee and credit committee).

3.6.3 Observation

Observation method was used by the researcher to verify and crosscheck the information obtained from the respondents, and through visiting working field of Arusha residents (example farms). The researcher observed kind of training attended by fund lenders.

3.6.4 Documentary Review

The researcher assessed the information in the form of report data from members, District cooperative officers and Bank staff.

3.7 Reliability and Validity of Data

Reliability defined as a degree to which an assessment tool produces stable and consistent results (Moskal, B.M., & Leydes, J.A: 2000). Validity refers to how well a test measures what is purported to measure (Cronbach, L.J.:1971). The study was done to test the tools if are truly measuring what they have intentioned to measure (Kothari: 2007). Reliability of the tool was made during questionnaires before a full exercise of data collection was done purposely to see if the tool gives accuracy and exactness consistent response from various respondents.

3.7.1 Data Analysis

According to Marshall and Rossman (1999), data analysis refers to the bringing of order, structure and valuable meaning to the bulk of data collected. It is also time consuming and ambiguous but creative process. The use of Tables and percentages in particular helped the readers to note the relationships in quantitative sense more clearly. Descriptive analysis was used to analyze data collected through Scientific Package for Social Science (SPSS) Version 22 software.

CHAPTER FOUR

FINDINGS/RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and discussion of the findings of the study. The presentation is organized according to the research objectives and questions and the emerging themes issues as observed, answered by questionnaires respondents and interviewees.

4.2 Dada Presentation

The study distributed 50 questionnaires to potential respondents and managed to interview 41 members selected from Arusha District, 5 Wards, SACCO's leaders and members. Out of the distributed questionnaires 41 respondents representing 82% returned the questionnaires while 9 questionnaires were not returned and 41 people were interviewed for the purpose of crosschecking facts given in the questionnaire and also together more information or clarification on issues not addressed by the questionnaire.

Table 4.1: Descriptive Questionnaire Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	17	41.5	41.5	41.5
	Female	24	58.5	58.5	100.0
	Total	**41**	**100.0**	**100.0**	

Source: Field Data (2018)

Question one: Perception of respondents on finance sources distribution

The respondents on whether there is equal distribution of finance sources between rural and urban areas are analyzed from Males and Females perspectives. The result shows there is unequal distribution of finance sources between rural and urban areas as shown in the Table 4.2.

Table 4.2: Distribution of Finance Sources

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	35	85.4	85.4	85.4
	No	6	14.6	14.6	100.0
	Total	**41**	**100.0**	**100.0**	

Source: Field Data (2018)

The first interview question aimed at establishment of the sources available to enable the entrepreneur to start a new business. The coding of interview question aimed at establishment of self-financing that may come from various sources such as sale of own property, sale of agriculture products and the other hand loan from different sources such as SACCOS, loan from others, loans from MFI's where by the following results have been analyzed in the following Table 4.3.

Table 4.3: Sources of Finance Start own Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Loan	29	70.7	70.7	70.7
	Other	12	29.3	29.3	100.0
	Total	**41**	**100.0**	**100.0**	

Source: Field Data (2018)

The results show that 70.7% of the respondents confirm that loan is the great source of finance to start their own business and 29.3% is other source of finance they can use to start their own business as explained above. Also male on interview question by sex think that self-financing (other) provide more reliable source of financing compared to loan, and females have reverse observation on the same issue.

Question 2 and Question 3 were aimed to determine the adequacy of accessibility of finance sources at rural areas and the relationship between cost of borrowing and the access to loan. The respondents said that no borrower will repay back loan with no it's cost, even on the process of getting loan it involves cost. Also they point out that there is disparity of resource distribution between rural and urban areas, where by urban areas residents were more privileged than rural residents.

Interview question number three aimed at establishment of the causes of unequal distribution of the finance sources where respondents gave the following observation as being the major challenge and critical issues to finance distribution.

(i) Collateral

Lack of collateral has been another challenge in accessing the source of finance. 43.9% of respondents show that its difficulty to get loan from some financial institutions if the borrower does not have asset required to secure the loan.

(ii) Credit history

31.7% respondents have a feeling that borrower background may be the cause of most MFI's are reluctant to provide loans especially to rural residents whose have got bad repayment historical compared to urban residents. MFI's operate profitably then opening the branch to areas with low population density increase the cost of loans and once the burden is shifted to the borrower then this causes them unable to repay amount credited.

(iii) Education level

24.4% of the respondents said there exists knowledge and skills gap (between those with high level of education such as form six levers, undergraduates, graduates and those with low level of education; standard seven levers, form four levers) to manage the fund as well as accessibility of the fund is the second challenge facing them. The government and other non-government organizations campaign to create financial awareness to Arusha District residents. The following Table 4.4 provides the summarized results.

Table 4.4: Factors for Unequal Distribution of Finance Sources between Rural & Urban Areas

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Collateral	18	43.9	43.9	43.9
	Education level	10	24.4	24.4	68.3
	Credit history	13	31.7	31.7	100.0
	Total	**41**	**100.0**	**100.0**	

Source: Field Data (2018)

Respondents show that collateral is the main challenge facing women entrepreneurs on the access to loans from MFI's between rural and urban areas residents. The results are shown in the Table 4.5.

Table 4.5: Challenges Hindering Women Entrepreneurs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Family Commitment	9	22.0	22.0	22.0
	Male Domination	8	19.5	19.5	41.5
	Knowledge Gap	11	26.8	26.8	68.3
	Collateral	13	31.7	31.7	100.0
	Total	**41**	**100.0**	**100.0**	

Source: Field Data (2018)

(i) Family commitment

Female respondents showed their concern on their commitment on family related issues which have negative implications on business success.

(ii) Male Domination

Female respondents have shown their feeling that male supremacy has a great contribution to discouraging women entrepreneurs. Male they do not trust their wives particularly when their business involves traveling outside their home. Also business opportunities may involve network creation where by their wives might meet with different people especially males, this can mistrust to their husband.

(iii) Knowledge Gap

The researcher on this study has revealed that women entrepreneurs experience the challenge of lack of enough entrepreneur knowledge and skills.

(iv) Collateral

Lack of collateral has been a great challenge in accessing the source of finance. Arusha District female residents do not possess land, which they can use it to pledge as a collateral when they have demand for finance from financial institutions.

Question five focused on comparing the cost of borrowing between the two sources of finance. Both respondents' males and females have agreed on the fact by 92.7% that interests charged by MFIs are higher than SACCO's. Loans' Interest rates on SACCO's are higher than MFIs because SACCO's access loans from MFIs to finance its members. Results shown on the following Table 4.6.

Table 4.6: Response on Whether Interest Rates of MFIs are Higher than SACCO's

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	38	92.7	92.7	92.7
	No	3	7.3	7.3	100.0
	Total	**41**	**100.0**	**100.0**	

Source: Field Data (2018)

Question six, both male and female respondents agreed that population density is a hindering factor in development of micro financing institutions in village as analyzed below on Table 4.7.

Table 4.7: Population Density Limit Growth of MFIs in Rural Areas

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	37	90.2	90.2	90.2
	No	4	9.8	9.8	100.0
	Total	**41**	**100.0**	**100.0**	

Source: Field Data (2018)

The question on a role of collateral aimed to assess whether it is a criterion on accessing loans from financial institutions. The results were analyzed in the following Table 4.8.

Table 4.8: A Role of Collateral on Access to Loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Security	40	97.6	97.6	97.6
	Other	1	2.4	2.4	100.0
	Total	**41**	**100.0**	**100.0**	

Source: Field Data (2018)

Again the results concur with prior observation that knowledge and skills is a very important thing on the access to loans from financial institutions. About 97.6% respondents said that role of collateral on access to loans is a security imposed by financial institutions from losing fund when borrower failed to pay back loan incurred. The last interview question focused on establishment of respondents' suggestions on how to improve the accessibility of financial from financial institutions especially saving and loan associations. The following results in Table 4.10 were analyzed from study questionnaires.

Table 4.9: What should be done by SACCO's to Improve the Performance?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Education	10	24.4	24.4	24.4
	Reduce cost of borrowing	23	56.1	56.1	80.5
	Government support	2	4.9	4.9	85.4
	Management and leadership	6	14.6	14.6	100.0
	Total	**41**	**100.0**	**100.0**	

Source: Field Data (2018)

(i) Education

24.4% of the respondents interviewed showed that leaders and the members of SACCOs lack the basic and necessary financial management education that would enabled them to make analysis of available source of finance and associated costs.

(ii) Reduce cost of borrowing

56.1% of the respondents mentioned that cost of borrowing to be a stumbling block. High interest rates charged by financial institutions were cited as the hindering factor on the demand for loan by the members of SACCO's.

(iii) Government support

4.9% of the respondents interviewed thought that government should provide great support on financing to saving and loans associations especially SACCOS so that they can improve in it is performance.

(iv) Management and leadership

14.6% of the respondents have the feeling that saving and loans associations especially SACCOS should employ peoples that are competent in business administration especial in finance. This will help to improve the performance in saving and loan associations. Also they have mentioned that management should make sure that there is fair distribution of finance sources to the borrower.

4.3 Discussion of the Findings

The present study examined the factors hindering access to loans. The findings show that in question one there is unequal distribution of finance sources between rural and urban areas, both males and females agreed for more than 85.4%, where by urban areas residents were more privileged than rural residents, and the major challenge and critical issues lead to this discrepancy are education level, credit history, population distribution, collateral, and cost of borrowing. 90.2% of respondents agreed that population density is a hindering factor in development of micro financing institutions in village while the males they feeling that is not a limiting factor. About 70.7% of the respondents confirm that loan is the great source of finance to start their own business and it is being provided in a certain period of repayment.

This finding are in line with previous empirical works of Banerjee (2003) that reports substantial evidence of very large spreads between borrowing and deposit rates in many financial markets in developing countries. Also institutional lines of credit to buy animals, tractors or equipment are sometimes provided over a period of two to five years or longer, longer-term institutional credit has typically remained scarce (Deininger 2003). A large literature has made clear that financial repression as a result of directed credit, interest rate caps, and excessive regulation and state involvement in banking has been a principal culprit of the relative lack of more effective intermediation in developing countries (Adams, Graham, and Von Pischke 1984; McKinnon 1973).

Respondents have shown that government support (4.9% respondents) is needed in helping to un-limiting access to loans, just as for example Thailand through its bank (Bank of Thailand) mandates portfolio allocation targets for commercial banks to lend to the agricultural sector, and mandate charge interest rates for agriculture not higher than non-agriculture lending, just as respondents in this study have demanded that cost of borrowing (interest rate) should be reduced. So this has provided high access to loans to the citizen of Thailand.

A Central Bank mandate adopted between 1977 and 1990 which required banks to open up four new branches in under-served areas for every new branch opened elsewhere led to significant expansion of new rural branches, which varied by state. This will helpful to reduce unequal distribution of finance sources between rural and urban areas. Also 'If the distribution of income to households produced by a free market is felt to be unacceptably unequal, governments may interview to alter the position' (Teaching manual Cooperative College, Hyden (1990:2) Clarck David et al (1995).

Is what the 4th Government of Tanzania have made by providing loan to small and medium enterprises amounting to 21billions shillings distributable to every region to facilitate business opportunity growth to Tanzanians. Should be knowing that "very poor populations who lack access to economic opportunities and are too vulnerable to take risk can in some cases be assisted with matching grants that enable them to acquire income generating assets" (Kloeppinger- Todd R).

Collateral has hindered some non-potential borrower compared to potential borrowers on access to loans because most of financial institutions demands collateral on provision of loan due to the experience they have on credit history of their customer. A credit history means a record of debt repayments by a borrower from a number of sources such as bank, SACCOS, and government. This also involves the time for debit repayment and the amount debtor owed across all credit accounts. Higher debit repayment is a good indicator for the debtor to access another credit (Waweru, 2016).
This it is in line with Eboh (2000) whereby some community information asymmetric is reduced by exploiting locally available information concerning reputation, indebtedness, wealth and history of potential borrowers at relatively low cost trough repeated social and economic interaction.

Findings shown that education on financial management should to be provided to group members so that they can get experience and be able to manage well their finance and repay loans. Example funds from bank links or donor-funded grants only after members have gained experience managing the lending of their own saving (Agriculture and Rural Development: 2007). Also good way of learning to group members is through tell the story through publications, videos, conferences, and advocacy (Ashe, J: 2011). This will help to reduce knowledge gap as 31.7% of respondents argued that it is a factor hindering access to loans.

Results show that challenges such as family commitment, male Domination, knowledge Gap and collateral limiting women entrepreneurs from doing business. On a question “What should be done by SACCOs to improve the performance?” respondents shown that education is needed, cost of borrowing should be reduced, government should prove support and must be a good management and leadership. Example good management and leadership helps to strength community process so that people can work together to achieve their multiple and diverse needs (Boonyabancha, Somsook: 2001). Working together provides informal networks and more flexibility, transparency, and security (Ksoll, Christopher et al: 2013), and it will help to solve problems associated with regulation limits access to loans by the poor farmers (Prof. Wangwe: 2004). Performance can be improved by better record of lending and recovering of fund within the group (Murray and Rosenberg: 2006).

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter draws conclusions and recommendations provided by the researcher based on findings from the study analyzed and discussed in previous chapter. There were several questions asked for the purposes of getting respondents opinion on factors hindering access to loans. The results indicate that among other factors commonly mentioned challenges includes education level, credit history, and collateral. The conclusions are based on objectives of the study and research questions set for this study.

5.2 Recommendations

5.2.1 Education

Researcher has used various sources related to the subject matter during the course of conducting this research work. The literature enabled the researcher to come up with an updated knowledge on the gap created between the understanding the roles played by saving and loan contribution programmes in promoting sustainable life and cost effective community finance.

The conceptual model on this study results can be used by academicians and other stakeholders to extend their knowledge on the subject matter. Furthermore the existing MFIs and SACCOS can use the knowledge gained from this study to increase their efficiency and effectiveness on their business operations to meet their objectives.

Also knowledge gap can be reduced through training those who have acquired the loans to enable them manage appropriately the loans and make repayment of their loans at a time according to their contracts with financial institutions. Moreover people should be encouraged to form group that will enable them to access various finance sources and even contribute fund among themselves.

5.2.2 Implication to Government as Policy Makers

The study has found that urban residents could easily access to finance source contrary to their counter partners in rural areas. The policy makers should review their policies to ensure that both rural and urban areas residents have the access of funds at any time it's possible with them.

5.2.3 Implication to Decision Makers

Basing on findings, the management of saving and loans associations should consider providing services which could support the objectives to their clients. They should consider establishing special programmes which could empower women in doing business because they are less advantageous in borrowing from arrangements. Government should make deliberate effort to support the financial institutions to expand their services on rural areas.

5.2.4 Area for Further Research

The researcher on his study revealed that there is a direct link between borrowing from financial institutions and family issues. For instance one respondent complained that most women entrepreneurs are reluctant to borrow from financial institutions because of their husbands' domination. This male domination observed during the study attracts more studies to be carried out in this area so that to come up with solution that will help women entrepreneurs on their business against fighting poverty within their family and community.

5.3 Conclusions

Study results reveal that rural residents have high expectations of benefiting from saving and loans associations. SACCOS have great opportunity to provide their services to rural areas in comparison with financial institutions. Hence they should consider taking advantage of making business as well helping cover the gap of accessing finance sources by expanding their services to rural areas.

Government should encourage financial institutions to expand their operations to rural areas as new potential markets existing will enable them to operate their business closely to customers and cover the gap of accessing finance sources. Also they have to reduce their interest on loans so that to attract more customers, this will help to eliminate poverty within the society.

Education to both males and females on financial matters is vital tool to help promoting sustainable life within the community, and hence poverty elimination. Arusha District Council should take deliberate effort to educate men to help their wives' family responsibilities because it have negative implications on business success to women, just as the study have revealed that women have great family responsibilities (family commitment) such as caring children.

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APPENDIX

Appendix I: Questionnaire

The aim of the questions focus on the fulfillment of the examine factors hindering access to loans in promoting sustainable life and cost effective to the community residents.

The use of these data is for the academic purposes only in partial fulfillment of the requirement for degree of Master of Business Administration in Finance and not otherwise. Please. I request your corporation in responding to these questions.

Respondent’s gender: Male ( ) or Female ( )

1. Is there fair distribution of finance sources in Arusha District between rural and urban areas? Yes/No
2. Are rural access finance sources adequate? Yes/No.
3. Is there relationship between cost of borrowing and the access to loan? Yes/No.
4. Collateral does not hindering accessibility of the financial assistance. Yes/No
5. MFI’s interest rate are high in rural areas compared to Saving and Loans Associations. Yes/No
6. Credit history hindering loans access from financial institutions. Yes/No
7. Savings and loans programs play a vital role in rural economic development. Yes/No

8. Business plan is a criterion on access to loan in Savings and Loans Associations. Yes/No

9. What are the sources of finance that can enable you to start your own business?

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10. What are problems faced by business owners to access these sources of finance?

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11. What are the factors do you think contribute to unequal distribution of finance sources between rural and urban areas?

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12. Why women entrepreneurs in Arusha District are few compared to males

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13. What do you think is the role of collateral on access to loans?

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14. What should be done to improve the performance?

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THANK YOU FOR YOUR CONTRIBUTIONS