IMPACT OF MICROFINANCE INSTITUTION IN POVERTY REDUCTION IN TANZANIA RURAL AREAS: CASE OF KIBAHA DISTRICT
IMPACT OF MICROFINANCE INSTITUTION IN POVERTY REDUCTION IN TANZANIA RURAL AREAS:
CASE OF KIBAHA DISTRICT

By
Abdu Twaha

A Dissertation Submitted to Mzumbe University, Dar es Salaam Campus College in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Science in Accounting and Finance (MSc-A&F) of Mzumbe University.

2013
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation/thesis entitled **Impact of Microfinance Institution in Poverty Reduction in Tanzania Rural areas; Case of Kibaha District** in partial/fulfillment of the requirements for award of the degree of Master of Msc Accounting and Finance of Mzumbe University.

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Accepted for the Board of MUDCC

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I  Abdu Twaha, declare that this thesis is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

Signature………………………………

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I would like to thank the Almighty God for helping me through all level of my education.

I would have never have completed this programme without the incredible amount of help and support received from lovely Wife Mariam Msuya

I owe a special and continuing debt to my great Mother Mahadia Twaha and my Farther Mr. Twaha Saghire and all my siblings.

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## ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>CBs</td>
<td>Community Banks</td>
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<tr>
<td>GB</td>
<td>Grameen Bank</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>MFIs</td>
<td>Microfinance Institutions</td>
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<td>MSEs</td>
<td>Micro and Small Enterprises</td>
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<tr>
<td>NGOs</td>
<td>Non Government Organisation</td>
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<tr>
<td>SACAS</td>
<td>Savings and Credit Associations</td>
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<tr>
<td>SACCOS</td>
<td>Savings and Credit Cooperative Society</td>
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<td>SHGs</td>
<td>Self Help Groups</td>
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<td>URT</td>
<td>United Republic Of Tanzania</td>
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This dissertation is about the impact of microfinance on poverty reduction in Tanzania rural areas Kibaha area being the case study.

The findings revealed that most of microfinance loan facilities has contributed on a positive changes to the life of borrowers. The study revealed that some of factors that contributed to borrower empowerment is; Increase in Income, ability to save and accumulate saving and contribution towards their children education, ability to purchase household asset and improving their home diet, this make improvement of social status and confidence.

The study revealed that majority of clients paid their loan on time and they have willingness to do so. Additionally findings confirm that low income clients are ready to save if the structure and facilities are in place to securely maintain their saving. The findings correct earlier views by formal financial institution that the poor cannot use credit facilities in effective manner, do not have the capacity to repay loan, cannot afford to pay high interest rate and do not generate enough income to enable them to save. Upon mobilization of saving low income clients can benefit having a safer place to keep their money.

There are several factors which have to be addressed and incorporated into giving credit to make program more effective, some of the factors include; Lending methodology, Interest rates, working environment ,gender inequalities, Government policies and financial structure.
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CHAPTER ONE

INTRODUCTION

1.1 Background Information

Micro finance can be defined as a development tool used to create access for the economically active poor to financial services at a sustainably affordable price (CBN, 2005). Eluhaiwe (2005) opined that micro finance is the provision of thrift, credit and other financial services and products in very small amounts to the poor to enable them to raise their income levels and improve their standard of living. Micro finance has also been defined as the provision of very small loans that are repaid within short period of time and is essentially used by low income individuals and households who have few assets that can be used as collateral (Ukeje, 2005).

Micro finance is basically a tool designed to improve the capacities of the economically active poor to participate in the larger economy. The economically active poor are either micro entrepreneurs who operate in the informal sector (trading, farming, food catering, craftsmanship and artisanship) or people earning wages. Such poor people earn their living in either rural or urban areas; and the financial services for which access is sought are mainly savings and loans (Idolor, 2007). Micro finance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions.

Many features distinguish micro finance from other formal financial products. Five of these are: the smallness of loans advanced or savings collected, the absence of asset-based collateral, and simplicity of operations (Kimotha, 2005). Others are its targets as the marginalized group of borrowers, and its general employment of a group lending approach (Igbinedion and Igbatayo, 2004). The group lending approach has implication for the pressure that the members of the group bring to bear on one another to ensure loan repayment, so that the group can continue to enjoy borrowing or loan facilities.
In developing countries, a majority of the population does not have access to financial services and thus constitute the group that micro finance tries to reach. The developing countries, is saddled with the problem of rural urban migration, mass illiteracy, poor infrastructures, poverty and low access to formal financial services. Hence the need for the government's micro finance policy, aimed at expanding the financial infrastructure of the country to meet the financial requirements of the Small and Medium Enterprises (SMEs) as well as the rural and urban poor. The policy has created a platform for the establishment of Micro Finance Banks (MFBs) geared towards enhancing the provision of diversified micro finance services on a short-term or long-term and sustainable basis for the poor and low-income groups. It would also help create a vibrant micro finance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for poverty reduction, economic growth and development (CBN, 2005). It also has the potential of not only urban--rural but rural--rural migration as Nyberg and Rozelle (1999) noted with respect to China.

The concern of governments, national and international development agencies to the economically active poor people paved a way for semi-organized financial system with the buzz word micro finance and self-help groups (SHGs) which have been emergent since the late 1980s--under this system a group of 10-20 poor people come together to save money and finance their needs themselves. If the SHGs survive for six to 12 months successfully after saving the required amount as per the norms, then SHGs can be linked to formal commercial banks to get loans. This is known as linkages between SHGs and the Bank. The model was designed through a pilot project in the year 1990-1991 and proved to be a very successful model (Swamy, 2009). There are other models of micro credit delivery, including:-

Grameen Bank Model
The Grameen Bank Model started as an action research project in 1976, when a Chittagong University team led by an economics Professor Muhammad Yunus began to lend small amounts of money to poor households in a few nearby villages. Borrowers were organized into small ‘peer monitoring’ groups of four or five people
(soon becoming single sex groups, with a focus on women’s groups) that met weekly with other groups to make loan repayments. Demand for credit grew rapidly and repayment rates were good, so the project was able to secure loans for on-lending from the state-controlled Bangladesh Bank and other commercial banks. In 1984, the Grameen Bank became a government-regulated bank through a special government ordinance, and remains the only body regulated in this way. It's model is more of individual loaning. Five members form the group, and then seven to eight groups form the centre and form the branch. The decision making in case of Grameen bank is not decentralized and always facilitated by the Bank employees. The Grameen bank model is basically a model of "individual banking--Joint liability" model and has received wide international appeal and popularity in numerous emerging economies, as a veritable tool for developing small scale businesses and reducing poverty levels.

Grameen Bank sees credit as an empowering agent, enabling element in the development of social economic condition of the poor who have been kept outside the banking orbit on the simple ground that they are poor and hence not bankable, the objective and programs include:

(i.) Extend banking facilities to poor men and women
(ii.) Eliminate exploitation of the poor by money lenders
(iii.) Bring the disadvantage, mostly the women from the poorest households within the fold of organization format, which they can understand and manage by themselves
(iv.) Reverse the age old vicious circle of low income, low saving and low investment into vicious circle of more income, more investment

**Cluster/Federation Bank Model**

In this model, the banks have linkages with the Federation or Cluster of SHGs and can help reduce the transaction cost substantially. Since they deal with a number of SHGs through Federation/Cluster, the size of loan will be much higher which will reduce the transaction cost. However, this model is yet to get popularized and all the ones present or currently in existence is at evolving stage only.
Some other models mainly sponsored by governments like DWACRA (Development of Women and Children in Rural Areas) and SGSY (Swaranajayanthi Gram SwarojigariYojana) are groups mainly animated by government agencies. Under these models the amount in form of loan or grant will be given to members of that group and in turn they distribute the amount amongst themselves (Swamy, 2009). The model is currently popular in major countries in the Asian and African continent and it is as yet not yet known whether it will prove to be successful in Tanzania.

The question of who micro finance programmes should reach in terms of the poverty level of clients' households is important for several reasons. First, many micro finance programmes seek to reduce poverty by targeting financial services to the poor either directly, through means testing, or indirectly through products and services designed to attract the poor. This is because, not all programmes seek to reduce poverty by targeting poor clients. Some MFIs/MFBs seek to reduce poverty indirectly by targeting non-poor clients who operate enterprises that may employ poor people (Sebstad and Cohen, 2001; Hulme and Mosley, 1996). Client targeting in this regard entails the extent of outreach in terms of breadth and depth. While breadth connotes the number of clients served, depth refers to the types or characteristics of the clients (whether poor or non-poor).

Secondly, it is widely accepted that the poor are a heterogeneous group and that the impact of micro finance varies across different groups among the poor. The poverty level (usually measured by income) and initial endowment (usually measured by assets) of clients and their households are key factors that condition impacts (Hulme and Mosley 1996). Even if programmes have information on the number of poor people they reach, few have detailed information on which groups among the poor they service. Consequently there is very little insight into what their needs are, what type of products and services are most appropriate, and what types of impact might be expected (Sebstad and Cohen, 2001). If reducing the severity of poverty is the goal, then the poverty level of poor clients when they start out in a programme should be known. Unfortunately such information is rarely ever collected (and is usually only approximately derived from extensive interviews and field group
discussions (FGDs) in field surveys conducted by researchers). Also, if reducing the incidence of poverty is the goal (that is, reducing the proportion of people below the poverty line), then it is important to know the breadth of outreach to poverty groups either already below or at risk of falling below the poverty line.

A third and related issue concern an understanding of the nature of poverty and how that nature affects clients. If well understood, appropriate money management strategies, products and services can be designed for different groups which ultimately support them by way of reducing their vulnerability.

However, one contentious issue which they have to grapple with borders on who should constitute majority of micro finance clients (i.e., women or men). While a large number of theoretical literature lean towards accepting women as the target of micro finance, some recent empirical evidence have abandoned the view of female dominated clientele base. Proponents of female dominated clientele base have pinned their argument on the premise that women are less mobile and less susceptible to problems of moral hazard in credit related issues, and that they are more likely to utilize the loans than their male counterparts in productive ventures that improve the well being of their families (Okenyebuno, 2007; Brau and Woller, 2004). However, a contrary view is expressed by Morduch (1998) from a study that did not provide convincing results to demonstrate that micro finance programmes are more efficient where the borrowers are predominantly women. In Sebstad and Cohen (2001) study on risk management and poverty in some selected countries (Bangladesh, Bolivia, Philippines and Uganda), they discovered from their synthesis study that the impact of micro finance institutions/programmes was effectively high and that those clients (male and female) who were targeted also qualify as a part of the economically active poor or very vulnerable non-poor. In the present study, we do not intend to wade into this controversy. We choose rather to simply determine the impacts of micro finance banks on both categories of customers served.

Poverty is basically a state where an individual or group has insufficient income for securing basic goods and services. It is unacceptable human deprivations in terms of economic opportunity, education, health, nutrition as well as lack of empowerment security (Ukeje (Ukeje2005WorldBank,1995)
Some appreciable efforts have been made to conceptualize poverty in the
development literature for easy recognition in practical life. Poverty has been
categorized into two: absolute and relative respectively (United Nations Economic
and Social Commission, 2000). Absolute poverty has been conceptualized as the
inability of a person or household or group to obtain or satisfy the most basic and
elementary requirements for human survival in terms of food, clothing, shelter,
health and transport. Others are education, recreation and interest to participate in
governmental decisions that affect the individual, household or group directly or
indirectly (Onokerhoraye, 1995; United Nations Economic and Social Commission,
2000; Aliyu, 2003). Monetarily, the absolute poor person or household or group is
said to earn "less than $1 (USD) a day" (United Nations Economic and Social
Commission, 2000).

Relative poverty on the other hand, is defined as a condition in which a person or
household or group earns a per capita income of less than one-third of the average
per capita income of the country (World Bank, 1997). The relative poor person's or
household's or group's income is measured on a comparative economic basis, hence
it is different from the absolute and rather holistic approach in the first category.

Three different parts of poverty have been identified. These are the poverty of
money, poverty of access and poverty of power (United Nations Economic and
Social Commission, 2000; Agbonifoh and Asein, 2005). Poverty of money relates to
'inadequate access to the means of asset or wealth acquisition .... (that is) the
individual or household does not earn enough income to meet the basic needs of life.
'This form of poverty may result from poor access to education, lack of marketable
skills ....' (Agbonifoh and Asein, 2005). Poverty of access arises from an individual's
or a group's inability to enjoy certain basic infrastructures, especially because group
members do not have the means to access them.

The poverty of power manifests when the individual or group cannot influence
government decisions that affect him or the group either directly or indirectly
(United Nations Economic and Social Commission, 2000).
It would be observed that the above three parts of poverty can be said to be interrelated. This is especially so as money underlies all of them. With adequate access to money, there is generally a corresponding access to infrastructures, power and so on. It is as well to emphasize here that the concept of poverty is rather holistic as it embraces issues such as education, recreation, participation in decision making and money. These generally impact on many aspects of life. This is largely the rationale why micro financing is very important as it enables the poor to access more aspects of life for better fulfillment.

Poverty in Tanzania especially in rural areas is widespread and deep-seated. Swamy (1980) developed a measure of the poverty gap in Tanzania. In the study, Tanzania was classified as a poor country with 76% of its population falling below poverty range (or level 1-5) and 20% in the middle income category (or level 6-10); with the remaining 4% falling within the rich/high income category (or level 11 and above). The worsening state of the national economy has caused the middle income class to slide down to join the lower income group, and available social indicators have confirmed the impending poverty situation on the lives of the average Tanzanian. For poverty reduction/alleviation programmes to be effective and sustainable, they must reflect a systematic understanding of the perception of the poor. The poor best understand poverty and it is the poor who must escape from poverty (Odita and Olannye, 2006).

Many factors have been identified for the persistence of poverty. Notable among these are deficient governance which is subject to arbitrary change, entrenched corruption and rent seeking elites, lack of respect for human rights, weak institutions, inefficient bureaucracies, lack of social cohesion and political will to undertake reforms. Others include bad governance and economic policies, inflation, market failures, capital flight, low savings (Loayza, et al., 2000) and investments, and distorted incentives to the manufacturing sector; all of which lower productivity and incomes, thus resulting in low levels of economic growth which eventually leads to a high Poverty poverty rate (Ukeje, 2005; Idolor, 2007).
Poverty reduction has continued to occupy a centre stage in the development agenda of various nations all over the world. The strategies have however been greatly dependent upon the perceived extent and level of poverty, the vision for its reduction, and the available human and material resources at the disposal of each country. One of the means for poverty reduction that has however assumed universal acceptance and adoption in many countries of the world is the provision of micro finance services, particularly to the economically active poor. These are based on the belief that such category of people only needs financial empowerment to realize their dreams and unleash their potentials.

Most of the traditional informal micro finance schemes in the country operate on the basis of mutual trust and integrity. Despite this important ingredient, it has a high risk of failure. The uncertainty and risk surrounding the business environment often make repayment very vulnerable. Robbers are also prone to attacking potential collectors of the rotating scheme, as no banks exist in many of the rural areas for onward deposition of the fund. In some cases too, the privately run financial schemes have often been an opportunity for dupes to operate and most of them are not experts in fund management such that they end up using the deposit liabilities in running the scheme, thus being unable to pay all depositors at the end of the day.

There is also the problem of paltriness of loan-able funds and timeliness, as financial demands are not always met as and at when needed. Above all, most informal financial schemes operate on a short-term basis. But, the needs of the rural sector, which in most cases are agricultural investment, require medium or long-term credits. Despite these weaknesses, the informal structures have continued to be very significant in micro financing in Tanzania as most of the economically active population that do not have access to formal financial system are often served by the informal sector.

The need for formal financial institutions to complement and transcend the inadequacy of the informal sector is nevertheless, vital. The formal financial institutions are the modernized institutions that operate within the integrated
mainstream of national financial system. They include banks and other financial institutions that operate in accordance with the governmental laws establishing and regulating their activities. In Tanzania, these include many specialized and development financial institutions, and even the universal banking institutions.

The inability of the formal financial institutions to provide financial services and intermediation to both the rural and urban poor, coupled with the non sustainability of government sponsored development schemes, induced the growth of private sector-led microfinance in Tanzania. However many of them began as non-governmental organisations (NGOs) established for the purpose of eradicating poverty from the rural and urban areas. They depended solely on aids and grants that came from their foreign donors and sponsors. Also, the deregulation of the country financial sector since 1986 influenced the rapid emergence of non-bank financial institutions, including community banks (CBs), which have been involved in micro financing in Tanzania.

These are the institutions or establishments that the government has in the current policy upgraded or provided with an enabling environment to transform into micro finance banks. At the same time, government is actively encouraging more initiatives from the private sector in the establishment of more microfinance banks under the new regulation and the guidance of the CBN. Microfinance can be an essential element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in general can enable the poor to smooth their consumption, manage their risks better, gradually build their asset base, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. Researchers argue that the Microfinance Institutions (MFIs) are useful as they

(i.) Reduce poverty through increased income and standards of living;
(ii.) Empower women;
(iii.) Develop the business sector through growth potentials, and
(iv.) Develop a parallel financial sector.
It is generally accepted that without permanent access to institutional microfinance, most poor households would continue to rely on self-finance or informal sources of microfinance, which limits their ability to actively participate and benefit from development opportunities.

The proponents of credit approach argue that people who live in developing countries might improve their living standards by becoming micro entrepreneurs and that financial institutions should support their initiatives with small loans. This is true because well established and sustainable micro and small enterprises in many societies contribute to the growth of national income, more employment opportunities, better standard of living and hence to the reduction of poverty. However, according to the International Finance Corporation, 60% to 69% of the population in many African countries has no access to conventional financial institutions.

Due to the decline of the public sector, the role of Micro and Small Enterprise (SMEs) in promoting economic growth and development, offering increased employment and reducing income disparities has been widely recognised. In Tanzania, Micro and Small Enterprises contribute 12% and 34% of rural and urban employment respectively as well as up to 32% of the GDP (Wangwe and Semboja 1997)

The increased participation and contribution of SMEs has led to an increased need for financial services. Credit has been recognised as one of the tools for promoting the development of SMEs (Chijoriga, 1997; Chijoriga and Cassimon). Loans enable the individual member or enterprise to enjoy both benefits of economies of scale and those of new high-value technology initiated in 1991. The policy aims at enabling low income earners to access financial services. Microfinance institutions (MFIs) have became alternative sources for in place of Formal Financial Institutions (FFIs) which regarded SMEs as too poor to save, having default risk. The policy further aims at raising the income of both households and enterprises, by facilitating savings, payments, and insurance and credit services.
Despite the recognition of the dynamic role of credit to small enterprises, few business owners and the poor in rural Tanzania have access to, and benefit from, the available financial services. MFIs activities remain centre around urban areas. Operational performance demonstrates low loan payment rates and the capital structure reveals a high dependence on donor or government funding (Chijoriga 2000)

1.2 Statement of the Problem
Poverty is a harsh and undesired phenomenon in mankind. Reducing, if possible eradicating poverty is unquestionable. Thus, microfinance programs have been considered as one of the main instruments in poverty reduction in recent development agenda. It has been observed that microfinance play a major role to the socio-economic development and alleviating poverty. Rural banks and micro finance institutions were established in response to the need and the demand to make institutional credit and banking services available to small-scale farmers and rural entrepreneurs. Microfinance institutions were created to operate using local initiatives and local commitment to mobilize resources locally and to lend them to deserving customers using simplified procedures and eligibility criteria.

Microfinance institution is seen as the best alternative source of financial services for low income earners within the country as a means to raise their income, hence reducing their poverty level. However evidence has shown that these MFIs have limited coverage, poor organisational structures and some are donor driven. These findings stimulated research to investigate if the coverage of MFIs is as directed in the National Micro Finance Policy (NMFP) that is, covering small business owners and the poor rural population.

1.3 Research Questions
(i.) What are the role(s) of microfinance in poverty alleviation or reduction in the country?
(ii.) What are major challenges facing microfinance institution?
(iii.) What are the major constraints to the microfinance clients?
1.4 **Research Objectives**

1.4.1 **General Objective**

This study aims at finding out the extent to which Microfinance Institutions (MFIs) contribute to poverty reduction in Tanzania, and whether they meet the objectives of the policies that led to their establishment.

1.4.2 **Specific Objectives**

The study has the following specific aspects: To assess whether MFIs direct their services to the poor population and micro and small businesses (particularly in rural areas) and whether conditions and procedures for credit favour these target groups.

(i.) To assess whether the customers reached by these schemes improved their general performance in terms of growth, creation of employment and generation of income.

(ii.) To assess the impact of MFI’s loan on the livelihood of poor

1.5 **Significance of the Study**

This study will be of benefit to MFIs, policy makers, SMEs and the community at large. The study explores and recommends potential areas that MFIs need to put more efforts when delivering their services. On the other hand, policy makers will also benefit in the sense that, the findings provide informed suggestions on how policy can be improved. With improved and easy to implement policies, more SMEs and the community at large will be able to access and benefit from the services of MFIs. Generally this study will offer empirical evidence on the impact of Microfinance services on the growth micro especially on the fight against Poverty.

1.6 **Scope and Limitation of the Study**

To cover all the Regions in the entire country will be impossible because of the limited time and fund problem, for this reason, the research will cover some regions namely; Dares salaam and Coast Regions, The choice of these Regions is due to fact that it will provide good sources of data for the study. The impact of Microfinance to the poverty eradication will be analyzed.
1.7 Organization of the Study

The study will consist of six chapters. The first chapter consists of the background to the study, statement of the problem, Research questions, Objective of the study and significance of the study and lastly the organization of the study.

Chapter two deals with literature review of concept relevant to the study.

In chapter three, deals with the methodology adopted to conduct the research. This chapter deals with issues such as the research design, study area, study population, unit of analysis, variables and their measurements, sample size and sampling technique, types and sources of data, data collection methods, validity issues and data analysis method

Chapter four deals with data analysis and presentation of findings

Chapter five deals with summary, conclusions and policy implications
CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Review of the Study

The history of current microfinance Institution in Tanzania is closed linked to emergence of saving association and credit cooperative societies (SHCCS) in early 1961 that time savings and credit cooperatives were associated with Farming cooperative Societies, in this regard, these SACCs were very prominent in areas where agriculture was the main economic activity. These member based microfinance/institution of the time however, did not realize much of their pre-established objectivity. They suffered from serious funding problems and Financial mismanagement (Malindi, 2010 PRIDE 2010). As a result the midstream banking system was the only provide of financial services throughout the country although it could not provide small-scale financial services demanded by majority the poor. The poor the scope or services and geographical coverage of the mainstream banking system was also limited. These left poor who make the majority of Tanzania exposed to informal money lenders.

In the 1990s the Tanzania Government, like government in other developing countries, uncorked on financial reforms. The financial reforms armed at Inter-alia, Improving access to financial services by all sectors previously excluded by financial services providers (Nord et al 2009; cull and sprang, 2008;). The financial sector reform included, among others, liberalization of Interest rates, eliminating administrative credit allocation and strength worming the role of bank of Tanzania in regulating and Supervising Financial Institution (Randhawa and Gallardo, 2003). The reforms were also meant to restructure state owned Financial Institution and to allow the incoming of Private Financial Institutions in the market(Nord et al, 2009) However, following the restructure of state Owned Financial Institutions and Privatization of the National Bank of Commerce and the Cooperative and rural Development Bank, there was closure of 78 branches through the counting and
mostly in rural areas (Satta 2002; Steel et al 1997) leaving people in the affected areas without any reliable Financial Services.

The evolution of MFIS, as a Financial Intermediaries For the poor and their advocacy as a poverty reduction tool in the early 1990 around the globe, created hope of having Financial Services in the rural areas at Tanzania.

Inspired by microfinance success stories from other microfinance Institution like the Grameen Bank in Bangladesh, in 2001 The Government of Tanzania in collaborative with the donor community started to Implement a rural Financial Programme to re-instate the rural Financial Services (IFAD, 2005;RFSP,2002). This game Tise to the current member – based microfinance Institution (MB-MFIs), now known as the Savings and Credit Cooperative(SACCO)and the Savings and Credit associations (SACAS).

Recorganizing the Importance of SACCOS and SACAS in rural Finance, the government of Tanzania In collaboration with the donor community have facilitated Introduction and empowerment of rural microfinance through the rural Financial Services Program (RFSP).

The RFSP was initiated in 2001 by the Government of Tanzania, through a loan agreement between the Government of Tanzania and the International Fund for agriculture Development (IFAD). The 10 year program, which is part of the rural development and agricultural Development Strategies, has a goal of achieving Sustainable Increase In Income, assets and food security for poor rural households by enhancing the capacity of the rural poor to mobilize Savings and Invest in Income generating activities through the development of variable rural Financial Services Systems (IFAD, 2005 and RFSP, 2002) The IFAD/World Bank Supported RFSP is devoted to enhance the operational and Financial sustainability of these MFI’s.

The Specific objectives of the RFSP are first, to support the design, development and Implementation of sustainable rural financial services at the village or word levels in
the form registered MFIs with emphasis placed on development of good government; the Introduction of appropriate Financial accounting systems and development of savings and landing products, second to improve managerial Capacity or registered grassroots organisation involved in micro – Finance activities and assist them through training at all level through either assisting them to come together and register as recognized MF’s or by further developing their operations, third, to develop a sustainable rural Financial network Infrastructure that is capable of linking MF’s to formal banking Institutions and meeting the Financial needs of the rural poor lastly is to empower poor rural households to benefit from Rural Financial Services (RFSP 2002).

The RFSP according to IFAD (2005) is very successfully. Among the achievement in RFSP’s first phase have been to assist more than 60 MF’s in registering legally and Savings and Credit associations, mainstreaming some legal, regulatory and supervisory frame work in the MF’s and encouraging MF’s to adopt microfinance best practice (IFAD, 2005 – 5).

Informed of the microfinance services supply gap created by the formal banking system, Nongovernmental Organisation (NGOs) also started operating microfinance business eg. Currently the NGO- MFIs dominate the microfinance Industry in urban and peri – urban areas. The reason for this could be that most NGO- MFIs are business oriented and therefore, perceive the rural undertaking as having high transaction costs and more risky as the poorest of the poor are found in rural areas. It has been reported that, MB-MFI, and general donors assisted NGOs are the principal providers of Microfinance Services in Tanzania (Randhawa and Gallardo 2003).

The concept of micro finance has for long been misconstrued as micro-credit (small value loans to poor entrepreneurs). This poor understanding has led to a restrictive focus by some micro finance institutions which have not allowed them to have a wider array of products and services (Okenyebuno, 2007). Morduch (1998), Woller, Dunnford and Woodworth (1999), Kalpana (2004) and Osthoft (2005) agree that
micro-credit or small loans though used interchangeably with micro finance, is simply one of the many components that constitute the larger array of micro finance services. Broadly speaking, micro finance products and services consist of small loans, savings, insurance, business education and money transfers. It also involves the provision of working capital, informal/formal appraisal of borrowers and investments, collateral substitutes such as group guarantee or compulsory savings; access to repeated and large loans, streamlined loan disbursement, advice and monitoring procedures (Ledgerword, 1999; Igbinedion and Igbatayo, 2004; Okenyebuno, 2007). In the views of Kalpana (2004), micro finance services also encompass both financial and social intermediation including group formation, and training in financial literacy and management practices. Hulme and Mosley (1996) have suggested that micro finance institutions should take cognizance of the varying needs of various sections of the poor in their design of financial services. In other words, in designing and implementing micro finance services, there is the need to note that credit has different implications for different segments of the poor and as such could create additional risk for the very poor. It is therefore expedient for micro finance institutions to diversify their hitherto relatively homogeneous products and services in line with environmental peculiarities (Sebstad and Cohen, 2001).

Also, Brau and Woller (2004), Dunn (2002) Cohen (2002) and Woller (2002) advocate client-focused services for micro finance institution as a vital ingredient for effective service delivery and impact on the lives, assets and households of the economically active poor. It is therefore of necessity for MFBs (in Nigeria as in foreign countries) to provide a basket of products and services to allow for flexibility in meeting the diverse needs of poor clients. Smith (2002), Edgcomb (2002) and Dumas (2001) agree on the need for MFIs/MFBs to have all inclusive micro finance products. They also were of the opinion that the micro finance institutions, which they surveyed, have experienced statistically significant improvement in their performance as a result of integration of non-financial services with financial services being rendered to clients. In recent time, micro finance delivery mechanisms (for services rendered in developing countries, as in other parts of the world) include,
but not limited to, a combination of group-lending, individual lending, dynamic incentives, regular repayment and collateral substitutes (Okenyebuno, 2007).

Group lending’s basically refers to a process whereby prospective clients of microfinance institutions form groups voluntarily for the purpose of accessing loans. Lending is carried out in batches in such a manner that the number of borrowers in a group at any point in time is less than the number of non-borrowing members. The groups are usually organized in such a way and manner that members meet at regular intervals, and if a member defaults, then all other group members are denied subsequent loans since all group members are held liable and responsible even for loan repayments. In the words of Weiner (1995), group lending consists of a variety of methodologies with central focus on joint-liability for underwriting, monitoring and enforcement of loan contracts. In group lending, the loan contracts take advantage of local information and the "social assets" (in this case group pressure) at the heart of local enforcement mechanisms (Morduch, 1998).

Group lending also relies on informal insurance relationships and threats, such as isolation and physical retribution. It also combines the features of formal banks with locally tested mechanisms in traditional informal finance systems of rotating savings and credit associations (ROSCAs) (Morduch, 1998; Besley and Coate, 1995). However, all this social pressure is hardly evident in "individual lending", which accounts for the relatively stringent controls and conditions required to be met by prospective individual clients before obtaining credits from microfinance banks.

Dynamic incentives, which have also been referred to as progressive lending in Hulme and Mosley (1996) is simply the progressive increase in loan size upon satisfactory repayment. The use of dynamic incentive as a delivery mechanism helps to secure high repayment rates (Besley, 1994). Johnson (2005) observes that most microfinance programmes strengthen the incentives for good repayment behaviour by the promise of continuing access to higher loan size so that institutional credit access does not remain a one-shot injection. In this light, dynamic incentives serve as an efficient strategy used to overcome information asymmetry due to the repeated
nature, and credible threat to withhold future lending in case of default (Brau and Woller, 2004). However, the power of dynamic incentives wanes in the presence of competition, hence the need for a centralized credit rating agency as competition grows. Dynamic incentives thrive in locations where mobility is relatively low and also helps to develop good relationships with clients over time and to screen out the worst prospects before expanding loan size (Okenyebuno, 2007).

Regular repayment schedules form a dynamic and integral discussion of microfinance products and services. Regular repayment schedules refer to a practice whereby microfinance clients agree to pay a specified amount either weekly or monthly to offset the loan taken. In some cases, clients of a microfinance institution are required to start repayment from the first week after borrowing to ensure that the clients are not tempted to borrow more than they repay and that they consequently limit the loan amount to what is within their capacity to repay from earlier savings (Kalpana, 2004). A major appeal of regular repayment is that it enables the microfinance institution to get hold of cash flow before they are consumed or otherwise diverted for other purposes (Rutherford, 2003).

Regular repayment schedule also helps to screen out undisciplined borrowers and give early warning to loan officers and peer-group members about emerging problems. However, the effectiveness of the regular repayment schedules is hindered where the clients do not have diversified income streams. Jain and Moore (2003) observe that the rigid regular repayment programme is a self-exclusion programme not suited for clients engaged in enterprises or economic activities with longer gestation period such as livestock or occupation with limited cash flow to meet the regular obligations. In other words, the rigid repayment restrict admission of clients engaged in high turnover businesses, such as those engaged in petty trade, thereby preventing some clients from enhancing the productivity of livelihoods by limiting their choice of activities. As a result, they are unable to acquire fixed assets and engage in long term investment as a result of the limitation posed by rigid repayment programme. This position is also maintained by Snodgrass and Sebstad (2002), who
assert that clients of micro finance institutions have experienced greater incidence of asset liquidation than non-clients, as a result of inflexible repayment programmes.

Collateral substitutes are simply a mechanism in which borrowers are required to undertake compulsory savings or to make contribution to an "emergency fund" or engage in "forced savings". The savings serve as insurance in case of default, death, disability or any form of other unforeseen circumstances. It also in many cases serves as partial collateral for any loan obtained by clients. Karlan and Goldberg (2006) also opined that collateral substitutes could be expanded further to include household assets which are valuable to the borrower but are less than the value of the loan.

The interest in micro finance as a development strategy is evident from the support it has received from multilateral lending agencies, bilateral donor agencies, developing and developed country governments, non-government organisations (NGOs) and private banking institutions (ADB, 2000:1). The United Nations is no exception and has undertaken numerous projects to further develop microfinance in the African context. They propose that microfinance initiatives will be successful in Africa if based on four principles taken from international best practices. The principles are: pool together peoples resources through group organizing, rely and build upon what people know - tradition, reinforce microfinance to empower the African private sector and strive for efficiency (ADB, 2000:3).

The definition and measurement of poverty in Tanzania has evolved over time. The periodic changes in the definition stem from the variation both across time and space in the description of what constitutes socio-economic well being. Earlier definitions focused on the cost of meeting basic needs necessary for maintaining minimum standards of living. The cost of minimum nutritional requirements is the most important component of the basic needs approach to the measurement of poverty.

This definition has been strengthened by including socio-economic indicators of well being such as high rates of morbidity and mortality, prevalence of malnutrition, illiteracy, high infant and maternal mortality rates, low life expectancy, poor quality
housing, inadequate clothing low per capita income and expenditure, poor infrastructure (communication, transport, social services etc.). Others include high fertility, lack of access to basic services such as safe water, food insecurity and poor technology. In entirely, these futures can be used to identify poor and non poor individuals’ households and societies or communities. An individual house hold or community found to be characterised by some or all of these futures can be identified as being poor.

Most elements of these aspects of poverty are based mainly on economic considerations. Consequently, many of these indicators are quantifiable. Recently, the definition of poverty has been further broadened. New definitions incorporate problems of self-esteem, vulnerability to internal and external risks, exclusion from the development process and lack of social capital. The new additions to the definition of poverty capture the qualitative aspect of socio-economic well being. A combination of the quantitative and qualitative definitions of poverty are utilized to identify who the poor are, the extent of their poverty, where they live and what they do for a living. These definitions also influence the design of pro-poor policies for economic growth, public expenditures, safety net programmes and tools for assessing the impact of programmes and projects on poverty reduction.

Generally poverty is a result of many and often mutually reinforcing factors including lack of productive resources to generate material wealth, illiteracy prevalence of diseases, natural calamities such as floods, drought and manmade calamities such as wars.

At the international level, an unequal economic and political partnership, as reflected in unfavourable terms of trade and other transactions for developing countries is also a major cause of poverty in developing countries. Some causes of poverty are not direct for example, traditions and norms which hinder effective resource utilisation and participation in income generating activities.
The assessment of poverty levels and trend is complicated by lack of consistent information and absence of officially recognised poverty lines. Partly due to the absence of official poverty lines some studies have used their own lines. Thus, “lower lines” denote basic food needs based on specific assumptions about eating habits, nutritional requirements, and cost, and “upper lines” cover in addition to such food requirements, and other essential needs, such as clothing, housing, water, and health. Moreover, a poverty line of One USS per day in real terms has been used to facilitate comparison with other countries.

The poverty and welfare indicators are used to rank the twenty regions in Tanzania. The analysis is preliminary; needs further refinement, and therefore, should be used with caution. The intention is to provoke the usage of poverty and welfare monitoring indicators by various actors. According to the composite ranking Dodoma, Kagera, Lindi, and Coast Regions are ranked the most deprived. Dar essalaam, Ruvuma and Kilimanjaro are least deprived with the same ranking.

Poverty remains predominantly a rural phenomenon, although the number of poor in urban areas, mainly the unemployed and those engaged in the informal sector, is growing fast. In both rural and urban areas the poor typically lack capital and human assets: they are less educated, of ill health and have large families. The vulnerability of poor is increased by preponderance of disease, including the rapid spread of HIV/AIDS.

Since independence in 1961, the government of Tanzania has had poverty eradicate as its main goal. One of the intervention measures suggested is the introduction and implementation of social and economic policies which address the issue of poverty both at national and individual level. This may necessitate increased state intervention in education and other social welfare service, and the creation of enabling environment for private investment in productive sectors.

In addressing the key challenge of strategizing to reduce pervasive poverty Tanzania prepared and adopted Development Vision 2025 in 1999 and the National Poverty
Eradication Strategy which spell out a vision for the society with abject poverty and improved social condition. The strategy that was adopted in 1997 aimed at providing guidance to all stakeholders in identifying, formulating, implementing and evaluating their poverty.

The overall goal of strategy was to provide a framework, to guide poverty eradication initiative in order to reduce absolute poverty by the year 2025. For achieving the goals the government identified five key sectors: education, health and nutrition, water, agriculture and rural roads. The NPES has identified three areas of strategic interventions namely: those creating and enabling environment for poverty eradication, those building the capacity for poverty eradication and those eradicating poverty. The strategy has also spelt out roles at various levels for poverty eradication initiatives. This vision 2025 is in line with international development goal remains a point of references for current poverty reduction actions.

In June, 1999, the government issued “Poverty and Welfare Monitoring Indicators”, a document intended to provide the basis for monitoring the implementation and evaluation the impact of poverty eradication programmes. The indicators will facilitate the development of baseline data for assessing the status of poverty and welfare, in order to guide policy and programmes for reducing poverty. The NPES and Poverty and Welfare Monitoring Indicators were developed in collaboration with a wide range of stakeholders. In line with the NPES, the government has identified priority areas for public expenditure in the context of the Medium Term Expenditure Framework (MTEF) whose implementation is monitored under the annual Public Expenditure Review (PER) process involving a wide range of stakeholders. This is the process that has guided the budget frames for three years. This budget management system will be embedded in overall development strategy, which coordinate external assistance.

The framework contains both economic and social goals in respect of identified priority sectors where the main areas of concentration are:
(i.) Further improvement in policy environment and market friendly. Institutional frameworks are key to scaling up growth and reducing poverty to a significant extent. However, the key to significant poverty reduction in Tanzania is accelerated growth. Estimates of responsiveness of poverty reduction to growth indicates that such accelerated growth could lead to reduction in the share of population living below the poverty line from around 50 percent currently to 30 percent by year 2015.

(ii.) Achieving the target of accelerated growth will require significant efforts to enhance productivity and increase investment in both human and physical capital.

(iii.) Increase investment in human capabilities requiring measures to increase the incentives and returns for undertaking such investments, and increased public support in areas where externalities are large ie. Primary education and health care.

(iv.) Structural transformation.

(v.) HIV/AIDS control activities need to become an integral part of development policy and practice cutting across all sectors.

(vi.) A cohesive long term strategy for agriculture led growth in Tanzania involves at least sustained macro-economic stability, more effective research and extension, improved infrastructure and developing a coherent institutional framework for supporting transformation of agriculture and rural development more broadly.

The strategy is viewed as an instrument for channeling national efforts towards broadly agreed objectives and specific inputs and outputs. The elaboration and implementation of the strategy are fundamentally ongoing processes. While a wide variety of key interventions has already been launched, the preparation of strategies
for a certain sectors such as agriculture and education are still underway. Moreover, the implementation of reforms aimed at shifting the responsibility for formulating implementing and monitoring poverty reduction intervention by districts, municipalities, and communities at the grassroots has started, but it will take some time to complete. The overall strategy of poverty reduction will therefore need to be managed flexibility to accommodate additional action plans and activities emanating from the ongoing work. The poverty reduction strategy is to large extent, an integral part of ongoing macro-economic and structural reforms that are being supported under the Poverty Reduction Growth Facility (IMF) and the Poverty Structural Adjustment Credit (World Bank).

At the same time, in addressing the same intractable theme of poverty the World Bank and IMF in 1999 launched the Enhanced Highly Indebted Poor Countries (HIPC) initiative. The objective of this initiative is to offer assistance to countries facing unsustainable debt obligations. Proceeds from debt relief will enable Tanzania commit its resources to sustainable development and reducing poverty and improve the delivery of education and health services. Donor community has through HIPC provided relief which has increased Tanzania’s ability to fight poverty and implement its own development policies. The main instruments in operationalising the initiative are Poverty Reduction and Growth Facility (IMF) Programmatic Structural Adjustment Credit (World Bank) and PRSP.

The PRSP is an integral part of HIPC process, focusing mainly on poverty alleviation. The PRSP encompasses poverty-oriented extra-budgetary activities, and various non-financial considerations that have an important bearing on poverty reduction.

The elaboration of the PRSP has entailed broad consultation among the stakeholders a factor that has contributed to underlying consistency in the country’s development policy objectives, including the strategy for poverty alleviation. Substantial efforts towards poverty reduction by international partners are still being implemented outside the framework of central government budget. To ensure maximum progress
toward poverty reduction and improved predictability of budgets efforts would be rationalized and realigned to reflect PRSP priorities.

The PRSP, while focusing on antipoverty objectives, will take into account structural reforms, macro-economic stability and promotion of economic growth, consistent with Tanzania’s National Development Vision 2025.

Consistent with the long term objective of eradicating poverty the government established (with effect from July, 1998) a Multilateral Debt Relief Fund to which several donor countries committed a total of US$ 145.56 million. By December, 1999 US$ 109.5 million out of the total commitment was already disbursed to finance activities related to health and education.

There is a wide range of actors involved in PRSP monitoring activities which range from data collection, processing analysis to utilisation. The overall responsibility for monitoring poverty at national level lies with Vice - President’s office the government institution charged with the coordination of poverty eradication initiatives to ensure that all relevant stakeholders are involved in the monitoring process.

The United Republic of Tanzania is the only Country in Africa, and perhaps in the world, that within span of 40 years has gone through rapid and radical transition from a colonial system to programme linking rural households to social services to a market economy without sacrificing basic democratic ideals and social services, to a market process, all of the country’s Social, political and economic Institutions underwent drastic transformation to And conform to rigid national guidelines and resulted in a gradual and protracted decline of all growth indicators during the 1970; and 1980’s. Since then, the country has recovered significantly mainly through the Implementation of various structural adjustment and restructuring programmes led by the Government with the help of coalition of donors. This recovery has made the country a trend setter in Africa, Particularly in terms of adapting to new ideas
dismounting tribalism and ensuring an Intrinsic balance between a market Economy and Social justice (IFAD).

Tanzania has enjoyed political stability and peace since independence and also possesses a wealth of natural resources. However these advantages have not been translated into higher standards of living for the majority of the population. Tanzania is ranked 159 on the UNDP human development index. Relatively good scores on the life expectancy, adult literacy and school enrolment indicators compensate for a low GDP per capita of $744.

The incidence of poverty varies greatly across the country, but is highest among rural families living in and semi-arid regions that depend exclusively on livestock and food crops production. People of central and northern highlands are nutritionally the most deficient, while the coastal and southern highlands zones register the severest level of poverty.

2.2 Empirical Part

2.2.1 Empirical Review of Studies outside Tanzania

Studies on MFIs have been conducted in various countries all over the world. The findings from these studies are useful to new researches on microfinance. Some of the studies, which had a significant contribution, include the study by Mosley (2001). In his study on Microfinance and Poverty in Bolivia, Mosley assessed the impact of microfinance on poverty. The study was conducted through small sample surveys of four microfinance institutions, two urban and two rural, using a range of poverty concepts such as income, asset holdings and diversity, and various measures of vulnerability.

All the institutions studied had on balance, positive impacts on income and asset levels, with income impacts correlating negatively with income on account of poor households choosing to invest in low-risk and low-return assets. This study revealed also that in comparison with other anti-poverty measures, microfinance appears to be successful and relatively cheap at reducing the poverty of those close to the poverty
line. However this was also revealed to be ineffective, by comparison with labour-market and infrastructural measures, in reducing extreme poverty. The study further proposed actions that appear to be promising for the further reduction of poverty in Bolivia which can also be useful for other developing countries. These actions include stronger efforts to mobilise rural savings, removal of lower limits on loan size, and the introduction of appropriate insurance mechanisms.

Despite this contribution, the study by Mosley has some weaknesses. The first problem is on the sample size which was only four microfinance institutions, this sample size might not be adequate for the generalizations made above. Also the poverty concepts considered excluded the number of employees, this is very important to measure, as it indicates whether the microfinance institution has created capacity to employ more people or not.

Hassan and Renteria-Guerrero (2008) made another empirical contribution in this area. In their work “The experience of the Grameen Bank (GB) of Bangladesh in community development”, they examined the GB experience with a purpose of understanding the essential elements of its operations and the factors that enabled GB to reach the poor. This study revealed that the GB has established its credentials as an institution that aims at providing credit to the landless and asset less poor in rural areas. GB credit gives the recipients the power of entitlement to society’s productive goods and services with immediate effect, unlike most of the other programmes for the poor that tend to create the unintended negative effect of dependency on the service providers. However, it was observed the credit by itself is an insufficient factor to improve poverty conditions, and thus the GB devotes a substantial amount of resources to the improvement of the social wellbeing of its members.

The GB uses an unambiguous eligibility criterion which ensures that only the poor or very poor can participate. It motivates their clients to organise themselves into groups of five like-minded members. Each group elects one group leader among themselves. Every six groups form a “centre” which serves as the basic operating unit of the GB. It is at the centre that weekly meetings are conducted to openly
discuss loan applications proposals and to accept weekly repayments and compulsory savings deposits. While the loans are made to individual members, the group as a whole is expected to be responsible for the regular repayments of the loans of all their members. This form of grassroots organization not only promotes solidarity and participation among the members, at the group and centre levels, but also promotes mutual support and peer pressure to ensure that the loans are properly utilized and repayments made promptly.

In concluding their work, Hassan and Renteria-Guerrero assert that the GB’s approach seems to be an effective tool for poverty reduction despite minor criticism that has never given alternative solution for poverty alleviation. The programme supplies credit to improve the physical productive capacities of the poor and in addition, it provides the disadvantaged with human development inputs to improve their overall productive and living standards. The success of the GB is not free from the influence of external factors. To be effective and sustainable, a credit delivery system also needs a supportive national policy framework for it to remain autonomous and free from political influence. Despite the fact that this work was just an experience and not a research work, we acclaim its contribution in the area of microfinance practices.

2.2.2 Empirical Review of Studies Done in Tanzania

Recent studies have shown that, there are over 130 registered MFIs in Tanzania but their overall performance has been poor. In her study Chijoriga evaluated the performance and financial sustainability of MFIs in Tanzania, in terms of the overall institutional and organizational strength, client outreach, and operational and financial performance. In the study, 28 MFIs and 194 MSEs were randomly selected and visited in Dar es Salaam, Arusha, Morogoro, Mbeya and Zanzibar regions.

The findings revealed that, the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives, or a strong organizational structure. It was further observed that MFIs in Tanzania lack participatory ownership and many are donor driven. Although client outreach is increasing, with branches opening in
almost all regions of the Tanzanian mainland, still MFIs activities remain in and around urban areas. Their operational performance demonstrates low loan repayment rates and their capital structures are dependent on donor or government funding.

In conclusion, the author pointed to low population density, poor infrastructures and low household income levels as constraints to the MFIs’ performance. Many of these MFIs have no clear mission and objectives. Also their employees lack capacity in credit management and business skills. Among the questions which arise out of these research findings is whether these MFIs whose performance is questionable will have any impact on poverty alleviation.

Other studies on microfinance services, in Tanzania were carried out by Kuzilwa (2002) and Rweyemamu et al, (2003). Kuzilwa examines the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of businesses that gained access to credit from a Tanzanian government financial source. The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that the enterprises whose owners received business training and advice performed better than those who did not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses.

Rweyemamu et al evaluated the performance of, and constraints facing, semi-formal microfinance institutions currently providing credit in the Mbeya and Mwanza regions. The primary data, which were supplemented, by secondary data, were collected through a formal survey of 222 farmers participating in the Agricultural Development Programme in Mbozi and the Mwanza Women Development Association in Ukerewe. The analysis of this study revealed that the interest rates were a significant barrier to the borrowing decision. Borrowers also cited problems with lengthy credit procurement procedures and the amount disbursed being inadequate. On the side of institutions, the study observed that both credit programmes experienced poor repayment rates, especially in the early years of
operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-payment. It was further revealed that poor infrastructure of the MFIs led to high transportation costs, which increased the transaction costs in credit procurement, and disbursement and this ultimately hindered the effectiveness of the credit programmes. This happened because most of borrowers lived in rural areas, far from credit offices. The coverage by Kuzilwa was on the National Entrepreneurship Development Fund only, while Rweyemamu et al.’s study was on assessing the micro-finance services for the agricultural sector only.

From the above evidence the researchers found that there was a strong need to study the schemes existing in Tanzania (and for the purpose of this paper will cover district level) and see to what extent their operations contribute to poverty reduction in the country. From of this study, recommendations were made to policy makers so as to find alternatives through which financial services could be offered to the low income earning population or rather restructure the existing schemes for poverty reduction.

2.3 Methodology of Microfinance
Majority of the microfinance institutions offer and provide credit on a solidarity-group lending basis without collateral. There is also a range of other methodologies those MFIs follow. Some MFIs start with one methodology and later on move or diversify to another methodology so that they do not exclude certain socio-economic categories of clients. So it becomes important to have a basic understanding of methodologies and activity of MFIs.

2.3.1 Group Lending
Group based lending is one of the most novel approaches of lending small amounts of Money to a large number of clients who cannot offer collateral. The size of the group can vary, but most groups have between four to eight members. The group self-selects its members before acquiring a loan. Loans are granted to selected member(s) of the group first and then to the rest of the members. Most MFIs require a percentage of the loan that is supposed to be saved in advance, which points out the ability to make regular payments and serve as collateral. Group members are jointly
accountable for the repayment of each other’s loans and usually meet weekly to collect repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group becomes a defaulter. The creditworthiness of the borrower is therefore determined by the members rather than by the MFI On one hand, the group formation guides to lower transaction costs for the MFIs, but on the other hand there are social costs related with this process.

These social costs can be a negative restraint to group borrowing and joint liability approaches, and include coercive peer pressure, loss of faith and the likelihood that the poorest and most vulnerable will remain excluded or further stigmatized. Such social costs are higher in some societies than in others, depending upon underlying social relations (which influence the ease/difficulty of group formation) and the distances that people must travel to participate in-group activities. In rural areas, these costs can be higher.

2.3.2 Individual Lending
Unlike MFIs, there are very few conventional financial institutions which provide individual loans to low-income people because poorer clients are considered higher risk clients due to their lack of collateral, plus the labor-intensive nature of the credits and hence the lack of profitability of small-credit.

2.3.3 Credit Unions
Credit unions are the organizations that are formed on the basis of financial relation of savings and loans between its members. They accumulate savings from its members and provide short-term credit to the needed members. The demand for loans in general exceeds the supply of savings. In most rural areas credit unions are still the solitary source of deposit and credit services, besides the informal financial market. Because credit unions have social as well as commercial objectives, they may have a key role to play in offering pro-poor financial services. It has been observed that some women have not benefited much from the credit unions because
the level of savings required is too high. Credit unions have achieved financial self-
sufficiency within the last few decades.

According to one statistics from the World Council of Credit Unions (WOCCU), by
the end of the 1980s there were about 17,000 credit unions in 67 developing
countries around the world. These unions maintain nearly 9 million members and
60% of these members are from Africa and the Caribbean Islands. These credit
unions handled approximately US$2 billion in deposits and share capital. It is
estimated that they are disbursing US$300 million in small loans to about 1.5 million
Google link)

2.3.4 Village Banking
Village banking is a kind of financial services model that assists poor communities to
establish their own credit and saving associations, or village banks. Village bank
provides non–collateralized loans to its members and a place to invest savings and
promote social solidarity. The sponsoring agency provides loan for the village banks
and village banks in turn provide individual loans to its members. Peer pressure and
peer support among the members are considered as the bank guarantees of these
loans, to ensure repayment where small working capital is repaid every four to six
months by its borrowers. Borrowers start with a very small loan and gradually they
establish loan ceiling. Loan sizes depend on the amount which borrower has saved.
Member’s savings are kept for the purpose of lending or investing to increase the
resource base of the bank. Commercial standards are applied to determine interest
rates and fees.

2.4 Conceptual Framework and Research Models
The conceptual framework developed from literature review sheds the light for the
methodology of this study. The conceptual framework developed has two parts; one
part encompasses the households which have received MFI services and the other
part comprises households with no services from MFI which is referred to as control
group. Aim of having two parts is to make comparison on households receiving MFI
services against those who do not, this will help on assessment of other factors than MFI services that can contribute to poverty reduction. MFI services have impact on the owners and community at large, therefore the conceptual framework developed reflect the outcome of poverty reduction at household level. This is due to the assumption that increase on growth of result into an increase of wealth and overall standard of living since the services received from MFIs enable beneficiaries to meet his/her living expenditure, hence create a possibility of trickledown effect.

Coase (1960) pointed out that financial intermediation involves transaction costs and according to Chijoriga and Cassimon (1999) transaction costs comprises cost involved in finding a lender, mismatch costs and risk premium, all these transactions increase the gross cost of credit for the borrower. The conceptual framework reflects the effect of transaction cost on SMEs when accessing and servicing MFI services. High transaction cost limit effective utilization of the services received.

This research work will examine the impact of microfinance bank on poverty alleviation by examining the impact of microfinance institution on standard of living of people, verified the extent to which households have benefited in microfinance bank and the relationship between size of loan and standard of living in Local Government Areas as shown in figure 2.1 below:
Figure 2.1: Government Areas

Relationship between loan size and standard of living

Source: Adapted from Mohammed and Mohammed (2007) Impact of microfinance banks on Cliving standards, empowerment and poverty alleviation of poor people
CHAPTER THREE

METHODOLOGY

3.1 Introduction
This Chapter is about the methodology used in conducting the Study, The organization of this chapter is as follows; Types of the study, Study area, Study Population, Unit of analysis, Sample size, Sampling Technique, Data collection Technique, administration of instrument.

3.2 Types of the Study
The Research was based on Impact of microfinance on Poverty reduction in Tanzania rural areas, the study used both Quantitative and qualitative tools to determine the relevance and challenges associated with microfinance.

3.3 Study Area
This research was Conducted in Kibaha district, Kec Sacco’s, PRIDE Tanzania(Kibaha Branch) in Coast Region because of the availability of data and accessibility of information for the purpose of obtaining more valid and reliable results the workers of KEC Saccos and some clients and general public constituted the population.

3.4 Study Population
The population of this research included 10 staff of the microfinance institution while the public had 40, the study wanted to find out how the staff and public are perceived microfinance, their challenges and the way to overcome.

3.5 Unit of Analysis
Relevant computer software is the main tools employed to analyse the data in order to help interpret results, Statistical programme for social scientist(SPSS) is also used. The package is used to compute percentage also Ms Excel was used to draw the graphs for the computed data. Other questions that were open ended was analysed
3.6 Sample Size and Sampling Technique

The simple random sampling technique was used, it used on selecting the staff and general public to form the group under study during the research period because it ensured that all respondents had equal chance of being selected. According to Gupta(2002:81) as cited in Binamu(2006) a mere size alone do not ensure representatives thus a small sample, but well selected sample may be superior to a large, therefore sample size should neither be too small nor too large it should be \``optimu`` ie will fulfill the requirements of efficiency, representatives ,reliability and flexibility.

Sample size in this research is 50, made up of 45 respondents who are the clients of Microfinance Institution and 5 respondents were representatives from micro finance

<table>
<thead>
<tr>
<th>SN</th>
<th>Category of respondents</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Clients from microfinance</td>
<td>45</td>
</tr>
<tr>
<td>2</td>
<td>Loan officers</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Managers</td>
<td>2</td>
</tr>
</tbody>
</table>

3.7 Types and Sources of Data

Data in this study was based on both Primary and Secondary data;

3.7.1 Primary Sources of Data

In obtaining primary data various approach were made in order to collect accurate and valid information, the researcher contacted some departments in microfinance institutions(KEC SACCOS)in Kibaha, various levels in Organisation were contacted including Managers and other employee. Clients of microfinance institution were also contacted. The method used in collecting data is made up of questionnaires.
3.7.2 Secondary Sources of Data
In this study researcher also used secondary data in gathering information. The sources of Secondary data include; Periodicals, Repoa annual report, government publication, Journals. This helped to identify how microfinance role is stated by others and to discover how this research is related to work of others in microfinance work.

3.7.3 Interview
The Interview method of collecting data involved presentation of oral/verbal stimuli and reply in terms of oral verbal responses i.e personal interview (Saunders 2007)

The researcher used interview method of collecting data to find out answers from target groups. This was a face to face visiting procedure, this helped the researcher in setting additional information from the respondents, also interview were formal or informal. Interview method was good because most of respondents were not interested with Questionnaires due to time limit.

3.7.4 Questionnaires
In this method a Questionnaires’ was sent to a person concerned with the request to answer the question and return the questionnaires.

3.7.5 Observation
From this particular method, the information was sought by way of researcher own direct observation without asking from respondents

3.8 Validity Issues
This study was applied triangulation technique by using interviews, questionnaires and secondary data analysis concurrently and this is done through piloting of the data collection instrument used to collect data. The data collection instrument was designed in such a way that they measured attitudes and opinion of respondent towards MFIs loan to the maximum degree possible. Issues developed from conceptual framework are compared with issues obtained during interview and
answers obtained from questionnaires so as to ensure construct validity, statistical analysis is also used

3.9 Data Analysis Method

Data was organized into table and Figures based on Questionnaire given to genera public respondent, the result were then analyzed and converted in to percentage and other presentations format eg. charts, both quantitative and Qualitative method were considered, the result were computed into percentage. Diagrammatic representation of the statistical summaries of the result were presented in the form of Charts, graphs and frequency tables. Ms Excel was used to draw graphs for the computed data.

3.10 Variables and Measurement

As put forward by Dollon et al (1990:330) measurement is the process of assigning object with numbers in order to represent quantities of attribute. This study have one independent variables which was Micro Finance institution the factor that are used to measure Independent variables was Social Impact, Increased Income, accumulation of Asset, health and education as well as employment level

Table 3.2: Variables and Measurement

<table>
<thead>
<tr>
<th>Factors</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social impact</td>
<td>The weekly meeting at which loan are repaid</td>
</tr>
<tr>
<td>Control over income</td>
<td>Loan received are used to generate independent income</td>
</tr>
<tr>
<td>Increase in income</td>
<td>Creation of new economic activities</td>
</tr>
<tr>
<td>Accumulation of asset</td>
<td>Use of loan to purchase and lease land</td>
</tr>
<tr>
<td>Employment level</td>
<td>Number of people employed through enterprises</td>
</tr>
<tr>
<td>Health and Education</td>
<td>Number of children sent to school</td>
</tr>
</tbody>
</table>
CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction
This chapter explains the research findings, data analysis interpretations and discussions. Research findings were collected through research questionnaires, interview and observation, the researcher used various computer system in analyzing quantitative data, however qualitative analysis was used for the answer which needed respondents to explain. The outcomes of researcher were explained and analysed by using qualitative and quantitative technique for facilitating conclusion and recommendation. Findings were evaluated and analyzed separately in order to reveal strengths and weakness. The analysis took account of all findings obtained through data collection method. All responses considered the theme of research which was the impact of microfinance institution in poverty reduction in Tanzania. Findings were categorized in two parts; Microfinance Employee and the clients.

The research analysed the role of microfinance in poverty reduction, Challenges faced by microfinance in poverty reduction, utilization of loan on targeted area, Constraints of client towards microfinance – The respondents for the study were selected from clients of MFI and the Employees/Staff of MFI

4.2 Profile of Microfinance client
4.2.1 Education Level
From the table 4.1 it can be observed that majority (32) of clients of microfinance are of low level of education (Primary school). This prove that most customer who participating in small business are of low level of education.

Kibas (2001) confirmed that majority of small business workers had primary school level of education.
Table 4.1: Education Profile of Respondents (clients of MFI)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard VII</td>
<td>27</td>
<td>60%</td>
</tr>
<tr>
<td>O’Level</td>
<td>11</td>
<td>24%</td>
</tr>
<tr>
<td>A’Level</td>
<td>3</td>
<td>7%</td>
</tr>
<tr>
<td>College</td>
<td>3</td>
<td>7%</td>
</tr>
<tr>
<td>University</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.2.2 Age of Respondents

From table 4.2 below it is observed that respondents (Microfinance Clients) with 31 years and above are participating much in business activities and this is the group which uses Microfinance services to the maximum extent compared to the people of age below 31 years. This is due to fact that at this age responsibilities increase therefore everyone at this age has something to do for her own benefit and his family at large.

One of respondents who has 33 years of age had this to say
``I have to use Microfinance services especially loan because it helps me in improving my business as well as assisting my parents at the village``

Table 4.2: Age of Respondents (Clients of MFI)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 26 year</td>
<td>3</td>
<td>7%</td>
</tr>
<tr>
<td>26-30 year</td>
<td>7</td>
<td>15%</td>
</tr>
<tr>
<td>31-35 year</td>
<td>17</td>
<td>38%</td>
</tr>
<tr>
<td>Above 35 year</td>
<td>18</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Analysed data 2013
4.2.3 Gender Distribution of Respondents

Table 4.3 below provides information about the gender distribution of Microfinance Clients (Respondents) it shows that 76 percent of respondents were female and where as 24 percent was male. That testifies to the fact that most of beneficiaries of microfinance are female because the sampling was selected people randomly without bias towards gender.

There is good reason to target women by Microfinance Institution because female discrimination is one of the major cases of poverty and slower economic growth, weaker governance and lower standard of living and women are poorest and more disadvantage than men, however women contribute decisively to the well being of their family comparatively more than men. (Cheston S Kuhn 2002; empowering women through microfinance)

By targeting women in the gender biased society Microfinance directly and indirectly had higher implication. The first implication is that by providing credit to women, gives them additional power in household decision making,. The second implication is that women’s preference are not same as Men. So it is very natural that women’s share of benefit would always be lower.

Table 4.3: Gender Profile of MFI’s Clients

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>34</td>
<td>76%</td>
</tr>
<tr>
<td>Male</td>
<td>11</td>
<td>24%</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Analaysed data 2013
4.2.4 Types of Business of Clients of Microfinance Institution

Table 4.4 below provides information about the types of business of microfinance client’s, that the clients of microfinance Institution are involved in small business which need only small amount of capital and are controlled independently. Out of 45 respondents 20 are involved in Mama and Baba lishe (food business), 15 are engaged in Animal husbandry, 5 in Grocery and 5 in selling vegetables (genge). One of respondents say that he has select the Vegetable business because it has a good and quick return so that it enable him to get money for loan repayment and also for his daily expenses for running the family matter.

<table>
<thead>
<tr>
<th>Types of business</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>5</td>
<td>11%</td>
</tr>
<tr>
<td>Food business</td>
<td>20</td>
<td>45%</td>
</tr>
<tr>
<td>Animal Husbandry</td>
<td>15</td>
<td>33%</td>
</tr>
<tr>
<td>Genge</td>
<td>5</td>
<td>11%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>45</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Analysed Data 2013

4.2.5 Respondents (Clients) working experience with Microfinance institution

Table 4.5 below provides information about the experience of respondents with microfinance institution services, according to the findings above, the number of clients using microfinance services keep on increasing year after year and in year 2012 there is increase of 50% compared to 2011, this shows the microfinance services performances is well understood by society.

Customers who joined in 2012 had this to say; “I have decided to join microfinance institution after one of my friend who joined previous succeed to improve his living standard”
Table 4.5: Respondents (Clients) working experience with MFI

<table>
<thead>
<tr>
<th>Year Joined</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>5</td>
<td>11%</td>
</tr>
<tr>
<td>2010</td>
<td>10</td>
<td>22%</td>
</tr>
<tr>
<td>2011</td>
<td>10</td>
<td>22%</td>
</tr>
<tr>
<td>2012</td>
<td>20</td>
<td>45%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>45</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Analysed Data 2013

4.2.6 Sources of Capital for the Business of Clients

Table 4.6 below provides information about the sources of capital for respondents' business. 33 respondents i.e. (73 percent) have taken their loan from microfinance institution, only 12 i.e. (27 percent) financed their capital from other sources like personal savings, family and friends. This implies that Microfinance institution is the major sources of initial capital and is playing a significant role in helping poor people to start their own business.

Table 4.6: Sources of Capital for the Businesses of MFI’s Clients

<table>
<thead>
<tr>
<th>Sources of Capital</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal saving</td>
<td>8</td>
<td>18%</td>
</tr>
<tr>
<td>Microfinance</td>
<td>33</td>
<td>73%</td>
</tr>
<tr>
<td>Family and friends</td>
<td>4</td>
<td>9%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>45</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.3.1 Challenges/Constraints Faced by the Clients of Microfinance Institution

Table 4.7 below provides information about the challenges facing Microfinance Clients (respondents) on using microfinance services. The respondents were supposed to state their various challenges for using microfinance services. 20 respondents stated that interest rate is too high and most of their earnings goes as interest payments. Borrowers are told to produce collateral for the loan to be granted...
to them which they actually do not have, 9 respondents shared this. 6 respondents hold that their big challenge on microfinance services is accessing loan, they were of the opinion that since they are small in nature, microfinance consider them as a most risk group, hence difficulties on loan accessibility. Another comment was on loan repayment where by 10 responds comment on this view.

Table 4.7: Challenges Faced by Microfinance Client (Response from MFI’s Clients)

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>20</td>
<td>45%</td>
</tr>
<tr>
<td>Loan recovery</td>
<td>10</td>
<td>22%</td>
</tr>
<tr>
<td>Accessing loan</td>
<td>6</td>
<td>13%</td>
</tr>
<tr>
<td>Collateral</td>
<td>9</td>
<td>20%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>45</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Analysed Data 2013

From the researcher observation the above respond’s can be categorized in to the following manner.

4.3.1.1 Institutional Related Constraints

Although group lending had a number of advantage, but also the disadvantages. They pointed out that when one of group members failed to pay the whole group was obliged to pay for her, deduction of some amount of money from the group members savings to cover the defaulter understanding amount, In turn this demoralized the group members to a large extent and they expressed that this was a major setback to their growth in their business and in the family welfare.
One client lamented:

“I am disappointed because I lost my saving, one of our group member defaulted and our saving had to pay for her loan, I have lost all I saved as a voluntary savings in this loan cycle and the probability of recovery that money is low since the defaulted member is nowhere to be seen”

Group management was negatively explained and it shows that one was penalized by being a good client.

Ledgewood (1999) noted that while group lending may work to some people, there are people who consider joint liability as a punishment when group members have to pay for delinquent members.

**Weekly Meeting**

This were mentioned also as a problem, however there were a mixed feeling concerning this, Some do not prefer weekly meeting because they felt that they took so long, were too many and were becoming a routine something they did not like

There were also Complaints from group that two weeks is long time for small business owner to keep money in the house and also some members thought that if someone decided to default and run away from the area two weeks was a long period they argued that one week is good.

**4.3.1.2 Business Related Constraints**

Major Constraints pertaining to client of MFI are customer related complaints (Quality of Services)

Those dealing with food services claimed that most of their customer wanted to be served with large portion of meal for small amount of money. The respondents allow the largest part of their clients to buy from them on credit. Collecting money from clients was a big problem since they did not pay on agreed time. As a result they said that there were a number of times they failed to repay loan because their customer had not paid them.
In one of group meeting the researcher observed an argument about respondents who did not have repayment amount for that date, he complained that his customer, he supplied with vegetables had not paid him, her fellow group members told her “how come you keep selling on credit while you know you have to repay loan? What kind of business is that?”

Seasonality of the market is another problem which faced respondents. Some of the business relies heavily on climatic and weather condition; charcoal making is good during dry season, whereas during rainy season availability of charcoal is a problem and price rise up.

Respondents who where in cold drinks business claimed that during the cold season sales went down thus cause difficulties in loan repayment.

However respondents in food services declare that their market was low during fasting period, mainly the religious fasting such as Ramadan and quarrelsome. Additionally the respondents noted that they could sell much on other period prior to fasting period. They claimed that they got to be extra carefully in requesting loan amount and the seasonality of business otherwise they could fail to repay loan.

**4.3.1.3 Government Policies Related Constraints**

Respondents acknowledge that there were no Government policies which affected them as micro-enterprises. A possible reason is that majority of respondents had types of business which operate as a home based enterprises.

Most of the informal sector in Tanzania is not governed by any rules and regulation laid by government. Although the government of Tanzania advocating a support of micro and small business, in the real sense directives at local councils have not contribute on the development of such enterprises. The micro business which is in informal economic activities remains vulnerable to harassment by agent of local
government. Most micro business move away from areas where they can face harassment.

**Table 4.8: Observation from Group Discussion with MFI’s Clients**

<table>
<thead>
<tr>
<th>Constraints</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government policies</td>
<td>8</td>
<td>18%</td>
</tr>
<tr>
<td>Institutional related</td>
<td>22</td>
<td>49%</td>
</tr>
<tr>
<td>Business related</td>
<td>15</td>
<td>33%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>45</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: Analysed Data 2013*

**4.3.2 Challenges Faced by Microfinance Institution**

Table 4.9 below provides information about the challenges facing microfinance institution. In this part researcher wanted to find out the challenges which encountered by microfinance institution on their activities, the staff from microfinance institution was only part involved in this part.

Major respondents out of total population stated that the major challenges of microfinance is recovery of loan, it has explained that most customer failed to recover loan and this threatens microfinance services.

Other respondents stated that most microfinance institution have inadequate capital to smoothen their daily services and carter for the rapid increase in number of customer

Also responds commented on disbursement of loan facilities due to inadequate capital not all customers can be satisfied.

It was held that another challenge which face microfinance institution within the country is poor collaboration between themselves major , it create difficulties on day to day activities, every organization is selfish of another, some common problems cannot be solved easier.

Researcher found that the above challenges has to be solved accordingly so that to make microfinance institution in a safe position.
Table 4.9: Challenges Faced by Microfinance Institution (Response from the Staff of MFI)

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate capital</td>
<td>3</td>
</tr>
<tr>
<td>Loan disbursement</td>
<td>5</td>
</tr>
<tr>
<td>Poor collaboration</td>
<td>2</td>
</tr>
<tr>
<td>Loan recovery</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

**Source: Analysed Data 2013**

The number of respondents out number sample of 5 due to reason that the respondents gave more than one challenge.

### 4.3.3 What are the Role of Microfinance in poverty Reduction

Table 4.10 below provides information about the role of microfinance in poverty reduction in this part respondent were the Clients of Microfinance institution. They have to give their opinion about the impact of microfinance on poverty reduction, the answer was as follows, from 45 respondents who were client of microfinance 14 respondents were of the opinion that by provision of financial services to the poor, has resulted in improving their standard of living.

The borrowers opined that their Income level had improved after joining microfinance and from time they obtained loan from the institution 16 respondents stated that the institution reduce poverty as they allow them to save any amount(Whatever small). The respondents liked the saving arrangement of microfinance (Voluntarily) because saving money at home is not easier considering the risk involved such as theft, Fine and temptation to misuse money.

Respondents also hold that microfinance is where they can save even a small amount compared to other institution.
11 comments were given on monitoring and evaluation part and 4 on provision of entrepreneurial advice.

**Table 4.10: MFI’s Clients Responses on Impact of Microfinance on Poverty Reduction**

<table>
<thead>
<tr>
<th>Role expected</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision of financial services</td>
<td>14</td>
<td>31%</td>
</tr>
<tr>
<td>Place to save</td>
<td>16</td>
<td>36%</td>
</tr>
<tr>
<td>Monitoring and evaluation</td>
<td>11</td>
<td>24%</td>
</tr>
<tr>
<td>Entrepreneurial advice</td>
<td>4</td>
<td>9%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>45</strong></td>
<td><strong>100%</strong></td>
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**Interview with Microfinance staff concerning impact of their institution on poverty reduction**

The interview with the microfinance staff involved loan officer from PRIDE Tanzania in its branch located in Kibaha rural centered criteria for Loan provisions, the type of assistance they gave to borrower and how they ensured that the method of ensuring loan recovery, They also responded on how often they interacted with the client and how they felt their impact of loans on clients life.

Most officers answered that they felt the loan has a positive Impact on clients life, however he acknowledged that the borrowers has a number of challenges.

Loan officer who had been with the organisation (PRIDE) for more than 2 years had this to say “I have made many clients since I joined this organisation I have seen dramatic changes among them, their lives had simply changed because of loan, I have visited their premises before obtaining loan and after loan and I have witnessed Changes.”

Another officer added that; “the clients themselves are proud and appreciate the loan a lot they talk about positive changes in every meeting, they say they bought a plot, build a house and they sent children to school”
Another officer alerted that some of clients do not use loan as stated during loan application, they use business loan for paying school fees, buying an asset he advised that it is important to identify their financial needs before they decide to take loan. Generally the officers felt that their loan helped a lot to improve their client’s capital hence more income to their clients

**Summary of Findings**

On observations made from the opinion of MFI’s clients It was observed that; Majority (32) of clients of microfinance are of low level of education (Primary school). As there is no permanent job/employment opportunities to low level education group, most of them are participating in small businesses. They afraid on taking big amount of fund for their businesses therefore they tend to take small amount from MFI for their small businesses

Most of beneficiaries of MFI are of the age of 31 years and above, they participate much on day to day business activities and this is the group which uses Microfinance services to the maximum level compared to the people of age below 31 years. This is due to fact that at this age responsibilities increase therefore everyone at this age has something to do for her own benefit and his family at large.

About the gender distribution of respondents, 76 percent of respondents were female and only 24 percent was male. That testifies to the fact that most of beneficiaries of microfinance are female because the respondents were selected randomly without bias towards gender.

There is good reason to target women by Microfinance Institution because female discrimination is one of the major cases of poverty and slower economic growth, weaker governance and lower standard of living and women are poorest and more disadvantage than men, however women contribute decisively to the well being of their family comparatively more than men. (Cheston S Kuhn 2002; empowering women through microfinance)
By targeting women in the gender biased society Microfinance directly and indirectly had more impact and a bit higher implication. The first implication is that by providing credit to women gives them additional power in households decision making, without this empowerment women would not have got the saying in the matter regarding the expenditure of the capital, The second implication is that women’s preference are not the same Men. So it is very natural that women’s share of benefit would always be lower.

It is observed from the findings that the clients of microfinance Institution are engaged in small businesses as it needs only small amount of capital and are controlled independently. Out of 45 respondents 20 are involved in Mama and Baba lishe (food business), 15 are engaged in Animal husbandry,5 in Grocery and 5 in selling vegetables(genge)

Small business has a good and quick return so that it enables him to get money for loan repayment and also for his daily expenses for supporting their family(ies)

On information about the experience of respondents with microfinance institution services were presented, according to analysis of researcher the number of clients using microfinance services keep on increasing year after year and in year 2012 there is a significance increase of 50% compared to 2011, this shows the microfinance services performances is well understood by society. Therefore the MFI services have to be improved so as to increase the number of people who will enjoy the services.

The information about the source of capital for the businesses of Microfinance clients were presented where by 33 respondent’s (73percent) respondents have taken their loan from microfinance institution, only 12 i.e. (27 percent) have financed their capital from sources like personal savings, family and friends. This implies that Microfinance institution is the major source of initial capital and is playing a significant role in helping poor people to start their own business therefore more capital should be injected in microfinance industry so as to increase the lending capacity of the institution hence more capital to clients.
Clients of MFI also provided information about the challenges facing respondents on using microfinance services. The respondents were supposed to state their various challenges for using microfinance services. 20 respondents stated that interest rate is too high and most of their earnings go as interest repayment. Clients of microfinance are told to produce collateral for the loan to be granted to them which they actually do not have, 9 respondents shared this. 6 respondents hold that their big challenge on microfinance services is accessing loan, they were of the opinion that since they are small in nature, microfinance consider them as a most risk group, hence difficulties on loan accessibility. 10 respondents explained their difficulties regarding loan repayment.

From the above challenges necessary measures should be taken to reduce interest rate so that both parties benefit to facilitate benefit (clients and MFI) also more opportunities for loan facilities should be provided

Members/ Employees of microfinance institution also responds on major challenges facing their institution as recovery of loan, it has explained that most customer failed to recover loan and this cause some threatens to microfinance services.

Other respondents stated that most microfinance institution have inadequate capital to smoothen their daily services and carter for the rapid increase in number of customer. Also responds commented on disbursement of loan facilities due to inadequate capital not all customers can be satisfied.

It was hold that poor collaboration of microfinance institution within the country is major challenges since it create difficulties on day to day activities, every organization is selfish of another, some common problems cannot be solved easier. Researcher found that the above challenges has to be solved accordingly so that to make microfinance institution in a safe position. The research revealed that microfinance plays a crucial role in helping reduce poverty in the country. It was realized that microfinance institutions help in poverty
reduction by providing financial services to low income earners or those in the informal sector to help them improve upon their business. Microfinance institutions also provide avenues for people to save daily or weekly for the future. All these go a long way to help improve upon the lives of those involved especially low income earners and those in the informal sector.

Once again microfinance institutions provide entrepreneurial advice, monitor and evaluate their clients to ensure they use funds for the intended projects which would help improve upon their lives.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND POLICY IMPLICATION

5.1 Introduction
Micro finance is basically a tool designed to improve the capacities of the economically active poor to participate in the larger economy. The economically active poor are either micro entrepreneurs who operate in the informal sector (trading, farming, food catering, craftsmanship and artisanship) or people earning wages. Such poor people earn their living in either rural or urban areas; and the financial services for which access is sought are mainly savings and loans (Idolor, 2007). Micro finance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions.

Many features distinguish micro finance from other formal financial products. Five of these are: the smallness of loans advanced or savings collected, the absence of asset-based collateral, and simplicity of operations (Kimotha, 2005). Others are its targets as the marginalized group of borrowers, and its general employment of a group lending approach (Igbinedion and Igbatayo, 2004). The group lending approach has implication for the pressure that the members of the group bring to bear on one another to ensure loan repayment, so that the group can continue to enjoy borrowing or loan facilities.

In developing countries, a majority of the population does not have access to financial services and thus constitute the group that micro finance tries to reach. The developing countries, is saddled with the problem of rural urban migration, mass illiteracy, poor infrastructures, poverty and low access to formal financial services. Hence the need for the government's micro finance policy, aimed at expanding the financial infrastructure of the country to meet the financial requirements of the Small and Medium Enterprises (SMEs) as well as the rural and urban poor. The policy has created a platform for the establishment of Micro Finance Banks (MFBs) geared
towards enhancing the provision of diversified micro finance services on a short-term or long-term and sustainable basis for the poor and low-income groups. It would also help create a vibrant micro finance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for poverty reduction, economic growth and development (CBN, 2005). It also has the potential of not only urban--rural but rural--rural migration as Nyberg and Rozelle (1999) noted with respect to China.

The Grameen Bank Model started as an action research project in 1976, when a Chittagong University team led by an economics Professor Muhammad Yunus began to lend small amounts of money to poor households in a few nearby villages. Borrowers were organized into small 'peer monitoring' groups of four or five people (soon becoming single sex groups, with a focus on women's groups) that met weekly with other groups to make loan repayments.

Grameen Bank sees credit as an empowering agent, enabling element in the development of social economic condition of the poor who have been kept outside the banking orbit on the simple ground that they are poor and hence not bankable, the objective and programs include;

(v.) Extend banking facilities to poor men and women
(vi.) Eliminate exploitation of the poor by money lenders
(vii.) Bring the disadvantage, mostly the women from the poorest households within the fold of organization format, which they can understand and manage by themselves
(viii.) Reverse the age old vicious circle of low income, low saving and low investment into vicious circle of more income, more investment

Poverty in Tanzania especially in rural areas is widespread and deep-seated. Swamy (1980) developed a measure of the poverty gap in Tanzania. In the study, Tanzania was classified as a poor country with 76% of its population falling below poverty range (or level 1-5) and 20% in the middle income category (or level 6-10); with the remaining 4% falling within the rich/high income category (or level 11 and above). The worsening state of the national economy has caused the middle income class to
slide down to join the lower income group, and available social indicators have confirmed the impending poverty situation on the lives of the average Tanzanian. For poverty reduction/alleviation programmes to be effective and sustainable, they must reflect a systematic understanding of the perception of the poor. The poor best understand poverty and it is the poor who must escape from poverty (Odita and Olanye, 2006).

The need for formal financial institutions to complement and transcend the inadequacy of the informal sector is nevertheless, vital. The formal financial institutions are the modernized institutions that operate within the integrated mainstream of national financial system. They include banks and other financial institutions that operate in accordance with the governmental laws establishing and regulating their activities. In Tanzania, these include many specialized and development financial institutions, and even the universal banking institutions.

Microfinance institution is seen as the best alternative source of financial services for low income earners within the country as a means to raise their income, hence reducing their poverty level. However evidence has shown that these MFIs have limited coverage, poor organisational structures and some are donor driven. These findings stimulated research to investigate if the coverage of MFIs is as directed in the National Micro Finance Policy (NMFP) that is, covering small business owners and the poor rural population.

The research was guided by research question and research objective Proponents of microfinance argue that the output of enterprises increased following the access of credit, it is further revealed that the clients who receive business training and advice performed better than those who did not receive any training (Kuzilwa 2002)

In the 1990s the Tanzania Government, like government in other developing countries, uncorked on financial reforms. The financial reforms armed at Inter-alia, Improving access to financial services by all sectors previously excluded by financial services providers (Nord et al 2009; cull and sprang, 2008;). The financial sector
reform included, among others, liberalization of Interest rates, eliminating administrative credit allocation and strength worming the role of bank of Tanzania in regulating and Supervising Financial Institution (Randhawa and Gallardo, 2003). The reforms were also meant to restructure state owned Financial Institution and to allow the incoming of Private Financial Institutions in the market(Nord et al, 2009) However, following the restructure of state Owned Financial Institutions and Privatization of the National Bank of Commerce and the Cooperative and rural Development Bank, there was closure of 78 branches through the counting and mostly in rural areas (satta 2002; steel et al 1997) leaving people in the affected areas without any reliable Financial Services.

The evolution of MFIS, as a Financial Intermediaries For the poor and their advocacy as a poverty reduction tool in the early 1990 around the globe, created hope of having Financial Services in the rural areas at Tanzania.

Inspired by microfinance success stories from other microfinance Institution like the Grameen Bank in Bangladesh, in 2001 The Government of Tanzania in collaborative with the donor community started to Implement a rural Financial Programme to re-instate the rural Financial Services (IFAD, 2005;RFSP,2002). This game Tise to the current member – based microfinance Institution (MB-MFIs), now known as the Savings and Credit Cooperative(SACCO)and the Savings and Credit associations (SACAS).

Recorganizing the Importance of SACCOS and SACAS in rural Finance, the government of Tanzania In collaboration with the donor community have facilitated Introduction and empowerment of rural microfinance through the rural Financial Services Program (RFSP).

The United Republic of Tanzania is the only Country in Africa, and perhaps in the world, that within span of 40 years has gone through rapid and radical transition from a colonial system to programme linking rural households to social services to a market economy without sacrificing basic democratic ideals and social services, to a
market process, all of the country’s Social, political and economic Institutions underwent drastic transformation to And conform to rigid national guidelines and resulted in a gradual and protracted decline of all growth indicators during the 1970; and 1980’s. Since then, the country has recovered significantly mainly through the Implementation of various structural adjustment and restructuring programmes led by the Government with the help of coalition of donors. This recovery has made the country a trend setter in Africa, Particularly in terms of adapting to new ideas dismounting tribalism and ensuring an intrinsic balance between a market Economy and Social justice (IFAD).

The incidence of poverty varies greatly across the country, but is highest among rural families living in and semi-arid regions that depend exclusively on livestock and food crops production. People of central and northern highlands are nutritionally the most deficient, while the coastal and southern highlands zones register the severest level of poverty.

Other studies on microfinance services, in Tanzania were carried out by Kuzilwa (2002) and Rweyemamu et al, (2003). Kuzilwa examines the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of businesses that gained access to credit from a Tanzanian government financial source. The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that the enterprises whose owners received business training and advice performed better than those who did not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses.

Chijoriga (2000) evaluated the performance and financial sustainability of Microfinance Institution in Tanzania, in his findings revealed that the overall performance of microfinance in Tanzania is poor and only few of them have clear objective or a strong organizational structure, he further observed that MFI in Tanzania lack participatory ownership and many are donor driven, although client
outreach is increasing with branches opening in almost all regions of Tanzania mainland, still MFI activities remain in urban areas, their operational performance demonstrates low loan repayment rates in condition the author pointed to low population density, poor infrastructure and low income households as an obstacles to MFIs performance.

Gender activist also argued on favour of microfinance as a means of empowerment by supporting women economic participation. Linda M (2003) in his study observed that gender equality and women’s empowerment are keys in poverty reduction strategies Enterprise development has a significant potential contribution to make towards women’s empowerment, gender equality and gender equity and has an important role to play in gender strategies. Women empowerment is more than simply marginal increase in incomes: it requires a transformation of power relations. This means that enterprises development must take into account not only income

Rweyemamu et al evaluated the performance of, and constraints facing, semi-formal microfinance institutions currently providing credit in the Mbeya and Mwanza regions. The primary data, which were supplemented, by secondary data, were collected through a formal survey of 222 farmers participating in the Agricultural Development Programme in Mbozi and the Mwanza Women Development Association in Ukerewe. The analysis of this study revealed that the interest rates were a significant barrier to the borrowing decision. Borrowers also cited problems with lengthy credit procurement procedures and the amount disbursed being inadequate. On the side of institutions, the study observed that both credit programmes experienced poor repayment rates, especially in the early years of operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-payment. It was further revealed that poor infrastructure of the MFIs led to high transportation costs, which increased the transaction costs in credit procurement, and disbursement and this ultimately hindered the effectiveness of the credit programmes. This happened because most of borrowers lived in rural areas, far from credit offices. The coverage by Kuzilwa was
on the National Entrepreneurship Development Fund only, while Rweyemamuetals’ study was on assessing the micro-finance services for the agricultural sector only.

Majority of the microfinance institutions offer and provide credit on a solidarity-group lending basis without collateral. There is also a range of other methodologies those MFIs follow. Some MFIs start with one methodology and later on move or diversify to another methodology so that they do not exclude certain socio-economic categories of clients. So it becomes important to have a basic understanding of methodologies and activity of MFIs.

The Research was based on Impact of microfinance on Poverty reduction in Tanzania rural areas, the study used both Quantitative and qualitative tools to determine the relevance and challenges associated with microfinance.

In obtaining primary data various approach were made in order to collect accurate and valid information, the researcher contacted some departments in microfinance institutions(KEC SACCOs)in kibaha, various levels in Organisation were contacted including Managers and other employee. Also clients of microfinance institution were contacted. The method used in collecting data is made up of questionnaires.

In this study researcher also used secondary data in gathering information, The sources of Secondary data include; Periodicals, Repoa annual report, government publication, Journals. This helped to identify how microfinance role is stated by others and to discover how this research is related to work of others in microfinance work.

5.2 Summary of findings
It was obtained that majority (32) of clients of microfinance are of low level of education (Primary school). This prove that most customer who participating in small business are of low level of education.

This confirms that majority of small business workers are of low level of education.
Respondents of 31 years of age and above are participating much on day to day business activities and this is the group which uses Microfinance services to the maximum level compared to the people aged below 31 years. This is due to fact that at this age responsibilities increase therefore everyone at this age has something to do for her own benefit and his family at large.

About the gender distribution of respondents, 76 percent of respondents were female and only 24 percent was male. That testifies to the fact that most of beneficiaries of microfinance are female because the respondents were selected randomly without bias towards gender.

There is good reason to target women by Microfinance Institution because female discrimination is one of the major cases of poverty and slower economic growth, weaker governance and lower standard of living and women are poorest and more disadvantage than men, however women contribute decisively to the well being of their family comparatively more than men. (Cheston S Kuhn 2002; empowering women through microfinance)

By targeting women in the gender biased society Microfinance directly and indirectly had more impact and a bit higher implication. The first implication is that by providing credit to women gives them additional power in households decision making, without this empowerment women would not have got the saying in the matter regarding the expenditure of the capital, The second implication is that women’s preference are not the same Men. So it is very natural that women’s share of benefit would always be lower.

Findings also obtained information about the types of business in which the clients of microfinance Institution are engaged, as it needs only small amount of capital and are controlled independently. Out of 45 respondents 20 are involved in Mama and Baba lishe (food business), 15 are engaged in Animal husbandry, 5 in Grocery and 5 in selling vegetables (genge)
Small business has a good and quick return so that it enables him to get money for loan repayment and also for his daily expenses for supporting their family.

The information about the experience of respondents with microfinance institution services were presented, according to analysis of researcher the number of clients using microfinance services keep on increasing year after year and in year 2012 there is a significance increase of 50% compared to 2011, this shows the microfinance services performances is well understood by society. Therefore the MFI services have to be improved so as to increase the number of people who will enjoy the services.

Source of capital for the MFI’s clients business; 33 respondents (73 percent) have taken their loan from microfinance institution, only 12 i.e. (27 percent) have mobilised their capital from other sources like personal savings, family and friends. This implies that Microfinance institution is the major source of initial capital and is playing a significant role in helping poor people to start their own business therefore more capital should be injected in microfinance industry so as to increase the lending capacity of the institution hence more capital to clients.

Information about the challenges facing MFI’s clients on using microfinance services. The respondents explained their various challenges for using microfinance services 20 respondents stated that interest rate is too high from what they were earning. Clients of microfinance are told to produce collateral for the loan to be granted to them which they actually do not have, 9 respondents shared this. 6 respondents hold that their big challenge on microfinance services is accessing loan, they were of the opinion that since they are small in nature, microfinance consider them as a most risk group, hence difficulties on loan accessibility. 10 respondents explained their difficulties regarding loan repayment.

From the above challenges necessary measures should be taken to reduce interest rate so that both parties benefit to facilitate benefit (clients and MFI) also more opportunities for loan facilities should be provided
Members/Employees of microfinance institution also respond on major challenges facing their institution as recovery of loan, it has explained that most customer failed to recover loan and this cause some threatens to microfinance services.

Other respondents stated that most microfinance institution have inadequate capital to smoothen their daily services and cater for the rapid increase in number of customer Also responds commented on disbursement of loan facilities due to inadequate capital not all customers can be satisfied.

It was hold that poor collaboration of microfinance institution within the country is major challenges since it create difficulties on day to day activities, every organization is selfish of another, some common problems cannot be solved easier. Researcher found that the above challenges has to be solved accordingly so that to make microfinance institution in a safe position.

The research revealed that microfinance plays a crucial role in helping reduce poverty in the country. It was realized that microfinance institutions help in poverty reduction by providing financial services to low income earners or those in the informal sector to help them improve upon their business. Microfinance institutions also provide avenues for people to save daily or weekly for the future. All these go a long way to help improve upon the lives of those involved especially low income earners and those in the informal sector. Once again microfinance institutions provide entrepreneurial advice, monitor and evaluate their clients to ensure they use funds for the intended projects which would help improve upon their lives.

5.3 Conclusion
In all, the economic benefits of microfinance in Tanzania are compelling; its effects on development process cannot be undervalued. This calls for a holistic approach to enhance the development of microfinance.
Basing on literature review and the analysis, it was realized the contribution of microfinance to the development of the country and in reducing poverty is very enormous and as such their continuous growth is of prime importance to the country as a whole. They provide financial services to those in the informal sector, the poor and those who earn little. This help those in the informal sector improve upon their services therefore help to improve their standard of living.

To sum up it can be noticed from overall analysis that there is a significant impact of microfinance activities on improvement of standard of living of the family not only in the economic term but also in social term. The relation between different features of society and family became evident and clear, which were being neglected and not thought about during the period of existence of only conventional banking system. From this research I have come to a conclusion that there is noticeable and positive impact of microfinance activities on the living standards, empowerment and poverty eradication among the people in society.

If one can help a poor person to stand on his own that cannot only bring about a revolution in their lives but also in the society. The dream of health and educated society with no discrimination and biased can be achieved through this simple thought, the dream which seen to be coming true and becoming practical. The simple vision of one man, Mohammed Yunus has taken the shape of the revolution and has shown the ray of hope in the path of life to every human, irrespective of his background or status. The hope of life that no one will sleep hungry no one will die due to lack of medication, our children can read and write on their own and every one will be a pillar of society.

5.4 Recommendation
In this Study it is realized that microfinance plays an important role in the economy of the country by helping reducing poverty. The important, operation and challenges leaves much to write about. These recommendations are therefore made to help microfinance in its operational and sustainability.
(i.) Loan size should be increased to meet the requirements of borrowers.
(ii.) The people should be given more opportunities for loan facilities.
(iii.) Knowledge should be provided on time by MFIs to borrowers for the better utilization of credit.
(iv.) Customer orientation training to staff members must be conducted to teach them how to deal properly with clients.
(v.) MFIs must focus on Mobile banking because all Microfinance Institutes are considering the Mobile Banking as center of attention.
(vi.) Interest rate should be decreased so that more and more applicants can avail microfinance facilities.
(vii.) MFIs should focus on other area which includes low salary individuals, livestock
(viii.) and small businesses and handicraft business and also teach them right skill.
(ix.) All Microfinance Institutes are working in limited geographical area so they must expand their outreach.
(x.) They have better understanding about the problem of rural areas so they can provide better and flexible services to increase satisfaction level of the clients.
(xi.) One observable problem in all Microfinance Banks is that there is lack of staff as compare with the clients. They must increase their staff members or educate them how to deal with customer efficiently.

In Tanzania there is a National body which is responsible for coordinating all activities neither associated with microfinance, nor is there a forum for dialogue among stakeholders on policy and programme issues, but there is Inadequate collaboration between development partner, service providers, practitioners and end users. Therefore microfinance institutions need to be strengthened to ensure transfer of best practices and setting of standards for the industry.

The current strategies for credit delivery are not adequately efficient, and therefore are unable to fully meet the varying demands of the market and different categories of end-users. There is no framework for categorizing and upgrading some of the
emerging microfinance institutions in the semi-formal and informal sub-sectors in accordance with their operational capabilities and capacity. The objective of microfinance is to provide resources for the poor. There is need to apply adequate, reliable and acceptable methods for classifying various poverty levels to enhance the categorization of potential and actual Microfinance clients and other forms of support that may be more appropriate for some groups.

People in rural areas do not have adequate products or services designed to meet their needs and also are not adequately served by existing microfinance funds and services. This target group in particular could benefit from complementary skills training programmes. The existing skills training and funding arrangement for women do not seem to be market-driven. Specific services and products that target women for entrepreneurship development to enable them engage in economics activities and become more self-reliant. In Tanzania most of population is young people and a large number of this class are employed so there is a need to for special microfinance and training programmes that target the youth for entrepreneurial development.

**Simplify Services**
Make the credit programme customer-friendly. Use a simple application process.

**Motivate Repayment**
Motivate repayment through different ways i.e via group solidarity and joint liability, this will minimize cost. Lending to individual can be effective where the social structure is cohesive and there is little potential for political abuse.

**Engage the Informal Economy**
Up to 80 percent of people in developing countries derive their incomes from the informal sector, thus the need for good financial mechanisms to support wealth creation and financial services in this sector.
Most of the population operates in the informal economy without security of tenure and without formal employment. The population is afflicted by low human capital. Employment is heavily informal, in services and small workshops, and in domestic food processing.

Equally important are measures to support the informal sector, where most of the urban poor work in low paid, low productivity, and low security jobs. To facilitate the shift into the formal sector, local authorities should adjust their laws and regulations to lower the costs and increase the benefits for people to formalize their enterprises. They should also provide assistance to small enterprises to upgrade skills and increase access to productive resources and market opportunities.

**Grow Domestic Deposits:**
Mobilize Micro-saving Cost effective, secure and accessible micro savings services feed impoverished, cash-strapped economies, and improve the lives of those living in poverty.

Contrary to some beliefs, low-income people save their money. In fact, their savings represent a higher portion of their net assets than those of their counterparts in society’s upper income segments. Even in the poorest countries, research indicates that poor households save.

With access to well-designed savings products, low-income people can accumulate wealth. When aggregated and invested properly, these small, sometimes seemingly insignificant amounts can add to country economic growth.

Microfinance promotes not only credit, but also inculcates savings that accumulate assets for poor people and benefit country reserves.

A low saving rate is one of the serious resource constraints developing countries face. With low domestic saving there are limited possibilities for indigenous private investment. With a low saving rate, the amount of capital per person declines, and
this leads to economic decline and even more poverty...The finding that saving rates are low in impoverished countries and rise with per capita income is well established.

A big push of aid-supported investment that puts the country on a path of increased savings and self-propelling growth is far more efficient than low quantities of aid that do not change the fundamental growth potential of the economy.

The Least Developed Countries show the lowest saving rate, just 6.7 percent of GNP. This very low level would result in a sharply negative growth rate of per capita income if not offset in part by official development assistance equal to around 11.2 percent of GNP.

The National income accounts indicate that tropical Sub-Saharan Africa has an average saving rate of about 11 percent, compared with 20 percent in Latin America, 18 percent in South Asia, 19 percent in the Middle East and North Africa, and 34 percent in East Asia and the Pacific

**Invest in Women**

Because of the interconnection of financial power, poverty and women, microfinance has an active role in improving economic equality. Increased economic power enables women to improve other areas of their – and their children

Microfinance can support voluntary approaches to empower “women with skills, literacy, numeracy, and economic rights to engage in off-farm employment

Girls and women usually receive less schooling than boys and men, have poorer access to health care, are at greater risk of contracting sexually transmitted diseases, including HIV, and are less able to start businesses, obtain credit, or enter higher-level occupations in addition, women have little ownership rights over assets. “Yet, ownership and control over assets such as land and housing provide economic security, incentives for taking economic risks which lead to growth, and important economic returns including income.
To improve women’s economic opportunities, governments need to guarantee women effective and independent property ownership and access to security rights, especially land and housing, both in law and in practice. Women’s rights to own and accumulate assets are enhanced by their access to financial tools, such as microfinance, for housing renovation and development. Furthermore, property rights can impact women’s ability to leverage their assets through credit and invest in opportunities to grow their wealth.

**Develop Local Private Sectors and Invest in Innovation**

Microfinance is the progenitor of local private sector development. Microfinance feeds small and medium enterprise development, both propelling the growth of micro enterprises but also fueling the expansion of suppliers and vertical infrastructure needed by larger businesses. Because microfinance creates increased wealth for low-income individuals, it also creates new consumers and markets for businesses of all sizes. In addition, governments should adopt policies and invest in infrastructure that stimulates small (micro) and medium-size businesses, improves access to credit and other forms of capital, increases participation in international trade, and Promotes the integration of regional markets.

The private sector requires functioning, competitive markets for both inputs and products. Well developed financial markets, which channel resources to entrepreneurs, help reduce the cost of and increase the access to capital. In many countries, the formal banking sector needs to be strengthened through regulatory reform and increased accountability of financial institutions.

The informal economy needs government support in several ways. The government can enable easier access to financial capital by simplifying rules for collateral, increasing flexibility for informal entrepreneurs.

Microfinance institutions are successful examples of how private can provide innovative services for poor farmers and entrepreneurs. Rabobank International has also worked in Uganda and Tanzania and developed financial instruments (risk
management tools such as swaps and derivatives) to help small farmers protect themselves against price fluctuations.

**Improve Slum Conditions**

Microfinance increasingly supports purchasing living space, home improvement and home building in slums through special savings and loan products. It generates wealth for slum dwellers, enabling them to obtain improved housing.

Models must engage those living in poverty in the solutions to poverty eradication and provide them with the financial tools to achieve their goals. “Without the support and participation of the poor, such resettlement programs can lead to the mere relocation of slums or much worse. Community organizations can help mobilize the resources of the urban poor to co-finance improvements in housing and investments in basic urban services (including financial).

In April 2003 significant national government support for the items in the Slum Action Plan was secured when President Lula established a housing fund of $1.6 billion for financing new housing construction and upgrading favela or slum neighborhoods. The fund was also charged with providing direct credit support to families investing in home improvement. A variety of financial instruments, ranging from microcredit to assisted loans are available to low- and middle-income families”

**Develop Rural Areas and Invest in Food Output**

Financial sector access and microfinance are essential for growth in impoverished rural areas.

The importance of developing and diversifying rural economies is clearly a top priority. First, it (a strategy to achieve the MDs) would target a rise in rural productivity, a Green Revolution to raise food output. This would accomplish several important objectives and trigger a structural change in the economy. It would enable farmers to feed their families. It would provide low-cost food for the rest of the economy. It would accelerate the transition to commercial agriculture and to urbanization (as fewer households are engaged in food production). The urbanization
and movement of human resources into nonagricultural productive sectors would diversify the economy and the export base” . Financial services to rural populations are critical to enabling this to happen. The rural farmers also constitute the bulk of private sector economic activity in many developing countries, so improving their economic lot will make a huge difference to their countries’ prospects for long-term economic growth”

Recommended interventions to jumpstart rural development stress access to microfinance as a key requirement to increase investment in rural development and it is further stated that the: “extension of the formal banking system and provision of microcredit services” is a requirement for sustained growth and rural development.“To further improve farmers’ ability to market their products and access markets, national strategies can focus on building storage facilities, encouraging networks of agro dealers, and improving credit and savings facilities.

All these investments will succeed when smallholder farmers and rural communities are empowered to establish their own institutions – for example, farmer field schools to gain access to new agricultural technologies, village banks to gain access to financial services, and farmers’ associations to negotiate with market intermediaries.“Equally important are measures to improve access to low-cost transport services. Examples include providing access to credit, ensuring efficient transport markets through legislation, lowering entry costs into the transport market, and improving supply of low-cost vehicles, bicycles, and other means of transport”.

**Improve Health Services**

Microfinance can contribute to financing health initiatives and create wealth for low-income people so that they can afford health services.

Healthy clients also reduce credit risk. Microfinance is critical to upgrading health services through savings, loans and insurance products for poor people; and by investing in professional medical entrepreneurs. Care international, working in more than 70 countries, reaches 45 million people with emergency and humanitarian relief
efforts in addition to longer term primary healthcare, education, savings and loan schemes, and agriculture programs. Such efforts can be hugely important for achieving the broad range of health. Development -Investment Priorities for Reaching the Goals in Other Regions): In China, “the public health system is under severe stress, with rural health insurance coverage falling from 90 percent to less than 10 percent between the 1970s and 1998... As a result, the vast majority of people in rural areas must pay out of pocket for all health services, which can result in financial catastrophe for those with serious illness and has been found to be a major contributor to rural poverty in China’s villages

5.4 Suggestion for Further Research

The current study was based on small sample size taken from only few area of Kibaha district of Coast Region in Tanzania. Therefore, the result cannot be generalized to other district of Tanzania especially in the analytical terms. Further research done on a bigger scale with large sample size could shed light on how microfinance activities affect the average living standard of poor people of Tanzania.

The current study did not consider the reasons of motivation to join the microfinance program. Another area that has not been investigated is the difficulties that the borrowers face to repay the loan. These areas deserve to be studied by future researchers in the field.

There is also another field, which is neglected in our study that the supply gap of MFIs.

Actually, to what extent the MFIs are capable to deliver their service to the poor people.

Further research could be conducted in this area and for finding the reasons for the gap between demand and supply in terms of microfinance services.
REFERENCES


http://www.PRIDEafrica.com/PRIDE%20Tanzania%20Clients.htm


National Bureau of Statistics, Tanzania:


APPENDICES

Appendix A: Questionnaires

This questionnaire is designed to gain an understanding of the impact of microfinance on poverty reduction. Kindly complete this questionnaire as objectively as possible. The information given out is solely for academic purpose and would be treated as confidential. Thank you.

Staff
Personal Data

Write or tick (✓) the appropriate response to each of questions.

1. Sex
   (i.) Male  
   (ii.) Female

2. Age range:
   (i.) Below 26  
   (ii.) 26-30 
   (iii.) 31-35  
   (iv.) 36-40  
   (v.) Above 40

3. How would rate the activities of microfinance institutions in the country?
   (i.) Excellent  
   (ii.) Very Good 
   (iii.) Encouraging Not the Best 
       Others (specify) .................................................................
4. Explain answer

5. What do you think are the role of microfinance in poverty reduction?
   (i.) Providing Financial Services
   (ii.) Providing Entrepreneurial Advice
   (iii.) Monitoring and Evaluation
   (iv.) Provision of Facilities like savings etc

6. How effective are microfinance institutions in the country?
   (i.) Very Effective
   (ii.) Encouraging
   (iii.) Not the Best
   (iv.) Bad

   Others (specify)…………………………………………………………………………………

7. Microfinance institutions are very effective in credit delivery
   (i.) Strongly Agree
   (ii.) Agree
   (iii.) Undecided
   (iv.) Disagree
   (v.) Strongly Disagree

8. Explain answer

…………………...…………………………………………………………………………………
…………………...…………………………………………………………………………………
…………………...…………………………………………………………………………………

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9. Are Tanzanians aware of the role played by microfinance institutions?
   (i.) Yes ( )
   (ii.) No ( )

10. What are the major challenges faced by microfinance institutions?
    (i.) Disbursement of Facilities Loan ( )
    (ii.) Facility Recovery ( )
    (iii.) Inadequate Capital ( )
    (iv.) Poor Collaboration between Microfinance Institutions ( )

11. To what extent do these challenges affect your operations?
    (i.) Moderately ( )
    (ii.) Severely ( )
    (iii.) Not Much ( )
    (iv.) No Effect ( )
    Others (specify) …………………………………………………………………………..

14. Are your customers and clients satisfied with your services?
    (i.) Yes ( )
    (ii.) No ( )

15. Explain answer
    ………………………………………………………………………………………………..
    ………………………………………………………………………………………………..
    ………………………………………………………………………………………………..

16. How are the challenges facing microfinance institutions being tackled?
    ………………………………………………………………………………………………..
    ………………………………………………………………………………………………..
    ………………………………………………………………………………………………..

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Appendix B: Questionnaires

This questionnaire is designed to gain an understanding of the impact of microfinance on poverty reduction. Kindly complete this questionnaire as objectively as possible. The information given out is solely for academic purpose and would be treated as confidential.

Thank you.

Clients/General Public

Personal Data
Write or tick ( √ ) the appropriate response to each of questions.

1. Sex:
   (i.) Male ( )
   (ii.) Female ( )

2. Age range:
   (i.) Below 26 ( )
   (ii.) 26-30 ( )
   (iii.) 31-35 ( )
   (iv.) 36-40 ( )
   (v.) Above 40 ( )

3. Occupation (Specify) ..............................................................

4. How is business?
   (i.) Good ( )
   (ii.) Encouraging ( )
   (iii.) Average ( )
   (iv.) Bad ( )
Others (specify) ..............................................................
5. In your opinion do you think your activities contribute to the betterment of your community?
   (i.) Yes  
   (ii.) No  

6. Explain answer …………………………………………………………………………

7. Where do you get your source of funds/ finance for your business?
   (i.) Personal savings  
   (ii.) Family and Friends  
   (iii.) Microfinance Institutions  
   Others ………………………………………………………………………

8. If microfinance, how long have you been working with them?
   (i.) Below 2 yrs  
   (ii.) 3-5yrs  
   (iii.) 6-8 yrs  
   (iv.) Over 8 yrs  

9. How would rate the activities of microfinance institutions in the country?
   (i.) Excellent  
   (ii.) Good  
   (iii.) Encouraging  
   (iv.) Not the best  

10. Microfinance are effective in credit delivery?
    (i.) Strongly Agree  
    (ii.) Agree  
    (iii.) Undecided  
    (iv.) Disagree  
    (v.) Strongly Disagree
12. Microfinance facilities has helped you improve upon your life?
   (i.) Yes ( )
   (ii.) No ( )

13. Explain your answer?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

14. What are your major challenges with microfinance institutions?
   (i.) Accessing Loans ( )
   (ii.) Loan Repayments ( )
   (iii.) Collateral ( )
   (iv.) Interest Rates ( )

15. Explain answer ………………………………………………………………………

16. How best can microfinance be improved to serve you better?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………