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Asset Financing for Positive Image of Microfinance Industry in Tanzania: TAMPRO SACCOS as a Case Study

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Abstract

To mitigate the danger of creating more poverty and rescue the image of microfinance institutions, asset-based financing is appropriate tool for typical microfinance clients. Asset-based financing methodology is full of potentials to prevent diversion of funds into consumption domain and help microfinance clients become productive, and likewise create positive image of microfinance institutions. To this regard, the methodology of financing for poor microfinance clients matters most than just lowering interest rates as suggested by others. Asset-based financing as advocated in Islam, does not easily provide room to divert funds into non-productive ventures. However, the mainstream microfinance sector in Tanzania employed interest-based financing methodology for microfinance clients. This methodology does provide a room for clients to divert cash into consumption and finally failed to make repayments to clear the loans and become poorer than before. Consequently, following measures of loan recover procedures; the targeted community is left with negative impression on microfinance institutions. This study is recommended the use of asset financing as a way to make micro clients productive and prevent the possibility of creating positive image or impression on microfinance sector in Tanzania.

Key words: *Microfinance, Asset financing, Impression, Tanzania*

1.0 INTRODUCTION

1.1 Background

Researchers were keen to know the reasons that are leading to low participation of microfinance clients in Tanzania. One of the reasons that was identified is the higher amount of interest charged on micro clients, and they therefore, suggested to reduce interest rates for many micro clients to join microfinance activities. However, this study found that the entire cash financing methodology is detrimental to the social and economic status of the very micro clients who are likely to become poorer. Provision of loans through cash financing is not the appropriate methodology for the typical microfinance clients to carry out microfinance activities. Since there is a possibility of some clients to divert these loans into non-productive venture and finally fail to honor their commitment of repayment to the financiers. In the event clients fail to clear their payments, the recovery procedures must be adopted including selling items possessed by clients or any sort of harassment that may leave these clients and even non-clients with negative impression on microfinance institutions. The negative impression of microfinance institutions is among the reasons that keep some potential clients away from knocking the doors of microfinance institutions. Islamic asset-based financing is a good financial methodology to create good image or positive impression on microfinance institutions in Tanzania. By incorporating asset-based lending methodology into a wider sector of microfinance in Tanzania, asset financing has potentials to attract clients with negative impression to become customers and likewise, increase financial reach out within microfinance spectrum.

It is against this background this study was designed as it recommended the use of asset based financing to create positive impression on microfinance institutions for the typical microfinance clients.

1.2 Statement of the Problem

Many micro clients are usually tend to pay for their basic requirements than engaging in productive activities when they are provided with cash loans (Wangwe, and Lwakatare, 2004). It was also found in the study conducted in Dar-Es-Salaam that some microfinance customers rely and depend on their friends and relatives to pay off their debts to microfinance institutions. In some cases collateral were auctioned to clear off debts (Dimoso and Masanyiwa, 2007). Others are harassed by microfinance officers and at times in the presence of their loved ones or even taken to court. All these incidents leave clients and non-clients with negative impression on microfinance institutions. The root cause to this problem is financing methodology which is an impetus for diversion of funds and non-productivity. Thus, there is a need to have a financing methodology that would allow clients become productive and prevent a possibility of diverting funds into consumption domain and therefore avoid negative impression on microfinance institutions.

Most of the studies on microfinance in Tanzania have concentrated much on individual components such as amount of loans, groups, interest rates, and sustainability of microfinance institutions. Studies that assess the negative impact of cash-based financing methodology are lacking. This has resulted in not considering the potentials of asset-based financing methodology in the context of creating positive impression of microfinance industry in Tanzania. This is the knowledge gap that this research is seeking to fill by addressing the following questions:

1. Is cash based financing methodology a factor leading to fund diversion into consumption domain by micro clients in Tanzania?
2. Is asset based financing a factor to prevent fund diversion into non-productive domain among micro clients in Tanzania?

3. What type of financing methodology able to create positive image on microfinance institutions in Tanzania?

1.3 Research Objective

The broad objective of this study was to evaluate the impact of asset backed financing methodology on the image of microfinance among micro clients in Tanzania. This in turn will assist with poverty alleviation program at a macro scale by introducing financing methodology designed for the typical microfinance clients. This overall objective leads to the following specific objectives:

1. To examine the impact of cash based financing on fund diversion into consumption domain by micro clients;
2. To examine the impact of asset based facility on fund employment into productive domain by micro clients;
3. To analyze financing methodology relevant to create positive image on microfinance institutions;

1.4 Significance

A large number of studies on poverty indicate that exclusion of the poor from the financial system is a major factor contributing to their inability to participate in various economic activities. Microfinance institutions and programs in Tanzania were introduced to create financial accessibility to the poor. Despite of these efforts, there are still a huge number of unreachable clients of active population (Kessy and Urio, 2006).

One the reasons, that is leading to this dismal performance of microfinance industry is the issue of diversion of funds to unproductive consumption (Wangwe and Lwakatare, 2004). Fund diversion has been the major cause for many microfinance clients in Tanzania not to repay back their loans. Studies on microfinance industry in Tanzania did not link the financing methodology and the problem of diversion of funds which in turn creates negative impression of microfinance institutions during the loans recovery stage. This study has addressed the issue of microfinance coverage in Tanzania and taken into account the issue of impression among microfinance clients as a factor hindering some microfinance clients to join microfinance activities.

The intervention of asset financing as an alternative financing methodology attracted clients to join microfinance activities on the basis of good image of the microfinance institutions. The study of the asset financing for positive image of microfinance institutions is essential for poverty alleviation in Tanzania. The main stream microfinance services in Tanzania have employed interest-based financing methodology with the potential to create negative impression of microfinance institutions. It is hoped that this study will illuminate the need for asset financing to create positive image of microfinance institutions in an attempt to alleviate poverty in Tanzania.

The findings of the study should not only add to the literature on microfinance but have practical relevance in the microfinance industry in Tanzania, in other words, the findings of the study are expected to enhance microfinance's relevance to reach many poor people. This study recommended to microfinance stakeholders to employ asset financing to be the main financing methodology for typical microfinance clients.

1.5 Research Methodology

The methodological orientation of this study emanates from the pragmatic perspective which allows the use of mixed methods. The goal of this research was to acquire in-depth study of the impact of financing methodology in an attempt to expand financial reach out through positive image of microfinance industry in Tanzania. In this scenario case study is appropriate strategy to capture the experience of individuals or entity relevant to the research questions and objectives[1]. This research adopted the use of questionnaires, interviews and observation to collect the primary data while different documents and multimedia products formed the source of secondary information for the study.

2.0 THEORETICAL AND EMPIRICAL REVIEW OF LITERATURE

2.1 Introduction

This chapter develops the conceptual framework of the study. In arriving at that goal the literature identified limitations of cash based financing and explored potentials of asset backed financing as an instrument to create positive impression among micro clients in Tanzania by minimizing the problem of diversion of funds into non-productive activities.

2.2 The Meaning of Microfinance

Microfinance can be referred as the provision of financial services to poor and low-income people whose low economic standing exclude them from formal financial system[2]. The provision of financial services to the poor helps to increase household income and saving and enables the household to build up its own capital. Before the introduction of microfinance, these poor people in the past could not access credit from the formal financial institution on the ground that they were not able to provide security against the possible risk associated with credit. This denial of opportunity must have bound them in a vicious circle of poverty.

Microfinance emerged as an economic development approach intended to address the financial needs of the deprived groups. The small loans given to micro clients are primarily intended to support them in starting their own businesses or expanding existing ones. Microfinance initiative with appropriate designed financial products and services enable the poor to expand and diversify their economic activities, increase their incomes and improve their welfare.

2.3 Microfinance Movement and Institutions in Tanzania

2.3.1 Microfinance Movement

The government views microfinance not only as an effective tool for poverty alleviation but also as an important ally of credit delivery to the poor. To this end the government has been keen to improve and develop the microfinance industry. It has established a fully fledged directorate of microfinance within the Central Bank (Bank of Tanzania), which spearheaded a number of key processes towards the development of the industry. One of the unique aspects as a first step was the formulation of the National Microfinance Policy in 2000 to guide the microfinance activities in the country. The policy gave rise to the formulation of legal, regulatory and supervisory framework for microfinance activities.

2.3.2 Providers of Microfinance Services

The main providers of microfinance services to the poor households in Tanzania include Savings and Credit Cooperative Societies, donor-assisted Non-Government Organizations such as FINCA and PRIDE, formal registered Commercial Banks like Akiba Commercial Bank (ACB), National Microfinance Bank (NMB) and registered Non-bank financial Institutions such as Dar-Es-Salaam Commercial Bank (DCB) and Tanzania Postal Bank (TPB).

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[1] Yin, R.K, *Application of Case Study Research (2nd Ed.)*, Thousand Oaks, SAGE

[2] Ahmad, H., Financing Micro enterprises: An Analytical Study of Islamic Microfinance Institutions, *Journal of Islamic Economics Studies*, Vol. 9, No.2, pp.6-12

2.3.2.1 Savings and Credit Cooperative Societies (SACCOS)

Savings and Credit Societies in Tanzania started far back in 1938 by Ismailian Community whose majority was of Asian descendants. Most of these people were businessmen in Dar-Es-Salaam, Moshi, Dodoma, Tanga and Mwanza towns. They used to save their money in a collective center and when one of them is in need of liquidity he/she could borrow from the community funds. From the late 1950s, the Roman Catholic Church began to introduce the idea and practice of savings and credit cooperatives among the Christians in Tanzania[3].

The Savings and Credit Societies acts as a source of cheap and convenient source of supply of credit to members other than any other financial institutions. Commercial banks, NGOs, community and rural banks, and private money-lenders charge high interest rates or require collateral for which most of the poor people may find difficult to provide. SACCOS help micro and small-scale entrepreneurs to conveniently acquire capital to start or expand their businesses.

SACCOS is an organization consisting of a group of people who voluntarily join together having a common bond. This group will agree to save their money together and give credit to one another during times of financial needs at an agreed rate of interest for productive and provident purposes. Savings and Credit Cooperative Societies help disadvantaged groups in the community in accessing loans as they can provide the required security such as group pressure, and savings accounts different from those provided by commercial banks.

2.3.2.2 Financial NGOs

A significant number of NGOs provide microfinance services to the poor and low income households in Tanzania. None of the NGOs are subject to any regulation with respect to the micro credit and financing activities they carry out. The microfinance NGOs are registered legal entities, either as companies limited by guarantee (i.e., non-stock companies) under the provisions of the Companies Act, or as Trusts under the provisions of the Trustees Incorporation Ordinance. Two of the largest microfinance NGOs in terms of outreach and client base are the Foundation for International Community Assistance (FINCA) which utilizes group lending methodology in catering to active clients and Promotion of Rural Initiative and Development Enterprise (PRIDE-Tanzania) which uses solidarity or group-based lending methodology in serving the clients[4].

2.3.2.3 Formal Mainstream Financial Institutions

These are institutions, which are subjected not only to the general laws and regulations but also to the specific banking regulations and supervision. Included here are commercial banks, community banks and non-bank financial intermediaries. The global experience has been that most conventional banks have considered the poor to be un-bankable[5]. Mainstream financial institutions are shying away from microfinance services to poor people because they believe that, poor cannot be trusted with credit. However, in Tanzania some commercial banks have entered the microfinance industry these include banks such as Akiba Commercial Bank (ACB), National Microfinance Bank (NMB) and Exim Bank (EB) which make loans to individuals as well as groups of people and businesses in small enterprise. On the other hand there are some regional and community banks in the category of registered non-bank financial institutions that provide microfinance services, among them are Kilimanjaro Cooperative Bank, Tanzania Postal Bank and Dar-Es-Salaam Community Bank (DCB).

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[3] Moshi Cooperative Education Centre, *Establishment and Development of Savings and Credit Cooperatives (SACCOS)*, (undated) p.12

[4] http://www.bot-tz.org/mfi/

[5] http://www.worldbank.org (micro finance page)

2.3.2.4 The Village Community Bank (VICOBA)

The VICOBA seeks to assist the poor people to manage their own finances and to make more efficient use of their own mobilized local resources. The VICOBA methodology is flexible enough to cater for the needs of various client groups. The VICOBA groups serve as savings as well as credit service providers for their members. VICOBA groups are made up of between 15 and 30 adult members.

The village funds are self-managed and autonomous in their decision-making, which has included the adoption of financial practices consistent with local values. The startup is self-financed through member share capital, from which small loans are given for up to three month. Whenever initial financial intermediation is satisfactory, commercial banks or financial NGO's may provide an additional capital injection, thereby increasing outreach and loan sizes. A good example is VICOBA under the National Supreme Council of Tanzania its Swahili acronym is BAKWATA (The National Muslims Supreme Council of Tanzania), in Bagamoyo district in Coast region and in the districts of Korogwe and Kilindi in Tanga region.

2.4 The Problem of Fund Diversion

In order to expand the number of micro clients, researchers have suggested lowering rates of interest as they found that many microfinance institutions in Tanzania are charging higher rates of interest. However, lowering interest rates may jeopardize the social and economic status of poor people as they are likely to apply more micro loans to finance their consumption bucket. What is important is to minimize the use of cash loans and not lowering interest rates which is cash based. The argument of lowering interest rates for typical microfinance customers is not relevant for these clients as this arrangement may lead the clients to more poverty. Diversion of funds into non-productive domain is likely to cause more poverty among micro borrowers and this in turn may create negative reputation following loan recovery process. The negative impression on microfinance institutions keep some potential participants away from entering the doors of microfinance institutions.

Cash financing arrangement is not usually appropriate for the chronically poor and destitute. Although Islamic law recognizes *qard hasan* (interest-free loan) as a type of cash financing but attention is drawn to the creditors on the difficulty of borrowers to clear off the debts and at times this may lead to total loss and therefore is desirable to regard this type of loan as charity, the following Qur-anic verse testifies:

> "*If the debtor is in difficulty, grant him time till it is easy for him to repay.*
> *But if you remit it by way of charity, that is best for you if you only knew*"[6]

Microfinance system must provide financing facility that may enable the person concerned to become productive. So the first and foremost thing in this regard is not to simply extend credit on cash terms. It is more advisable to provide loans in the form of asset that can help to break the cycle of poverty when it is invested in an economic activity that generates increased earnings. Majority of poor people cannot use micro loans for income generation activities (Mazher, 2010). Most of the microfinance clients in Tanzania receive cash loans from various microfinance institutions and expend in their private purposes. The reason for these clients to divert funds into consumption component is the result of lack of funds to meet their basic requirements.

In order to mitigate the problem, Wangwe and Lwakatare (2004) suggested loan provision for microfinance activities and financial support to meet basic needs of the clients. However, the two authors did not indicate how financial institutions formulate financial instruments to support both enterprise and individual household basic needs. The researcher is of the view that the problem of diversion of funds can be solved by ensuring that the

[6]See Qur-an (2:280)

financing methodology itself does not create a room for diversion of funds into non-productive activities. Microfinance institutions are morally bound to employ and adopt financing methodology not adding up appetite for diversion of funds into consumption domain.

When any customer utilizes the microfinance institution's money for meeting his/her requirements like food, school fees, etc., indeed that client is using the money in non-productive way. At the consequence, client becomes non-payer and the debt continues to raise likewise the customer becomes poorer. On the other hand, microfinance institutions have to take drastic actions to recover the money from non-payer clients. At the consequence, clients become poorer and microfinance institutions continue to push them for repayments, this situation and behavior create negative impression or bad reputation of microfinance institutions. Daily News investigative team conducted a survey in Dar-Es-Salaam region and found that some customers from FINCA microfinance, Easy Finance micro finance and Access Bank Tanzania regretted joining these microfinance schemes[7].

The author conducted interview during the early stage of this research, with the help of Cooperative Officer from Kinondoni Municipality in Dar-Es-salaam, five officials including credit officer of WANAMA SACCOS on the issue of default. WANAMA SACCOS is one of the prosperous conventional microfinance institutions but these officials admitted that default is one of the challenges that their SACCOS is facing. The SACCOS on several occasions was forced to take some clients to court and at times confiscated collateral from customers who failed to pay off their debts[8] at the expense of bad reputation of their SACCOS.

The researcher also found a woman who was at one time successful in her business and she could support her family accordingly. Her bad luck period started when she joined PRIDE microfinance scheme. She took the loan of TZS 50,000,000/= (approximately US$ 22,000[9] from the organization to expand her business of mobile phones and accessories situated in Dar-Es-Salaam. She was not given the whole amount of TZS 50 million although the rate of interest based on this amount, 11 million, which is 22% of the whole sum, was debited as a balance not to be given out to the client; this is as per the standard procedure of PRIDE. In this case the customer was only given the sum of TZS 39 million to be paid in a period of fifteen months plus interest amount of TZS 14 million. With the passage of time, the huge interest increased gradually and she started to sell off assets before her home situated in Mbezi (the locality in Dar-Es-Salaam) was auctioned to pay the amount of TZS 21 million which was due[10]. Her story imprinted negative reputation of microfinance institutions among her relatives and friends.

Recovery, of course, cannot be done from a failed business. Microfinance institutions must make certain the recoveries from the profits, instead of their losses as recovering from losses defeat the very purpose of the whole exercise. Microfinance institutions need to help borrowers engaged in various economic activities from which they can repay their debts and improve their living standard. It is important for microfinance clients to be provided with essential tools for which they can employ themselves and generate income that would be appropriate methodology for poor clients and microfinance reputation. Therefore, asset-based financing is a relevant methodology to overcome the problem of diversion of funds into non-productive purposes. In this case it is worth to note as well that the negative impression associated with conventional microfinance as the result of cash financing is removed.

The intention of any loan invention as per microfinance ambiance was to empower and make poor people able to earn income for their livelihood. But unfortunately, most of the microfinance clients take loans and spend in their

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[7] www.microfinanceafrica.net/news/tanzania-the-big-microfinance_rip-off-in-spotlight

[8] Interview held on 10/03/2019 at WANAMA Headquarters, Manzese, Dar-Es-salaam

[9] US$ 1= Tanzania Shillings (TZS) 2300

[10] The researcher was informed by the lady's son through interview held on 31st /01/2021 in Dar- Es-Salaam, Tanzania

individual desires and never utilize these loan facilities for productive businesses. According to Buss is very easy for microfinance clients to divert money away from income-generating activities if cash is the method of financing. This lowers the overall return on investment and makes it difficult for the poor to repay the loans. It is therefore, very risk for microfinance institutions to do cash financing as this may add the liability of loans on the deprived communities[11].

Microfinance system must therefore provide financial services that may enable the person concerned to become productive. So the first and foremost thing in this regard is not to simply reduce the rates of interest but rather to have financial products that will make clients productive. Asset-based financing was found to be potentially viable technique to get micro clients productive. A microfinance client who is provided with the necessary material and skill is likely to run his/her business successfully. By adopting asset based financing method, microfinance becomes a well-organized business as well as a community services and incidences of default and harassments which cause negative impression over microfinance projects are reduced to the minimum level.

The main emphasis in asset based financing is that by empowering an individual through asset the money lent is secured and make it productive over a long-time. By kick starting an economic activity through incorporating the poor with provision of asset financing, we would bring them closer to the institution of microfinance. Therefore, any lending methodology applied by microfinance institutions must take into account that there is a need of understanding of the world in which the poor exist and understanding of their limitations. This can be achieved by looking at the world through the eyes of the poor. To this effect asset-based is potentially appropriate methodology of financing.

Table 1: Differences between Cash-based and Asset-based financing

Item	**Cash-base (Conventional)**	**Asset-base (Islamic)**
Fund Transfer	Cash given	Goods transferred
Reward	Interest	Profit
Relationships	Debtor-Creditor	Seller-Buyer
Mode of Assessment	Ability to pay	Viability of the Project
Focus	Benefit to money provider	Benefit to financier and borrower

Asset Financing Technique

Asset financing methodology as explained above is not allowing the direct access for the poor and vulnerable to the hard cash. What is suggested therefore is providing the poor with necessary tools such as the stuff he/she needs to initiate an economic activity. The following is the most and popular asset based lending methodology that is used by various Islamic financial institutions in Tanzania including TAMPRO SACCOS.

Murabaha **(Cost-Plus Sale)**

Murabaha comes from the word *ribh* which means increase. Technically, *murabaha* is the mark-up disclosed to the buyer as per the seller's purchase price of a certain specified commodity. Sudanese law of civil code of 1984 defines *Murabaha* as sale plus a definite extra amount paid on the original cost[12]. The original cost should be

[11] Buss, T.F , Micro-Enterprise in International Perspective: An Overview of the Issues, *Journal of Economic Development,* 1999, 1(1), 1-28

[12] Fatwa and Research Department, Provisions of Murabaha Purchasing Orderer, *The Publications Series of Tadamon Islamic Bank (16)*, May, 2008, p.26

known to the buyer. Jurists from all four Sunni Schools of Law namely; Hanafi, Maliki, Shafii and Hanbali, defined the term *murabaha* as a contract of sale in which seller declares his cost and profit and it is permissible for whoever buys or sell a commodity on *murabaha* mode. *Murabaha* therefore, in its original Islamic connotation, is simply a sale. The only feature distinguishing it from other kinds of sale is that the seller in *murabaha* expressly tells the buyer how much cost he has incurred and how much profit he is going charge in addition to the cost.

Murabaha facility imposes several constraints for which the distinction between *murabaha* and conventional financing is apparent. The most essential element for a valid *murabaha* is that the subject of sale must be in the ownership, physical or constructive possession of the seller at the time of sale and therefore assumes the risk related to that ownership. In modern day physical possession may not matter in the presence of adequate documentation showing ownership and constructive possession. It is a requirement of the *murabaha* transactions to have price fixed at the time of contracting. Under this financial arrangement the risk remains with the financier until the client fulfills the promise of purchasing the commodity from the seller.

Murabaha comes quite close to conventional lending and therefore, is easy to adopt by even conventional microfinance institutions. In this arrangement, a client orders the microfinance institution to purchase for him or her a certain item at a specific cash price, promising to purchase such item from the financier once it has been bought, but at deferred price, which includes an agreed upon profit margin called markup in favor of the financier. Thus, the transaction consists of an order accompanied by a promise to purchase and two sales contracts. The first contract is concluded between the microfinance institution and the supplier of the item. The second is concluded between the microfinance institution and the client who placed the order, after the financier had possessed the commodity, but at deferred price, that include a markup. The deferred price may be paid in lump sum or by installments.

Asset-based in the nature of *murabaha* may help significantly to reduce poverty, and there is much potential for this type of financial product to support small and micro businesses in Tanzania. This strategy is suitable form of financing especially at the beginning of micro businesses. This product can be used for new clients to establish business relationships between microfinance institutions and clients.

It was found in Pakistan that some clients used to divert micro loans given to them in the form of cash into non-productive domain such as, school fees payment, payment to other money lenders, medical expenses, etc, and therefore, could not afford repayment of their loans (Mazher, 2010). In Ghana, people with microfinance loans were also paying school fees and using for other unproductive ventures (Yeboah, 2010). Diversion of cash loans was an important and significant factor that led to repayment difficulties among microfinance clients in rural communities in Ethiopia (Abafita, J, 2003). The same thing was found in Tanzania where majority of poor people whom provided with micro loans by way of cash financing did not employ the fund for productive purposes, instead they diverted into consumption component and this practice would lead to more poverty (Wangwe and Lwakatare, undated). Buckley discovered that 46 percent of the microfinance clients of Malawi Muzdi Fund were in arrears because they diverted the funds for consumption purposes (Bucley, undated). The extremely poor people cannot be regarded as micro credit clients and if they are to be provided with micro loans they are likely to be pushed further into debt and poverty (Burney, 2008).

The suggestion to lower rates of interest for the extremely poor is not relevant. In the first instance microfinance institutions cannot charge lower rates of interest reasonable for the extremely poor. On the other hand, there is a danger to dent the image of microfinance institutions as these people are likely to be pushed further into poverty trap. Asset-base lending has potentials to get the extremely poor engaging in various economic activities. Such focused methodology of financing could boost effective demand for microfinance services thereby allowing microfinance institutions to expand their client base without creating more poverty amongst micro-entrepreneurs and denting the image of microfinance sector.

The study conducted by Mazher (2010) on Non-Productivity of Microfinance loans in Pakistan, found that 33% clients of conventional microfinance institutions admitted that their lives improved after getting cash loans, while 67% of the clients told that their lives were miserable after getting cash loans. That was contrary to the clients who were financed by Islamic microfinance institutions through asset financing as 24% of clients did not improve their lives while 76% of clients did improve their lives after getting loans. However, this figure of 24% is due to the cash loans through *qard hasan.*

3.0 STUDY FINDINGS

3.1 Introduction

This chapter presents features of TAMPRO SACCOS and statistical results of the case study. It also discusses the main findings of the study with respect to research questions. The chapter concludes by identifying significant contributions of the study to the main body of knowledge.

3.2 Registration and Membership

TAMPRO SACCOS was registered on April, 2010 as first Islamic savings and credit cooperative society in the country, which was founded by employed and self-employed members. These members have agreed to save their money together and give credit to one another during times of needs on free-interest basis (*qard*). TAMPRO SACCOS aiming at increasing members income, improving better life for its members, creating source of credit with interest-free and having exemplary and competitive SACCOS. TAMPRO SACCOS has got about 1960 members in total with the savings amount of 1.7 billion Tanzanian shillings.

3.3 Experience and image of microfinance services

Table 2: Preference of loan type

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	205	41	41	41
Agree	150	30	30	71
Neutral	0	0	0	71
Disagree	117	24	24	95
Strongly disagree	26	5	5	100
Total	498	100	100	

Source: Fieldwork

Respondents of about 71% revealed that they prefer to take asset financing over cash financing. 29% indicated that they would accept cash loans over asset-based loan (*murabaha*). The data collected indicate that majority of clients of TAMPRO SACCOS preferred asset-backed financing over cash financing. Three hundred fifty five (355) clients; 200 of *murabaha* facility and 155 of *qard* loans, believed that they can perform better with tools than cash money. Another reason that led some clients to prefer asset financing over cash financing is the experience from *murabaha* borrowers. Eighty six (86) out of two hundred (200) clients under *murabaha* facility which are 43% responded that they applied for this type of loan after being impressed by the performance of other clients financed by TAMPRO SACCOS through *murabaha*.

3.4 Loan Experience

Diversion of funds is the cause for concern as it helps to contribute to bad experience of microfinance institutions. Therefore, it is quite logical to check the use of loans. Clients from two clusters of mode of payment; asset-finance and cash finance took part for this particular item. The researcher was interested to know how those clients utilized *murabaha* facility (asset-backed financing) and *qard* facility (interest free cash loan) in relation to income generation activities. All two hundred clients applied for *murabaha* loans to TAMPRO SACCOS were found to be productive as they were engaged in various income generating activities and none of them diverted funds into non-productive ends. This means that the money given in the form of asset by way of *murabaha* was 100% productive.

On the other hand, two hundred ninety eight (298) clients from the SACCOS applied loans through cash financing (*qard*). One hundred eighty eight (188) borrowers were found to be productive as they used the money for the purpose for which they applied. However, one hundred ten (110) diverted their funds into different activities for which they did not apply the loans for. To put in mathematical terms, 63% of the borrowers through cash financing were productive whereas the remaining 37% did not spend the money for income generating activities. It was found that some of them paid for school fees and uniforms of their kids while others used the money to buy medication, clothing and paid for the house rent.

3.5 Loan Performance

Sixty four (64) clients about 21% of the two hundred ninety eight (298) respondents who accessed *qard* facility admitted to have improved their lives after obtaining loans. One hundred forty nine (149) clients who make 50% of customers under *qard* facility acknowledged that their lives have not improved even after getting loans. The remaining 85 customers who is making 29% of the clients of *qard* facility described themselves as they were no better than before. Thanks to Islamic teachings for leniency response and recovery process towards indebted people otherwise, these customers would have different experience due to loan recovery procedures as implemented by conventional microfinance institutions. The customers revealed that they would be unhappy if the institution could take drastic actions against them in recovering their debts. But at some point this amount of money must be recovered otherwise the SACCOS may not be able to function accordingly. In this regard there is a room for negative impression on TAMPRO SACCOS resulting from cash financing methodology among the clients and non-clients.

On the contrary, one hundred sixty six (166) out of two hundred (200) clients which are 83% under *murabaha* scheme mentioned that their lives were better off after joining the facility. Nevertheless, thirty four (34) clients who are making 17% of this group admitted that their lives did not improve but did not drop. None of these clients missed any repayment or failed to clear off their debts, in other words default rate among *murabaha* customers was 0%.

Murabaha financing attracted many customers than *qard* for TAMPRO SACCOS which is only offering *murabaha* and *qard* financial facilities. This study found that some clients applied for cash loans through *qard* were struggling to clear off their debts and that a significant number did not engage in income generation activities. Through asset financing, microfinance clients become productive and likewise able to repay back their loans; consequently there is a potential in asset financing to create positive impression for microfinance institutions among microfinance clients and non-clients.

3.6 Loan recovery

Table 3

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	294	59	59	59
Agree	105	21	21	80
Neutral			0	80
Disagree	89	18	18	98
Strongly disagree	10	2	2	100
Total	498	100	100	

Source: Fieldwork

80% of respondents were very agreeable that they would not join the SACCOS if the institutions would adopt similar measures adopted by conventional microfinance institutions in loan recovery procedures. However, 20% were of the stand that their choice to join the two SACCOS would not be affected even if the institutions would copy similar measures of conventional microfinance institutions in loan recovery procedures. This indicates that there are issues to address with respect to loan recovery processes as these procedures are likely to hamper the number of many potential clients to join microfinance scheme. Although religious belief was the main motive to join Islamic SACCOS but the Islamic teachings towards indebted people have significant impact on the decision to join these SACCOS. TAMPRO SACCOS operates on the principles of Islam in many respects including response towards indebted people. However, at some point the loans must be recovered and if not, this SACCOS is not likely to sustain and survive. Asset financing has potential to minimize the possibility of negative impression towards microfinance institutions by providing opportunity for clients to become productive. *Qard* which is cash based loan facility has potentials to create negative impression by providing room for diverting loans into consumption domain.

The study found that cash financing is not a good way of financing the poor as there is a possibility of diverting funds into non-productive ventures which is not the aim of microfinance establishments. Clients financed through *murabaha* (asset financing) were all found to be productive as opposed to some customers financed through *qard* (cash financing) who diverted their loans into consumption for which they never applied the loans for. The study established that there is a relationship of financing methodology and diversion of funds which is the root cause of negative impression of microfinance institutions. This study found that asset financing is appropriate financing methodology to minimize the problem of diverting funds into non-productive ventures.

By adopting asset base lending in microfinance sector, utilization of resources can be turn in productive purposes and providing good experience for others to join microfinance scheme. Asset based lending remove the possibility of diverting funds away from investment activities and help to improve the living of deprived communities and sustainability in the business activities. As a result a significant number of people joined the scheme of *murabaha* after being impressed by others while on the other hand; TAMPRO SACCOS has become the only Islamic successful microfinance institution in a space of two years after employing asset financing. The study also found that clients financed through cash loans, utilized these loans in non-productive purposes and increased their liabilities and created repayment difficulties for them and their families. On the other side, the SACCOS must have faced some difficulties in running the business smoothly. For example, in the year 2018 before the introduction of asset financing facility, TAMPRO SACCOS was struggling to give loans to its clients; between August and December in the same year (2018) not a single loan was issued as a result of repayment delay by some clients.

The study also found that cash-based financing does encourage diversion of funds into non-productive ventures. A substantial number of clients who applied for *qard hasan* loans (cash-based financing) to TAMPRO never involved in income generation activities. This situation led them to the failure of repaying back their debts to the SACCOS. On the other hand, it was found that all clients applied for *murabaha* loans (asset-based financing) were productive and none of them missed his/her repayment to the SACCOS.

Microfinance sector in Tanzania is linked to poverty alleviation. If poor clients cannot repay back their debts to microfinance institutions, which means these people become indebted and microfinance institutions are forced to take drastic action to recover the debts. Therefore, the recovery procedure and the state of indebtness create negative impression of microfinance institutions for other poor clients to join. Consequently, microfinance institutions lose the opportunity of getting new customers. This research found that cash based lending is not appropriate mode of financing for poor clients as it leads to diversion of funds into consumption component.

Asset-based financing increase the assets of the clients and help to become the reason of increase in income and sustainability in the business activities and it is excellent technique to eliminate the poverty element in the deprived communities. As it was noted during the survey that all clients financed through asset-backed financing in the nature of *murabaha* were productive and attracted others to join microfinance scheme. In this regard, Islamic lending methodology of asset-based financing is appropriate tool to create positive image of microfinance institutions as resources can be turn into productivity.

4.0 CONCLUSION AND RECOMMENDATION

This sub section presents recommendation to various players in the microfinance market to facilitate smooth and steady operations of Islamic microfinance institutions. These players are the Bank of Tanzania (Central Bank), other Government agencies, Islamic microfinance institutions, conventional microfinance institutions, Islamic commercial banks and educational establishments.

The intention of microfinance was never to extend the loans in poor communities for consumption purposes. If appropriate methodology is not in place loans are likely to create bad impression. A productive loan shows very positive impact in the field of poverty mitigation. Due to loan productivity, client income increases as well as his or her business expands. When peoples' incomes increase and businesses expand, positive image of microfinance for others is created. Results of all this above process becomes in the form of financial expansion and subsequently poverty alleviation. Impression on microfinance services is necessary in finding out whether the service offered is widely acceptable and has potentials to attract customers in an attempt to expand financial reach out for poverty alleviation.

The Government of Tanzania, through its entities, plays an influential role in the development of the microfinance industry. The overall development policy which is encapsulated by the national strategy for growth and reduction of poverty makes microfinance integral to the poverty alleviation efforts of the government. Although the supervising role is vested with the Bank of Tanzania but that does not absolve other relevant authorities from their roles of registering and supervising other financial institutions in various forms.

Microfinance institutions must operate differently from commercial banks as they are established purposely to provide financial services to the poor. It is absolutely wise for microfinance institutions therefore to integrate financial and non-financial services to help poor people become productive, by kick starting economic activities through incorporating the poor with provision of financial services designed for the poor, microfinance institutions would really become an umbrella for poverty alleviation.

I would therefore recommend to policyholders and relevant stake holders to ensure that asset financing becomes the main financing mode for the typical microfinance clients in Tanzania.

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