

**THE CONTRIBUTION OF MICROFINANCE INSTITUTIONS
ON POVERTY REDUCTION:
A CASE STUDY OF KINONDONI MUNICIPAL**

**THE CONTRIBUTION OF MICROFINANCE INSTITUTIONS
ON POVERTY REDUCTION:
A CASE STUDY OF KINONDONI MUNICIPAL**

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**A Dissertation Submitted in Partial Fulfillment of the Requirements for Award
of the Masters Degree of Business in Administration in Corporate Management
(MBA – CM) of Mzumbe University**

2015

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommended for acceptance by the Mzumbe University, a dissertation entitled the **Contribution of Microfinance Institutions on Poverty Reduction: A Case of Kinondoni Municipal**, in partial fulfillment of the requirements for award of Master degree Business Administration at Mzumbe University.

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ACKNOWLEDGMENT

It is not unusual for someone to be proud and blissful for making a certain success. This is very realistic on my side. However, the accomplishment of this thesis is a result of collective efforts of many people whom my joy will have no meaning if I fail to accord my heartfelt appreciation for their support.

Glory is to Almighty God for giving me a chance, strength, good health and enabling me to perform this work. I highly thank my Employee District Executive Director Urambo and District Treasure for sponsoring and giving me a chance for taking this study. Also I convey special gratitude to my supervisor Dr. Ng'ida Daudi Mollel for his outstanding guidance, advice, assistance, encouragement and constructive criticism throughout the study, may God bless you.

I would also like to thank leadership of Kinondoni Municipal Council for permitting and assisting me to carry out my study in areas under their jurisdiction comfortably. Thanks also go to all the respondents who accepted my request of interviewing them. Their cordial cooperation rendered to me during data collection is highly appreciated, may God bless you all. The heartfelt thanks go also to my precious family members especially Sisters and Brother for their prayers, moral support and encouragement not to give up from this opportunity, may God bless you all abundantly. Special thanks should go to my colleagues at MBA corporate Management students for their personal encouragement and friendship in sharing research experiences with them and also all those we used to study and discuss together during the entire period of studies.

DEDICATION

I, Elly Balthazar Minja dedicate this work to my beloved mother Mrs Christa E. Minja who always supported me with prayers for success and advices during the entire period of my studies.

ABBREVIATIONS AND ACRONYMS

BFI	Banking and Financial Institutions
BOT	Bank of Tanzania
IFC	International Finance Company
MFIs	Microfinance Institutions
MSMEs	Micro, Small and Medium Enterprises
NBC	National Bank of Commerce
NDC	National Development Corporation
NGO	Non-Governmental Organization
NPO	Non-Profit Organization
NSIC	National Small Industries Corporation
FINCA	Foundation for International Community Assistance
PRIDE	Promotion of Rural Initiative and Development Enterprises
SACCOS	Savings and Credits Cooperatives
SEWA	Self Employed Women's Association
SIDO	Small Industry Development Organization
SME	Small and Medium-sized Enterprise
SPSS	Statistical Package for Social Sciences
TBA	Tanzania Banking Association
URT	United Republic of Tanzania
WB	World Bank

ABSTRACT

This study aimed at assessing the contribution of microfinance institutions to poverty reduction in Tanzania. Specifically, the study had the aim of assessing the contribution of microfinance institutions to the social development of entrepreneurs, to determine the impact of microfinance institutions to poverty reduction and also finding out challenges facing entrepreneurs in the credit acquisition from microfinance institutions. The study was carried out in Kinondoni Municipal, Dar es Salaam.

The study employed descriptive statistical approach to describe the findings from selected case studies, with the aim on describe the data and characteristics about what is being studied. The target population was the Entrepreneurs who acquire loans and other financial services from various financial institutions such as SACCOS, PRIDE and FINCA. These were interviewed by asking them to answer both closed and open ended questions. The sample comprised a total of 120 entrepreneurs. Convenience sampling technique was employed to select respondents, questionnaire was used for data collection. The statistical Package for Social Sciences (SPSS) was used for data analysis.

The study findings revealed that there is positive contribution of microfinance institutions to the social development, in which there is better access to health, education and basic services and greater social respect. The contribution of education level and entrepreneurial skills has positive impact to poverty reduction. From the finding obtained it has been found that microfinance institutions has a positive impact to poverty reduction in which there is increase in income, better living conditions and better access to basic needs. Lastly study found that challenges facing entrepreneurs are short time for loan repayment, low amount offered by MFIs, expensive collaterals and high interest rates.

It is therefore recommended that government and other stakeholders should work together to make sure that, time given to repay loans is increased, to increase the amount which is borrowed, the collateral for loans should be that which most Entrepreneurs can afford and thirdly the interest rates should be lowered.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter gives the introduction to this study by describing the background information, statement of the problem, objectives of the study with both general and specific objectives as well as research questions. It further describes the justification and rationale of the study, scope and limitations of the study.

1.1 Background Information

Poverty is a problem for all the countries irrespective of their level of development. It can be observed in many forms since it has both income and non-income dimensions. In consideration of poverty line, people in each country can broadly be divided into two categories namely poor and non-poor. The non-poor are living above and the poor are living below the poverty line. According to Bakhtiari, 2006 in the recent days, microfinance schemes have been proliferating in all parts of the world. Although the impact of those schemes on the borrowers' businesses and household welfare is widely contested, the number of borrowers has been on sharp increase (Salia, 2014). So far Bakhtiari (2006) argues that since, microfinance has proven to be an effective tool for poverty reduction it is argued that microfinance can be considered an important element for an effective poverty reduction strategy. It shows that access and efficient provision of microfinance can enable the poor to smooth their consumption, better manage their risks, gradually build their assets, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life.

Gurses (2009) conducted a study in Turkey and mentioned that micro finance especially micro credit is a powerful tool to reduce poverty. The author has mentioned that one fifth of the population of Turkey was at risk due to the poverty even then it is not a poor country according to global standards.

This is due to the introduction of micro credit by two NGOs—KEDV and the Turkish Foundation for Waste Reduction (TISVA). Moreover the author mentioned that poverty, both in Turkey and all over the world, is not only a function of microcredit but a political problem, and political intervention of the state holds the ultimate resolution to struggle against poverty.

Most African countries are faced with serious and worsening poverty. Given the magnitude of the problem, it is unrealistic for Governments in the region to be left alone to tackle this daunting task in light of the financial and institutional crises that is facing most of the countries in Sub-Saharan Africa. Therefore, to achieve sustainable development there is need for a holistic approaches to dealing with the concerns of the poor in the region. There is a range of MFIs whose participation is essential to address appropriately the challenge of poverty reduction (Yahie, 2000). For example in Machona (2006) studied the impact of microfinance in Addis Ababa Ethiopia by assessing the impact of microfinance on women microenterprises that were clients of Gasha MFI. The findings for this study indicated that only a few of the women clients of Gasha microfinance institution reported increased incomes from their microenterprise activities.

Furthermore, Morduch and Haley (2002) notes that there is evidence to support the premise that it is possible for a microfinance institution to serve the poorest and also achieve financial sustainability. However, Swain (2004) states that microfinance is better used as an instrument along with other policies for poverty alleviation rather than poverty reduction strategy in isolation. The reality on the ground indicates that the increase on the number of poor people both in rural and urban Kenya is worrying. Therefore, if poverty levels are not reduced in Kenya, then the MDG goal number 1 on the eradication of poverty to less than 30% of the Kenyans by 2015 and as envisioned in the Kenya Vision 2030 will not be achieved. This creates a need to intensify poverty reduction efforts through MFIs in planning and outreach. (Okibo and Makanga, 2014).

The Poverty Reduction Strategy of the United Republic of Tanzania (URT, 2000) indicates that poverty is largely a rural phenomenon. In the rural areas, incomes are lower and poverty is deeper than in urban centers. The findings by Liheta and Mosha (2014) 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 is donor driven. Based on the same report, findings show that 27% of the households in rural areas of Tanzania were insufficient to obtain enough food to meet nutritional requirements, and about 48 percent of the households were unable to meet their food and nonfood basic requirements. A survey study conducted by REPOA (2004) in Tanzania revealed that the poor are concentrated in subsistence agriculture and the rural farmers are poorer than non-farmers. The poverty incidence for households whose heads work in own farms was 57%.

A large number of medium sized and smaller local microfinance institutions, such as community banks includes Dar es Salaam Community Bank, Mufindi Community Bank, KageraFarmers Cooperative Bank and Kilimanjaro Community Bank are well known examples of microfinance providers. Other microfinance institutions include religious groups, and NGOs, as well as several SACCOs and SACAs operating with limited local outreach. Others include SIDO, PRIDE, FINCA (T), PLATINAM, BAYPORT, BRAC, FAIDIKA, SEDA, NMB, CRDB, NBC, Tanzania Postal Bank and ABC Bank.

Rutihinda (2003) Nearly all the commercial banks are now aggressively offering consumer lending to salaried employees with a number of them targeting lower-end employees. There is evidence that in a number of cases, these loans are used as start-up capital for small businesses to supplement the family income. It is expected that most of the institutions mentioned above, in particular the more established microfinance institutions and commercial banks, will aggressively expand their microfinance operations in the coming years, thus turning Tanzania into a highly competitive market for microfinance and SME services in order realize the prospective impact. Thus, the major concern of this study is to focus on assessing the contribution of microfinance institution to poverty reduction.

1.2 Statement of the Problem

Study of Aigbokhan and Asemota (2011) revealed that selected microfinance variables such as volume of loan last taken, cumulative loan, loan cycle, experience with the microfinance institution and education had positive significant impact on client poverty status. Matovu (2006) mentioned that without any doubt it is obvious that microfinance plays an important role in poverty alleviation but the party of microfinance alleviation is like a drop of water in a sea.

Bichaga and Njage (2014) on their study recommend although microfinance is a good tool for poverty reduction but microfinance institutions can arrange mechanism to improve technical and business skills of poorest through training and loan utilization also should put in place micro – insurance schemes which could help clients to pool risk or share losses.

This study therefore seeks to assess the contribution of microfinance institutions on poverty reduction intervening by entrepreneur skills and education level of beneficiaries.

1.3 Objectives

1.3.1 General research objective

The broad objective of the study is to assess the contribution of microfinance institutions to poverty reduction in Tanzania. The general objective intends to see how microfinance institutions help in reducing poverty among people who have access to microfinance institutions by borrowing loans from those microfinance institutions.

1.3.2 Specific research objectives

In order to achieve the general objective, the research set out to achieve the following specific objectives :

- i. To assess the contribution of microfinance institutions to the social development of entrepreneurs.
- ii. To determine the impact of microfinance institutions to poverty reduction.

- iii. To find out the challenges facing entrepreneurs in the credit acquisition from microfinance institutions.
- iv. To find out the contribution of entrepreneurs' education level and entrepreneurial skills on poverty reduction.

1.4 Research Questions

- i. What is the contribution of microfinance institutions to the social development of entrepreneurs?
- ii. What is the impact of microfinance institutions to poverty reduction?
- iii. What are the challenges facing entrepreneurs in the credit acquisition from microfinance institutions?
- v. What is the contribution of education level and entrepreneurial skills on poverty reduction?

1.5 Justification and rationale of the study

The study is expected to provide an insight of the contribution of financial institutions to poverty reduction in Tanzania. Financial institutions play a catalytic role of boosting performance level of SMEs. Normal SMEs use two sources of finance; internal or external sources of financing. The internal funds are always insufficient to undertake the required level of business as consequences the call is always made for external finance from relevant financial institution to fill the financial gap. Over the years the failures of SMEs have been linked to the inability of access to finance from financial institutions as well banks are reluctant to authorize credit to those entrepreneurs who fail to meet banking conditions. However, this study will provide empirical evidence about the contribution of financial institutions to poverty reduction. The study again will be significant and come with strategies with which facilitates policy makers to provide sounding policy in order to strengthen MFIs and their clients in order to reduce poverty, academicians, scholars, and other those who have tendencies reading culture articles and dissertations and those who have the interest of SMEs.

So far, the study is so limited to financial institutions particularly Savings and Credit Cooperative societies (SACCOs) and Promotion of Rural Initiative and Development Enterprises (PRIDE), loan beneficiaries and non-beneficiaries of small and medium enterprises in Tanzania who are engaged in different economic activities. The study will be carried out in Kinondoni municipal. Moreover, the study will help the researcher to expand her knowledge on the contribution of Microfinance Institutions to Poverty reduction.

1.6 Scope of the study

At present, there is a good number of MFIs functioning in Tanzania. It is difficult to study what challenges faced all MFIs in terms of poverty reduction due to different endowments constraints. Hence to make the study possible, Kinondoni Municipal was selected as case study. The study focuses on how MFIs contributes to poverty reduction. The study took the period of six months where different Micro financing activities are conducted. Primary data from MFIs beneficiaries were collected using structured questionnaires based on specific objectives on the contribution of Micro Finance Institutions to Poverty Reduction.

1.7 Limitations of the study

However, this study is not exhaustive on the role that microfinance institutions should play in order to reach more entrepreneurs in rural areas as well. Therefore, future research work could investigate/assess the role of microfinance institutions in empowering rural entrepreneurs. Language of respondents is another barrier where by majority of the entrepreneurs have primary education others have no formal education, in order to get accurate information the researcher decides to translate to them face to face by using Swahili language. Moreover other respondents were reluctant to fill the questionnaire because they are busy with their business so the researcher decides to make close follow up. Also the time for data collection was so limited.

1.8 Organization of the Dissertation

The study has been organized in five chapters. Chapter One entails the purpose of the researcher to decide to undertake this particular research and not another. Chapter one provides preliminary information about the nature of the research and what will exactly be done. Chapter Two reveals literature sources which the researcher passed through when developing his idea about the research. Other people's ideas were incorporated with the aim understanding well the research topic. The purpose was to know how other researchers, readers, organizations and governments say about the problem in question. Chapter Three explains the way the research has been conducted. The methods and techniques adopted. Chapter Four presents and discusses the findings. Instruments like, charts, per cent, tables and figures were used to present similarities and differences of the research findings. Similarities, differences and magnitude of the results are discussed. Chapter Five presents the summary, conclusion, recommendation and limitations of the study and areas for further research. The researcher makes summary of what has been done, observed and presented, implications of the findings and recommendations to policy makers. The last part presents the bibliography and the appendices.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the theoretical literatures review concerning the concept of microfinance institutions, poverty reduction, SMEs development and socio development as well as some scholarly works done within and out of Tanzania. It further discusses the empirical part of the literature on financial institutions, poverty and small and medium enterprises (SMEs). Moreover this chapter describes the research gap from the concerned study, conceptual framework, variables and their measurements and finally the conceptual model of the study constructs.

2.1 Theoretical literature review

2.1.1 An overview of SMEs in Tanzania

SMEs all over in the world are known to play a major role in social and economic development. This is apparently the case of Tanzania, where SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas SMEs Development Policy (2002). The SMEs classification is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services SMEs Development Policy (2006). Recent literatures have been suggesting the emergence of a consensus on the vital importance of financial institutions development in facilitating and sustaining growth. The last two decades have witnessed an explosion of empirical studies testing the finance growth nexus using cross-country and other data and new econometric tools. Despite the absence of complete unanimity of results, a number of observations, backed by empirical evidence, have emerged.

Levine (2004) argues that countries with better functioning banks and financial markets grow faster because it enables the external financing constraints that impede

SMEs expansion to be reduced, in so doing creates an environment for SMEs' success or growth. Furthermore Levine (2004) believes that the most important role of the financial sector in facilitating growth is to reduce information, enforcement, and transaction costs. This is achieved through a number of specific functions that the financial sector performs, therefore he identified five key functions that a financial system provides in facilitating growth such as mobilizing and pooling savings, producing information ex ante about possible investments and allocating capital, monitoring investments and exerting corporate governance, facilitating the trading, diversification and management of risks and facilitating the exchange of goods and services. Through these functions, financial sector development facilitates economic growth not only by promoting private sector or SMEs development, but also by supporting the public sector to invest in infrastructure and by enabling households to invest in human capital and benefit from consumption (Claessens and Feijen, 2006).

2.1.2 Categorization of SMEs Development in Tanzania

As postulated in the World Bank report (2002) that there is no and universally accepted single definition of SMEs in the world. Every country defined SMEs differently depending upon their purpose, objective and use. In the context of Tanzania SMEs policy of the 2003 provides that micro enterprises are those engaging up to 4 people in most cases family members or employing capital amounting up to Tshs 5 million. The majority of micro enterprises fall under the informal sector (URT, 2003). Small enterprises are mostly formalized undertaking engaging between 5 to 49 employees with capital investments from Tshs 5 million to Tshs 200 million. Medium enterprises employ between 50 to 99 people or use capital investments from Tshs 200 million to Tshs 800 million.

Table 2.1: The Category of SME Development in Tanzania

Category	Employees	Capital Investment
Micro Enterprises	1—4	Up to 5million
Small Enterprises	5—49	Above 5mill to 200million
Medium Enterprises	50—99	200million to 800million
Large Enterprises	More than 100	More than 800million

Source: URT (2003) Small and Medium Development Policy.

2.1.3 SME growth and development in Tanzania

The International Finance Company (IFC, 2005) of the World Bank estimates that there are approximately 2.7 million enterprises in the country. A large majority of these (98%) are micro enterprises (employing less than 5 people). Though data on the SME sector are rather sketchy and unreliable, it is reflected already in the above data that SME sector plays a crucial role in the economy. Since SMEs tend to be labour intensive, they create employment at relatively low levels of investment per job created. SMEs all over the world are known to play a major role in social economy development. This is apparently the case of Tanzania, where SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas. It is estimated that about a third of the GDP in Tanzania originates from the Small and Medium Enterprises sector. At present, unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 700,000 new entrants into the labor force every year.

SMEs Development Policy (2002) focuses specifically on designing programs, reducing the cost of running SME sector, strengthening SME infrastructure and enhancing the growth of SMEs through enabling entrepreneurs to access finance from banks and financial institutions. From this reason in recent years, the country has witnessed the inclination of Commercial banks, Non-Governmental Organizations and other financial institutions that are doing a commendable job in promoting SMEs. Most of the financial institutions and NGOs are mainly involved in credit delivery, business training, providing general consultancy, supporting market linkages and addressing gender and environmental issues. However, most of the institutions supporting SMEs are rather weak, fragmented, concentrated in urban areas and uncoordinated (URT, 2002).

2.1.4 The National Microfinance Policy, 2000

The National Micro Finance Policy was introduced in with the main objectives of establishing a basis for the evolution of an efficient and effective micro financial system in the country, which serves the low-income segment of the society, and

thereby contributes to economic growth and reduction of poverty. The policy focuses at the provision of financial services to households, small holder farmers, and small and micro-enterprises in rural as well as in the urban sector. It covers range of financial services, including savings, credit and payment (URT, 2000). All this aimed at making banks and financial institutions become a useful instrument towards poverty reduction. As a result of this policy, many banks and other financial institutions have introduced various packages of credits and deposits. Micro-finance addresses the financial needs of major sector of Tanzanian population through the operation of microfinance in form of SACCOS which made under the Cooperative Societies Act, 2003 which became operational in February, 2004. In which primary activities are to mobilize savings and furnish secured and unsecured loans or credit to households, smallholder producers and market entrepreneurs, micro-enterprises in rural and urban areas (Cooperative Societies Act 2003 section 22b)

2.1.5 Contribution of Microfinance institutions on social development

The idea of microfinance programs in organising group loans is that, each member of a group is responsible for repayments and it is widely assumed that groups will benefit women borrowers socially. The group lending system is intended to provide women a chance to meet, make repayments, and discuss and exchange various social development issues such as health, nutrition, education, and business issues. Analysts suggest that both the loans and the social aspects of credit programs contribute to womes's empowerment (Kabeer, 2001). The weekly meetings at which loans are rapid and saving deposited provide a genuine reason for women to leave their households and associate both with one another and with organization's staff members. The regular contact with program staff and other member during repayment meetings exposes women to increases their self-confidence (Kabeer, 2001).

Decision making is considered one of the most important factors in regard to women's empowerment. Such areas include when women are making key decision within the household, business matters, and in the community. Decision making at the household level has a significant impact on the enterprise management and

whoever makes important decision regarding the business can probably be considered to have control in running the business (Kibas, 2001). First indicator to determine women's empowerment is when she can make family decisions. The majority of women empowerment in Uasin Gishu District in Kenya indicated they were making decisions and decisions making had improved during the loans period (Kibas, 2001). The degree and context of decision making differs from one society to another. In some cases there are limitations on decision making levels. For example, women are able to make decisions on daily and small purchases such as groceries and personal items. But for major decisions, for example, the purchase of fixed assets or land, women have to consult their husbands (Kibas, 2001).

2.1.6 The role of financial institutions in financing SMEs

According to Banking and Financial Institutions (BFI) Act 1991 commercial banks have established microfinance oriented products. In Tanzania the main commercial banks serving SMEs include Akiba Commercial Bank, Tanzania Postal Bank, CRDB Bank and National Micro Finance Bank (Satta, 2002). These banks have the most explicit orientation towards micro finance. They have well defined strategies to expand their operations in this market (Randhawa and Gallardo J, 2003). It is obvious that these banks do not use the famous commercial lending models like the credit scoring models neither do they use the micro finance models like the Grameen models. They have their own perspective of serving this segment.

Commercial banks are seen to be very important for serving this segment because they have a wide branch network that can reach most micro enterprises. They also operate accounts, which make it possible to monitor their clients closely. Although there are limitations that commercial banks encountered for example; most of them are located in urban areas thus making it difficult to provide services to those enterprises located in rural areas. Other limitations of commercial bank lending to the SME sector in Tanzania are the lack of appropriate savings instruments to mobilize savings within the SMEs and the restrictions on withdrawals, which discourages savers who would like frequent access to their savings. Their location

away from many enterprises also implies high transaction costs (National Microfinance Policy, 2000).

Promotion of Rural Initiative and Development Enterprises (PRIDE Tanzania) is one of the largest financial Non-Governmental Organization in Tanzania since it was founded in 1994 with a dedication to microfinance as part of a nationwide initiative for poverty reduction. PRIDE Tanzania has been pursuing its objective of assisting micro entrepreneurs by providing loans and technical skills. PRIDE provides urban and rural micro credit schemes aimed at the provision of a meaningful assistance to the small and medium enterprises sector. These loans attract an interest rate of about 24 - 30% annually and the amount-disbursed range from 200,000 to 15,000,000 Tanzanian shillings, PRIDE is non-governmental organization (NGO) working under the Ministry of Finance. Due to liberalization and privatization era of World's economy, number of private financial services has increased but still the service is inadequate in rural areas.

2.1.7 The impact of microfinance institutions on poverty reduction

MFI schemes were initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards, offering financing to the poor, women's empowerment, and the development of the business sector as a means of achieving high standards and reducing market failure (Okibo and Makanga, 2014). Empirical evidences and surveys give mixed results on the performance of MFIs. In some cases debacle stories have been reported, yet there have been success stories. In other cases the reasons for failures or successes have not been well documented (Okibo and Makanga, 2014). Linking MFIs with other interventions such as poverty alleviation often complicates the functioning of MFIs by pushing them to areas not considered sustainable. This implies that there is a conflict in measuring financial performance and poverty alleviation. Most of sustainability indicators focus on the MFI as a profitable institution (loan repayment, profitability and degree of subsidization). Thus for an MFI to meet the microfinance best practices, as given by Consultative Group to Assist the Poorest (CGAP), and be financially sustainable, it has to regard itself as a business venture. As a

consequence of this and especially in the rural areas, very few people qualify for a business loan (Okibo and Makanga, 2014).

In addition, Manandhar and Pradhan (2005) state that microfinance is an effective development tool for poverty reduction since the financial services enable the poor and low income households to take advantage of the economic opportunities to increase their living standards through self-employment. They further note that it is now accepted that the poor do not have much money, so low income households need financial support. The importance of microfinance particularly in the countries perceived to be poverty stricken has been increasing in recent times which have led to policy makers of many countries to adopt national micro-finance policies and program (Manandhar & Pradhan, 2005). The increasing number of microfinance practitioners around the globe is an indication that microfinance sector can play an important role not only to help attain the government's policies on poverty reduction.

2.1.8 Challenges of Microfinance institutions on poverty reduction

According to Muhammad (2010), focus on the challenges and opportunities face microfinance sector in Pakistan, his study resulted that numerous challenges are ahead of microfinance sector like improper regulations, increasing competition, innovative and diversified products, profitability, stability, limited management capacity of micro finance institutions (MFIs). Dahir (2015) in his study on the challenges facing microfinance institutions in poverty eradication in Mogadishu, he found that the major challenges that face microfinance institutions range from default risk inherited from borrowers and lack of understanding the concept of microfinance by the clients to inadequate donor funding where the microfinance institutions do not have enough adequate capital from donor to meet the needs of the microfinance beneficiaries in order to help those who need assistance of the microfinance. On the other hand, the challenges facing microfinance institutions include insufficient support from government. Other challenges include insufficient support from government, limited management capacity of microfinance

institutions, less attraction on financial sustainability of MFIs and lack of adequate loan or equity capital to increase loan-able funds.

2.2 Theories underlying the study

In this study economic modernity theory and cultural modernity theory are used to show the relationship between microfinance institutions and poverty reduction.

2.2.1 Economic Modernity Theory

Focusing on economic development, the classical modernization perspective considers increases in democracy and human choice as a direct outcome of economic development (Hulme and Mosley, 2000). In relation to gender equality, this approach holds that economic development is central to increasing the pool of women eligible for positions of social power. Hulme and Mosley (2000) established that increased economic development associates with a more broad based distribution of educational and occupational resources. Greater access to educational and occupational resources increases women chances of professional development, creating a larger pool of women eligible for power positions such as political offices.

Rankin and Katherine (2002) noted that higher levels of economic development bring more social services to societies. Through their alleviation of the costs in labor and time of everyday responsibilities associated with care giving (e.g., child-rearing, domestic work), increases in these services free up time for social pursuits in women's lives. Several studies confirm these hypotheses, demonstrating that developmental measures such as countries' levels of non-agricultural development, per capita gross domestic product, women in the workforce and women college graduates positively influence the percentage of women in their parliaments (Cheston et al, 2002).

2.2.2 Cultural Modernity Theory

A more recent theory emphasizes the conversion of economic development into a cultural process of human development that gives rise to an emancipative worldview, reflected in self-expression values that emphasize human choice and

autonomy, including the choices and autonomy of women (TGNP, 2000). This rise in emancipative orientations develops mass expectations targeted at making elites responsive and inclusive. In this way, rising emancipative values lead to increases in women empowerment throughout the society (Montgomery et al, 2001) and in parliament.

At its core, human development perspective links social modernization to emancipative values through changes in constraints. The theory highlights changes in modern societies particularly conducive to women empowerment and therefore establishes a link between cultural modernity and publics that value greater equality between genders. Ultimately, Montgomery et al, (2001) ties the modern human resources crucial to the human development sequence to economic development. But in this view the effect of economic development is more indirect.

2.3 Social Development

Social development is about putting people at the centre of development. This means a commitment that development processes need to benefit people, particularly but not only the poor, but also a recognition that people, and the way they interact in groups and society, and the norms that facilitates such interaction, shape development processes (Davis, 2004). While the role of formal institutions and policies has become central to the development debate, the role of informal social institutions has received less attention. Debates on growth and poverty reduction have paid relatively little attention to the impact of microfinance; for example, norms of cooperation in villages and neighborhoods, community oversight in the management of projects, or non-discrimination against women and minorities in education and health (Davis, 2004). Of course, micro-studies invariably highlight their importance, but can we measure such informal social institutions?

What exactly are these social institutions? We understand these as the behaviors, norms and conventions that pattern human interaction. Participation in local organizations, demonstrations, petitions, and elections are examples of such behaviors. Norms and conventions, often unwritten, govern human interaction, and

are lived relations between people. Norms of non-discrimination against groups based on ethnicity, language, or gender are examples of social institutions, as are norms of criminal behavior and about civic activism (Davis, 2004). Social development thus implies the change in social institutions. Progress toward an inclusive society, for example, implies that individuals treat each other (more) fairly in their daily lives, whether in the family, workplace, or in public office. Social cohesion is enhanced when peaceful and safe environment within neighborhoods and communities are created. Social accountability exists to the extent that citizens' voices are expressed, and heard by the authorities. Formal institutional reform – for example, the provision of legally enshrined rights, better law enforcement, or more participatory governance – are part of the process by which institutional change is achieved, changing the way people relate to people is an equally important part of this (Davis, 2004).

The indices of social development focus on measuring the informal social institutions, how they compare across countries, and how these changes over time. It does this by using existing databases, around the world, and combining these to find the best possible match with the definition of social development (Davis, 2004). Apart from that, the term social development is comprised of two words which are “social” and “development” both of which inform the way it has been defined. The term social used by sociologists and other social scientists to refer as human interactions and the complex phenomena that arise from these interactions, such as a large number of groups and associations including the family, neighborhood associations, formal organizations, communities and even societies. These interactions also give rise to social networks, values, cultures and institutions. The term also has a welfare connotation which alludes to people's well-being and collective efforts to improve social conditions. Both meanings of the term have influenced the way the concept of social development has been used (Midgley, 2013).

The community, project based approach to defining social development has been augmented by the community participation approach (Choudry et al., 2012;

Cornwall, 2011), which contends that meaningful social change can only be achieved when the social structures that perpetuate poverty, inequality and oppression are challenged by ordinary people and ultimately dismantled. This definition prioritizes activism, especially at the local level, and concepts such as concentration, 'empowerment' and 'transformative social change' are widely used to challenge those who use their wealth and power to oppress women, ethnic minorities and the poor. Grassroots community activism is augmented by social action at the national level and large organizations, such as the Self Employed Women's Association (SEWA) in India (Chen, 2008) and the Industrial Areas Foundation in the United States (Chambers, 2003), are often cited as an example of this approach. Although many non-governmental and faith-based organizations involved in social development are not overtly committed to activism, they are often commended for offering an alternative to government intervention which is widely regarded as bureaucratic and 'top-down'. Cooperatives are another example of how people can engage collaboratively in economic activities. Popular social movements that campaign for progressive social change also make a major contribution. Although these movements are characterized by a high degree of spontaneity that reflects the anger and desperation of oppressed people, Smith (2008) points out that their energies are often harnessed by organizations that mobilize popular support, lobby and use a variety of activist tactics to affect change. As Wilson and Whitmore (2000) report with reference to Latin America, social movements have played a major role in promoting social development in the region. Indeed, their definition equates social development with the activities of popular movements and activist groups.

A contrasting approach to definition focuses on the role of governments. This approach defines social development as a process by which improvements in social well-being are brought about through social planning, a variety of legislative mandates, subsidies, redistributive fiscal policies and the activities of social sectoral ministries responsible for education, health, housing and social services. It draws on the idea that democratic governments committed to improving the welfare of their

citizens can utilize scientific knowledge and the expertise of technocrats to achieve this goal (Midgley, 2013).

Although often criticized for being bureaucratic and top-down, governments have also sponsored community social development program and projects that have, to varying degrees, promoted people's participation in development. It was noted earlier that the first community development program, which were established in the 1950s, combined government resources and expertise with local involvement to create community centers, clinics, feeder roads, schools, water supplies and other projects. At this time, the theoretical principles of 'self-determination' and 'self-help' were articulated to provide a normative basis for community development and, although they proved difficult to implement, have continued to shape community development practice. A major problem was the bureaucratization of community development and its expropriation by party officials and local elites who often redirected community development resources to serve their own interests. With the subsequent involvement of grassroots organizations and non-governmental organizations, these problems have to some extent been mitigated (Midgley, 2013).

2.4 Poverty reduction

Poverty is defined by several authors as it is the situation of having not enough money to meet the basic needs of human beings (Hulme and Paul, 1997). Poverty is defined to include income and non-income human development attributes (PRSP, 2000). Therefore, poverty reduction is a term that describes the promotion of economic growth that will permanently lift as many people as possible over a poverty line. The process of increasing human development attributes is therefore defined as poverty reduction. According to "Attacking Poverty" report of the World Bank in 2001, it suggested some of the basic sources of the poor's deprivations, particularly in the notions of "vulnerability" and institutional "ill treatment." Aside from those "deprivations that keep them from leading the kind of life that everyone values," poor people "also face extreme vulnerability to ill health, economic dislocation, and natural disasters. And they are often exposed to ill treatment by

institutions of the state and society and are powerless to influence key decisions affecting their lives (WB, 2001).

Contemporary concepts, including official ones, view poverty as a multi-dimensional, complex condition with various causes and correlates, raising difficult theoretical and policy issues. Poverty is "over-determined", with many possible explanatory causes and symptoms which are not easy to tell apart, and, where the distinction is possible, their relative priority in public policy is often debatable. Such difficulties, however, have not fazed theorists. According to the World Bank's World Development Report 2000/2001, the causes of poverty are implied in the "dimensions highlighted by poor people," such as lack of income and assets to meet basic necessities, sense of voiceless and powerlessness and vulnerability to adverse shocks, linked to inability to cope with them (WB, 2001). Experience in the 1990s, the Report notes, showed that economic growth improves the poor's income, and that their expanded capabilities remain central, instrumentally and intrinsically, in poverty reduction strategies. But new evidence also revealed the importance of institutional constraints on reforms, vulnerability factors, and global forces of integration, as well as the renewed cogency of gender, ethnic, and racial inequalities (WB, 2001).

As another departure from income, the World Bank Report takes the economic concept of "assets" as a starting point in understanding the determinants of poverty that is people's assets which include human assets (capacity for basic labor, skills, and good health), natural assets (land), physical assets (access to infrastructure), Financial (savings and access to credit) and social assets (networks of contacts and reciprocal obligations that can be called on in time of need, and political influence over resources) .

The returns to these assets depend not only on access to markets but also on the institutions of state and society, including those that define and enforce property rights and norms about common resources; on prevailing patterns of gender, ethnic, racial or social discrimination; and on public policy and state interventions "which are shaped by the political influence of different groups" (WB, 2001).

From the foregoing, it seems that poverty may be explained in terms of various kinds of factors, including economic, social, political, and natural factors. Some of these may be categorized as institutional factors. Poverty also has geographic, technological, and cultural dimensions and variables. As suggested by the multi-dimensionality of poverty, these various factors often work together to "cause" or "determine" poverty or affluence. But theorists may emphasize some factors as more determinative than others, raising issues that have animated policy controversies over the past two centuries or so, up to the present time.

2.5 Microfinance clients' education level

It can be assumed that when other factors are held constant, education plays a major role in strengthening human capabilities which as a result has a positive impact in poverty alleviation. In the study, we examined at what extent the MFI's have supported people to have access to formal education. Some previous studies for example (Tundui, 2012; and Putnam, 1994), argued that formal education equips people with knowledge and skills which help them effectively to manage their lives and come out from poverty.

2.6 Empirical literature review

2.6.1 Experience in Africa

Irobi (2008) investigated microfinance and poverty alleviation in Nigeria, the study employed questionnaire in data collection and found that microfinance intervention has a positive impact on alleviation of poverty among the women of this association. Interestingly, this study found that most women in this association experienced increased income and therefore, improved their economic status, political and social conditions after receiving the loans. While James (2005), examined impact of microfinance on poverty alleviation in Nigeria: The paper used chi-square test, F-test and T-test. The findings revealed that there is a significant difference between those people who used microfinance institutions and those who do not use them. There is a significant effect of microfinance institutions in alleviating poverty by increasing income and changing economic status of those who patronize them. Their

study concludes that microfinance institution is indeed a potent strategy of poverty reduction and a viable tool for providing credit to the poor.

In the contrast, according to Provident & Zacharia (2008), investigated critical look at the role of microfinance banks in poverty reduction in Tanzania, the study based on questionnaires, semi structured interviews, observations and documentary reviews. The main findings of their study showed that majority of the poor do not access microfinance services loans because they lack guarantors, assets, businesses, salaried employment, savings account in banks, ability to make pre-loan weekly deposit on Special Savings Account which are required as collaterals.

According to Muhammad (2010), focus on the challenges and opportunities face microfinance sector in Pakistan, his study resulted that numerous challenges are ahead of microfinance sector like improper regulations, increasing competition, innovative and diversified products, profitability, stability, limited management capacity of micro finance institutions (MFIs) etc. On the other hand, the rapid increase in poverty in Pakistan, along with other opportunities, is paving way for the growth of this sector and offering a huge market potential for microfinance. On this basis the sector presents a lot of opportunities such as: stimulating growth of economy, women empowerment, increasing volume, accessibility and outreach, economics of scope.

2.6.2 Experience in Tanzania

In 1991 the Government initiated financial sector reforms in order to create an effective and efficient financial system according to the former governor of the Bank of Tanzania (Rutihinda, 1993). The principal elements of the financial sector reform included liberalization of interest rates, elimination of administrative credit and foreign exchange allocation, strengthening of the BOT's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing entry of private banks both local and foreign.

Despite of the proliferation of banking institutions and the wide range of banking products and services, it seems very little attention has been paid to help SMEs'

capital enhancement and growth (BOT, (2006). However the evidence showed the formal financial institutions find it difficult to deal with SMEs because of the lack of collateral, high incidence of defaults and high transactions costs associated with issuing of small credits (Kashuliza et al., 1998). Due to this, small businesses face a daunting obstacle whereby only few have access to regulated banks, savings and loan associations, investment funds. The level of provision of financial services to the small business sector and other sectors largely depends on the state of the financial system. Existing evidence suggests that despite the financial sector in Tanzania undergoing various development phases, growing small businesses are still constrained in terms of credit accessibility (Satta, 2002).

However, information asymmetries associated with lending to small scale borrowers have still restricted SMEs to access financial loans. For creating conducive business environment, the Government of the United Republic of Tanzania took initiatives to restructure major banks and financial institutions in 1996, which included the restructuring and downsizing the National Bank of Commerce and the recapitalization of the Cooperative and Rural Development Bank through selling of shares to the general public as well as introduction of new local and foreign banks in which competition has been enhanced, resulting into improvement of quality and quantity of financial services they are offering.

The government has also established the National Microfinance Policy of 2000, the Cooperative Societies Act of 2003 and its regulations of 2004 and the National Economic Empowerment Policy and ACT of 2004. All these initiatives were meant to accelerate economic growth and assist the private sector to become key player in nurturing the entrepreneurship and enterprise development.

Kuzilwa (2005) combining case studies with a sample survey of businesses that gained access to credit from Tanzanian government financial sources. A substantially increased output is observed following access to credit. The findings reveal that the enterprises whose owners received business training and extension advice perform better than those that did not. The study further shows that many of the problems faced by the entrepreneurs are not related to capital, but rather arise as

a result of macroeconomic and institutional constraints. Studies like one by Wangwe (1999), Lund et al. (2005), and Kimuyu (2002) have investigated the role of the institutions in promoting SMEs, but do not explain why the institutional framework for the promotion of SMEs is poorly integrated or what constraints the SMEs support institutions themselves face. The quality of the institutional framework depends on the capacity of the players within it. It turns out therefore to be important to conduct a critical assessment of the capacity of the existing SMEs support institutions so as to understand the factors underlying the dismal performance of the institutional framework for SMEs development. Though the study focuses on the assessment of the MFIs framework.

2.7 Research gap

This study was conducted to assess the contribution of microfinance institution on poverty reduction when intervened by clients' education level and entrepreneurship skills in Tanzania using the case study of Kinondoni Municipal. Despite the fact that similar studies have been conducted globally as well as Tanzanian context, there is a need to continue studying the concept of microfinance in relation to poverty reduction especially when subjected with other factors such as education level and entrepreneurship skills since microfinance has become an increasingly common method for alleviating poverty. As far as this study is concerned, education level of microfinance clients has an impact on the relationship between microfinance and poverty. The study by Kuzilwa (2002) revealed that enterprises whose owners received business training and advice performed better than those who did not receive training. Apart from that, entrepreneurship skills are also assumed to be attributes of clients' performance on the usage of microfinance products hence bringing out impact on poverty reduction. Conclusively, Liheta and Mosha (2014) revealed that, the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives, or a strong organizational structure as a result a there is a clear need for understanding of the MFIs impact on poverty reduction when intervened by clients' education level and entrepreneurship skills.

2.8 Research variables and measurement

Kothari (2004) defined a variable as a concept which can take on different quantitative value. Variables of this study include dependent variable, independent variable and intervening variable. Msabila and Nalaila (2013) defined measurement as the process of observing and recording the observations that are as part of a research effort. The section that follows provide description of the study variables and their measurement.

2.8.1 Independent Variable

If one variable depends upon or is a consequence of the other variable, it is termed as a dependent variable(Kathari, 2004). That is to say, when the independent variable is present the dependent variable is also present, and with each unit of increase in the independent variable, there is an increase or decrease in the dependent variable too. Independent variables are the predictors of an outcome. This study contains microfinance as an independent variable composed of loans, savings services and policies governing the operations of MFIs. This variable was measured by amounts of loans provided by MFIs, savings made by clients and business development services like business advices.

2.8.2 Dependent Variables

Msabila and Nalaila (2013) defined dependent variable as the variable that is being measured throughout the experiment or the variable which appear or disappear or vary as a result of the variations in the independent variables. The researcher's goal is to understand and describe the dependent variable, or to explain its variability, or predict it. In this study, therefore the dependent variable is poverty reduction. It can be measured through increase income, ability to start business venture, ability of making savings, improved living standard which provides access to food services, health services, clothing and shelter.

2.8.3 Intervening Variable

The intervening variable is the one that has a contingent effect on the independent and dependent variables relationship. That is, the presence of an intervening variable modifies the original relationship between independent and the dependent variables. According to this model the intervening variables are clients' education level and entrepreneurship skills. Education level under this discussion is the formal education and entrepreneurship skills involve creativity, innovation, risk taking etc. It has put in an assumption that if microfinance loan are offered to educated clients with entrepreneurship skill it will lead positive impact on poverty reduction. And if these microfinance loans are provided to clients who are not educated may significantly lead to positive result but with lesser extent to that of the educated clients.

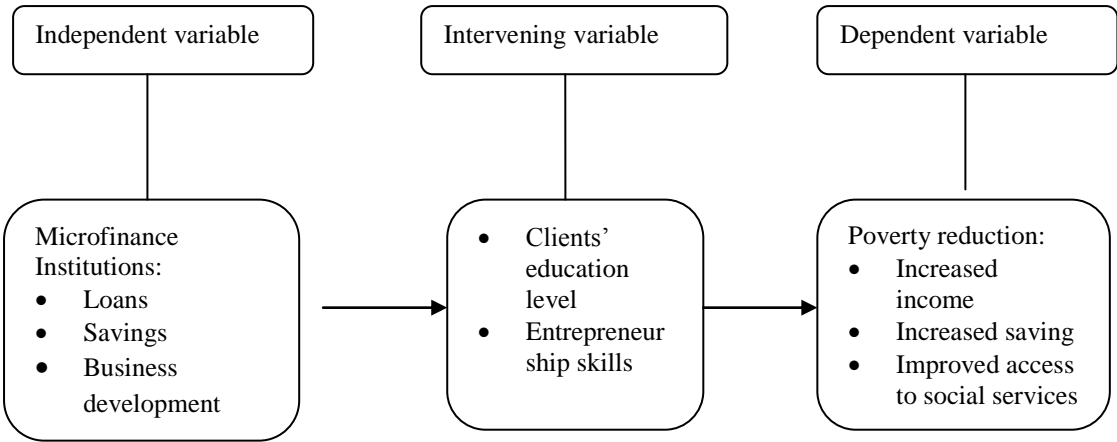
2.9 Conceptual framework

Kombo and Tromp (2006) defined a conceptual framework as a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. From the discussion provided above, Microfinance will be used as an independent variable and poverty reduction as a dependent variable. When Microfinance services increases, then poverty level/status decrease therefore poverty reduction depends on microcredit where by the effect may change when intervened with education level and entrepreneurship skills. The researcher developed a conceptual model which guided the study as shown in the figure 2.1.

2.9.1 Conceptual model

Conceptual model is a physical object with composition of concepts or variables used to help people to understand the subject the model represents. In order to uncover the contribution of microfinance institutions on poverty reduction, the study shows key variables which are presented by the model below which are independent variables and dependent variables which are intervened by intervening variable.

Figure 2.1: Conceptual Model



Source: Researchers' model (2015)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter gives an overview of the research methodology used in this study. The chapter describes the study area and research design adopted and the population. It then gives a detailed description of the sample and the sampling procedure used in this study and closes with types of data, techniques used in data collection and the methods of data analysis.

3.1 Study Area

The study was conducted in Dar es Salaam region. Dar es Salaam Region is one of Tanzania's 30 administrative regions. The regional capital is the city of Dar es Salaam. According to the 2012 national census, the region had a population of 4,364,541, which was much higher than the pre-census projection of 3,270,255. For 2002-2012, the region's 5.6 percent average annual population growth rate was the highest in the country. It was also the most densely populated region with 3,133 people per square kilometer. I decided to choose this area of study because it is the small area so that I can use low cost and time saved in collection of data.

3.2 Research design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data (Kothari 2004). Research design used in this type of research is case study design, these are the entrepreneurs who access reliable financial services from MFIs at Kinondoni Municipal. The case study method used in this study is a very popular form of descriptive analysis and involves a careful and complete observation of a social unit. The reason for choosing case study design is time saved and less cost where by the researcher take one single social unit for the

purpose of study, the researcher can study intensively also obtain enough information for drawing conclusion. The information collected under case study helps to construct questionnaire and conduct depth interview from the concerned universe.

3.3 Study Population

Population is a group of individual, objects or items from which samples are drawn for measurements. It refers to the entire group of persons or elements that have at least one thing in common (Kombo and Tromp 2006) .The target population in this study was 27,000 Entrepreneurs who are of all age groups, sex, education and social status. These Entrepreneurs are only those who acquire loans from various financial institutions such as SACCOS, PRIDE Africa and FINCA. So basically they are Entrepreneurs under the SMEs. These were interviewed by asking them to answer both closed and open ended questions in our semi structured questionnaire.

3.4 Sampling Techniques

Sampling techniques is a procedure a researcher uses to get people, units or other elements for a study. It is a process of selecting a number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire group (Kombo and Tromp, 2006).The researcher did not deal with the whole population, simple random sampling procedure was done to enable the researcher to control the area of the study very efficiently and to study sufficient respondents from those represent the total population.

3.4.1 Convenience sampling

This type of sampling is also known as non probability sampling where subjects are selected because of their convenient accessibility and proximity to the researcher. In this case the researcher did not consider selecting subjects that are representative of the entire population (Msabila T. 2004). The researcher decides to use convenience sampling according to the type of respondents, it is a fair way of selecting sample

because it depends on the judgment of researcher, low cost and time saved and detailed information can be obtained.

3.5 Sample size

This refers to the number of items to be selected from the universe to constitute a sample. The size of sample should neither be excessively large, nor too small. It should be optimum. An optimum sample is one which fulfills the requirements of efficiency, representativeness, reliability and flexibility (Kothari 2004). The sample for this study comprised a total of 120 entrepreneurs in Kinondoni Municipal. Convenience sampling technique was employed to select the 120 respondents. The researcher decides to use the sample of 120 respondents as it is less cost to collect the data compared to the entire population. These were approached through questionnaires.

3.6 Data Collection Techniques

The researcher collected required information in this study by using both Primary data through the use of Questionnaire and interviews also secondary data was collected through documentary review.

3.6.1 Questionnaire

Questionnaire refers to a series of questions asked to individuals to obtain statistically useful information about a given topic. When properly constructed and responsibly administered, questionnaires become a vital instrument by which statements can be made about specific groups or people or entire populations (Babbie, 2004). The researcher in this study decides to use closed-ended and open-ended questions which are well structured and written in a simple language so it makes simple to collect the detailed information also it is free from bias because the answers obtained are in respondents words, respondents have enough time to give well answers.

3.6.2 Interview

The interview method of collecting data involves presentation of oral-verbal stimuli and reply in terms of oral-verbal responses. This method can be used through personal interviews and, if possible, through telephone interviews (Kothari 2004). Data was collected through Personal interview where by the person known as interviewer asking questions face - to - face to other person known as interviewee. The method has great importance because it is less cost to get sufficient information, the primary information obtained is fresh and new, detailed information obtained at a short time so time.

3.6.3 Documentary review

Documentation is the process of collecting data from existing literature of the same study. This is easy methods as it provide clear existing information on the matter in table. Researcher use documentation method to collect data of average number of entrepreneurs who are getting loan from Micro Finance Institutions. Some of the data were collected by reviewing different articles, reports and documents related to the topic.

3.7 Types of data

3.7.1 Primary data

They are data collected by the researcher himself or herself or by research assistants from the field for the purpose of answering the research question or issue, (Adam and Kamuzora, 2008). Primary data are data that are collected afresh and for the first time, and thus happen to be original in character (Kothari, 2004).

The study used primary data which was both qualitative and quantitative. Qualitative data are those collected, analyzed, interpreted by observing what people do and say (Ngechu, 2006). Open ended questions and interview was explored focusing on gathering opinion and view on the contribution of microfinance institutions on poverty reduction. The primary data was collected through the use of oral interview and a semi-structured questionnaire which composed of both the open

ended and closed ended questions. Through the use of this questionnaire the respondents was interviewed and their responses were noted down on the questionnaire by the researcher.

3.7.2 Secondary data

Secondary data are those data which have already been collected and analyzed by someone else. They may either be published or unpublished data (Kothari, 2004). Secondary data are data obtained from literature sources or data collected by other people for some other purposes. These are data which have already appeared in other documents and probably already filtered and interpreted in some ways (Adam and Kamuzora, 2008). The researcher collected secondary data through documentation of different articles, reports related to this study.

3.8 Data Analysis and Methods

According to Kombo and Tromp 2006 defines Data analysis as the examination of what has been collected in survey and experimenting in making deduction and inferences. The study employed descriptive statistical approach type of research to explore the fact findings from selected study. The main goal of this type of research is to describe the data and characteristics about what is being studied. The idea behind this type of research is to study frequencies, averages, and other statistical calculations. Descriptive research is mainly done when a researcher gained a better understanding of a specific topic. In addition the study will assists researcher to accomplish as well as gather the relevant information from respondent. SPSS Softwire was employed to determine frequency and percentages of the respondents and finally guide researcher to draw tabulation, pie charts and histograms.

CHAPTER FOUR

PRESENTATION OF THE RESULTS AND DISCUSSION

4.0 Introduction

This chapter presents and discusses findings of the study received through data collected in the field. It gives answers to the research questions which were raised before the research was conducted. This study aimed at determining the contribution of microfinance institutions on poverty reduction, a case of Kinondoni Municipal Council. Collection of these data was done using questionnaires which was administered to respondents, questionnaire involved closed and open ended questions.

4.1 Respondents Analysis

A sample size was 120 respondents. The respondents were the entrepreneurs who are the owners of retail shops, cereal sellers, clothes sellers, chicken keepers and restaurant owners. The researcher obtained 100% response from all 120 respondents.

Table 4.1 List of respondents

Respondent	Expected Respondent(s)	Actual Respondent(s)	Percentage Response rate
Owners of retail shops	30	30	100%
Cereal sellers	20	20	100%
Clothes sellers	30	30	100%
Chicken keepers	20	20	100%
Restaurant owners	20	20	100%
Total	120	120	100%

Source: Researcher, 2015

4.2 Demographical characteristics of respondents

Basically demographical information are gender, level of education, age, marital status and type of activity dealt with in an enterprise were among data collected under the topic of personal information during the questionnaire survey.

The rationale behind this was to show the distribution of the respondents and helps the reader to understand how relevant information is collected from the sample in presenting the target population.

4.2.1 Education Level of Respondents

Education level is in most cases inversely correlated to poverty. The higher the education level the lower the poverty. Education helps individuals to escape from poverty by developing skills which they need to improve in their life as well as to generate productivity that can pull social and economic growth. Education helps men and women to be employed so that they can get income and increase standard of life.

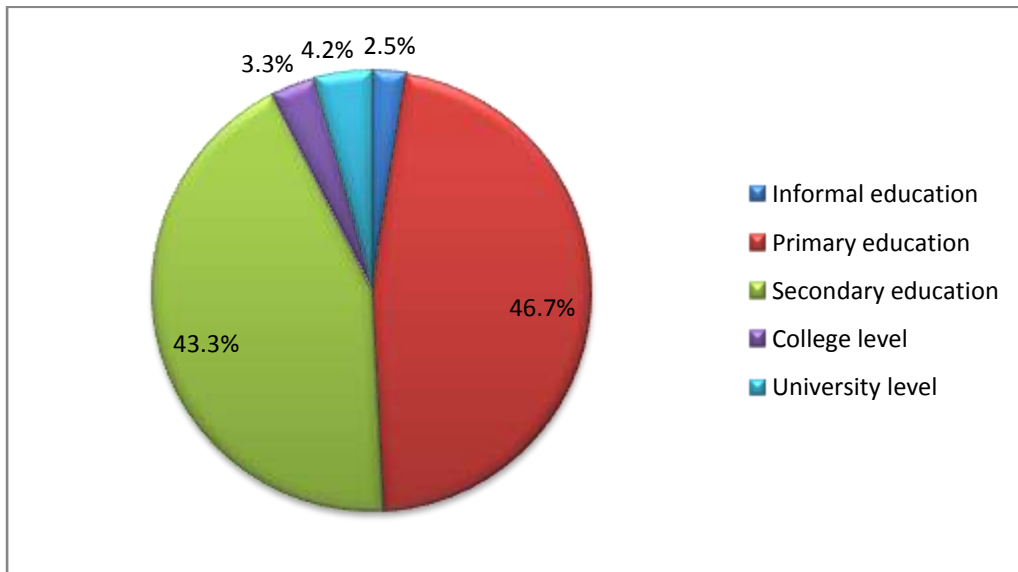
Table 4.2: Education level of Respondents

	Frequency	Percent
Valid Informal education	3	2.5
Primary education	56	46.7
Secondary education	52	43.3
College level	4	3.3
University level	5	4.2
Total	120	100.0

Source: Survey data, 2015

The study found that out of 120 respondents, 56 respondents constituting 46.7 percent of the respondents had primary education; these were followed by 52 respondents equals to 43.3 percent who had secondary education. Furthermore the results showed 4 respondents equals to 3.3 percent are in college level of the 5 respondents which constitute to 4.2 percent had University education and 3 respondents consists 2.5 percent had informal education. The above table can be presented pictorially in the figure 4.1

Figure 4.1: Education Level of Respondents



Source: Survey data, 2015

These results show us that the majority of respondents had primary education. By majoring having primary education it implies that most entrepreneurs in the study has lower education level and for that matter most of them had been in poverty for some time, therefore it was okay for them to find a way by much they could manage to make a living. It was very good that they joined microfinance institutions which were a better means for alleviating their poverty by asking loan and training assistance on how write business plan and to maintain business. These findings are similar to those by Cheston and Kuhn (2002) who found in their study that the majority of women who accrued credit from MFIs had lower education level. It is therefore recommended that entrepreneurs should find a way to improve their education level by joining evening programs, reading journal and attending on exhibitions.

4.2.2 Age of the respondents

Age of respondents is very important as far as poverty reduction is concerned. Entrepreneurs with youth age in most cases does better than those who are older and those with lower age. This is simply because youths whose age ranges from 18 to 45 years is the productive age to the society; these are more energetic to when

compared to older people in carrying entrepreneurship activities. More over young people are systematic in decision making, they can perform better and as a result reduce poverty.

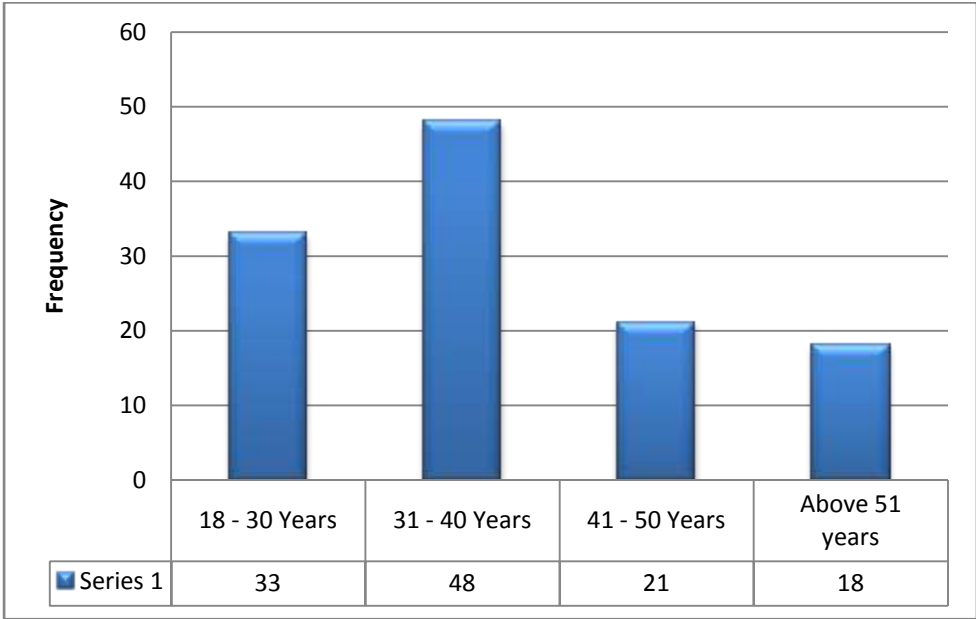
Table 4.3: Age of Respondents

		Frequency	Percent
Valid	18 to 30 Years	33	27.5
	31 to 40 Years	48	40.0
	41 to 50 Years	21	17.5
	Above 51 Years	18	15.0
	Total	120	100.0

Source: Survey data, 2015

Findings have shown that 33 respondents constituting of 27.5 percent had the age between 18 to 30 years, 48 respondents constituting of 40 percent had the age between 31 to 40 years, 21 respondents constituting of 17.5 percent had the age between 41 to 50 years and 18 respondents constituting of 15 percent had the age above 51 years. The above table can be presented pictorially in the figure 4.2

Figure 4.2: Age of Respondents



Source: Survey data, 2015

These results show that the majority of the respondents had the age between 31 to 40 years, followed by those who had the age between 18 to 30 years. All these ages falls into the group of youths. Therefore it is believed that if these entrepreneurs get loans and well training from MFI they are capable of doing well in entrepreneurship due to their age and as a results reducing poverty. Provident and Zacharia (2008) found that youths do better in entrepreneurship. It is therefore recommended that although all ages can do better in entrepreneurship yet there is a need to promote more youths to be entrepreneurs through giving loans, training and promoting entrepreneurial culture by calling upon successful entrepreneurs in order to motivate young people to consider entrepreneurship and self employment.

4.2.3: Gender of the respondents

The study consists of both men and women. When it comes to entrepreneurship women are doing better when compared to men, this starts from household level, most of women are the risk takers and they think more accurately about the resources to accomplish a given outcome, they have self confidencealso they are more aware of the implications of their own and others actions. In that manner female plays a good role in poverty reduction when compared to men.

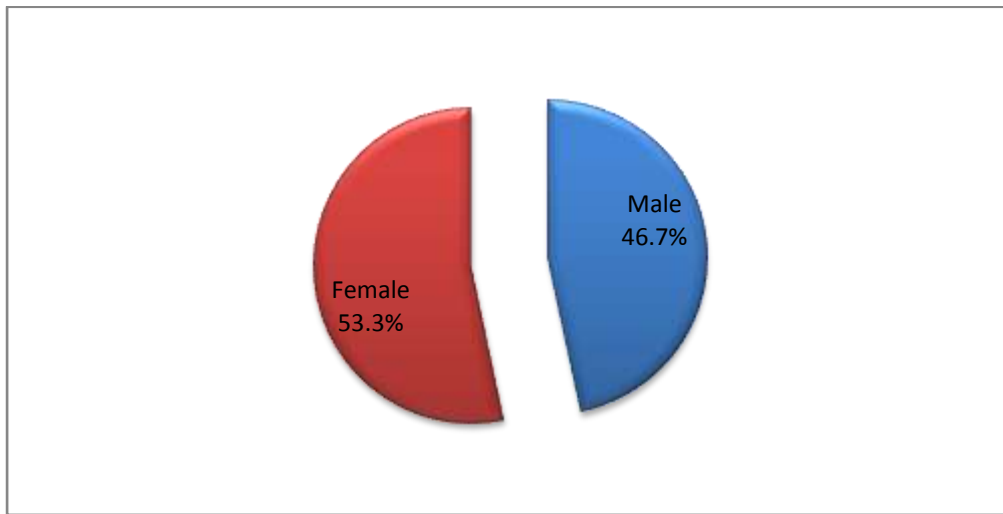
Table 4.4: Gender of Respondents

		Frequency	Percent
Valid	Female	64	53.3
	Male	56	46.7
	Total	120	100.0

Source: Survey data, 2015

Findings showed total number of respondents are 120 out of 56 respondents which constitute of that 46.7 percent of respondents were male and 64 respondents constituting of 53.3 percent of respondents were female. The majority of respondents were female. The above table can be presented pictorially in the figure 4.3

Figure 4.3: Gender of Respondents



Source: Survey data, 2015

These findings have shown that majority of our respondents are women. A good number of women were observed during data collection and most of them were engaged in restaurants dealing with provision to food and drinks to their customers. Kessy and Urio (2006) found that women engage themselves in entrepreneurship than men particularly in catering services. It is recommended that men should also be encouraged to be entrepreneurs just like women. This could also be done by having entrepreneurship studies to lower levels of education (primary and secondary schools).

4.2.4 Marital status of Respondents

In most cases it is believed that those with more responsibilities engage themselves more in entrepreneurship more than the others. Married people are assumed to have more responsibilities because in addition to relatives they have responsibilities to their children, which may include school fees, medical fees and clothes.

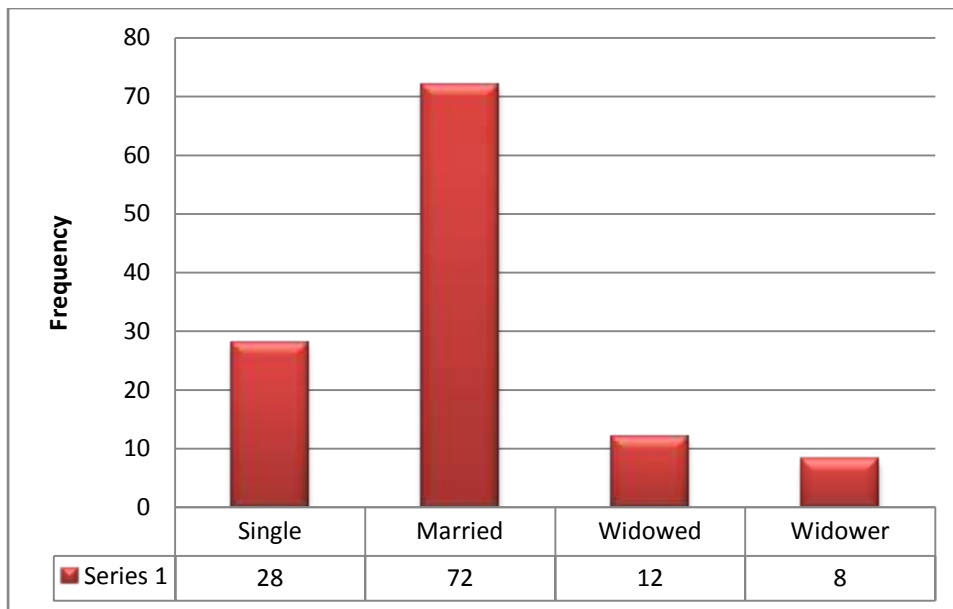
Table 4.5: Marital Status of Respondents

		Frequency	Percent
Valid	Single	28	23.3
	Married	72	60.0
	Widowed	12	10.0
	Widower	8	6.7
	Total	120	100.0

Source: Survey data, 2015

Results showed that number of respondents were 120 where by 60 percent out of 72 respondents were single, 23.3 percent out of 28 respondents were single, 10 percent out of 12 respondents were widowed and 6.7 percent out of 8 respondents widower. The above table can be presented pictorially in the figure 4.4

Figure 4.4: Marital status of respondents



Source: Survey data, 2015

These results showed that the majority of respondents were married. These findings are contrary to Hulme and Mosley (2000) who found that singles were more engaged in entrepreneurship than the rest. Actually these findings depends with the location and ethnicity, taking for example the Chaga tribe it won't be surprising to find majority of singles engaging more in entrepreneurship than married people. This is because most of them believe that they have to get better life before marriage. However the results are in accordance to reality to most societies. It is recommended that all categories of people, whether married, single or widowed to remember that poverty does not choose any of the categories and for that matter whether one is single or married he/she has the responsibility to fight against poverty. In that regard married people are more committed in reducing poverty according to their responsibilities to family matters and when compared to other people who are not married.

4.2.5 Type of activity dealt with in an enterprise

In order to reduce poverty in most cases we believe that entrepreneurs should advance to higher levels of investment which may include manufacturing, commerce and trade in order to increase income by doing so type of investment matters in reducing poverty level. However to the majority of entrepreneurs are service providers due to lack of enough capital in investing more.

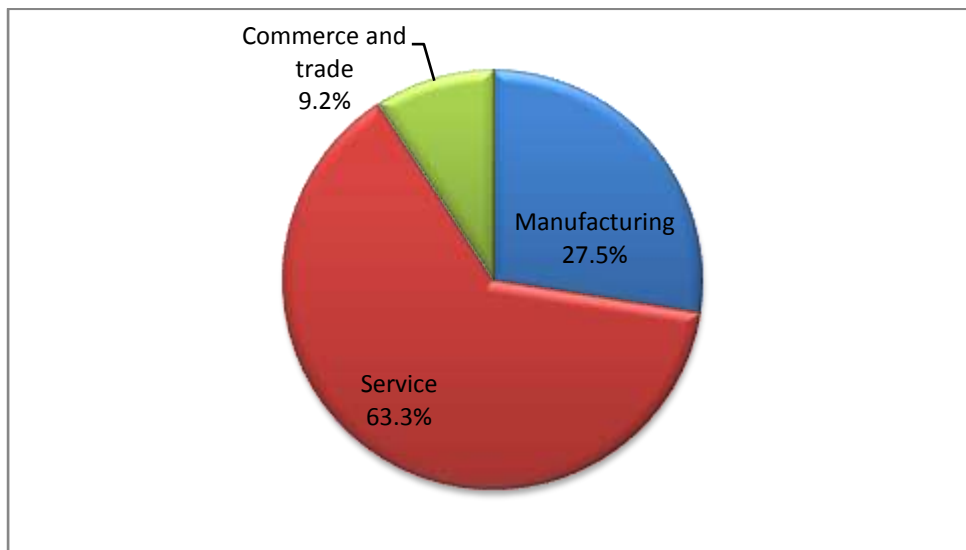
Table 4.5: Type of activity dealt with in an enterprise

		Frequency	Percent
Valid	Manufacturing	33	27.5
	Service	76	63.3
	Commerce and trade	11	9.2
	Total	120	100.0

Source: Survey data, 2015

Findings from this study showed that 63.3 percent of 63.3 respondents dealt with service delivery, 27.5 percent of 33 respondents dealt with manufacturing and 9.2 percent of 11 respondents dealt with commerce and trade. The above table can be presented pictorially in the figure 4.5

Figure 4.5: Type of activity dealt with in an enterprise



Source: Survey data, 2015

These results showed that majority of respondents dealt with service delivery. Although all entrepreneurs whether manufactures, service delivery or commerce and trade are concerned with poverty reduction yet the speed of reducing poverty is small to those dealing with service delivery when compared to those dealing with commerce and trade as well as those who are manufacturers. Findings by Morduch (2000) show similar findings that most entrepreneurs engage themselves in service delivery due to insufficient capital. It is therefore recommended that entrepreneurs could join in groups and have access to higher loans that could enable them to speed up the rate of poverty reduction.

4.3 Discussion of findings as per specific objectives

The researcher analyses the findings and discussion were made according to the specific objectives which are first the Contribution of microfinance institutions to the social development of the Entrepreneurs second Impact of microfinance institutions to poverty reduction and lastly is Challenges facing Entrepreneurs in the credit acquisition from microfinance institutions.

4.4 Contribution of microfinance institutions to the social development of the Entrepreneurs

The first objective was to assess the contribution of microfinance institutions to the social development of the Entrepreneurs. Midgley (2003) mentioned five dimensions of poverty being; income/consumption, health, education, security and empowerment. In order to answer our first research question researcher opted to use four dimensions of poverty which are health, education, basic services and social respect.

4.4.1 Current access to health services

Being one of the dimensions of poverty, access to basic health services by an individual predicts/shows his/her level on poverty

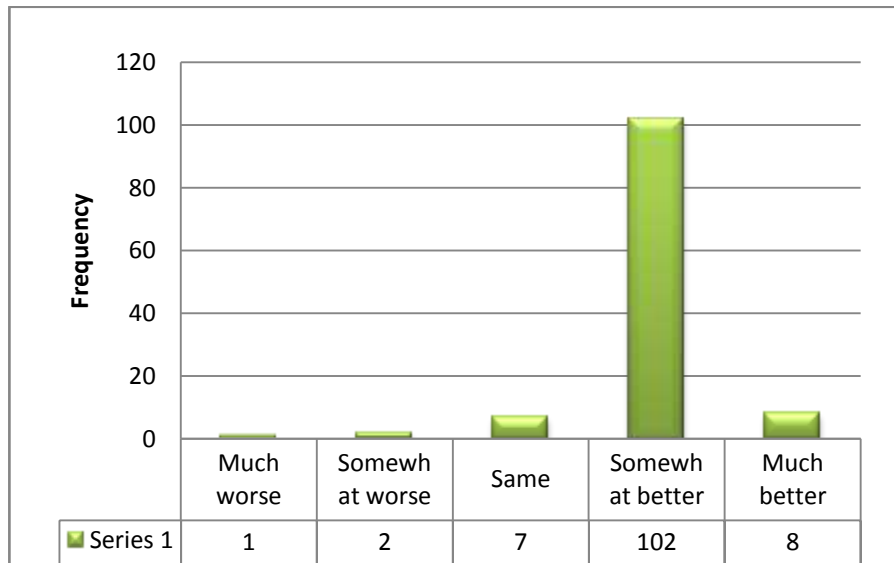
Table 4.7: Current access to health services

		Frequency	Percent
Valid	Much worse	1	0.8
	Somewhat worse	2	1.7
	Same	7	5.8
	Somewhat better	102	85.0
	Much better	8	6.7
	Total	120	100.0

Source: Survey data, 2015

Findings from the study shows that 102 respondents which constituting to 85 percent show their access to health services was somewhat better, 8 respondents which constituting to 6.7 percent show their access to health services was much better, was the same, 2 respondents which constituting to 1.7 percent show their access to health services was somewhat worse. The above table can be presented pictorially in the figure 4.6

Figure 4.6: Current access to health services



Source: Survey data, 2015

These findings show that majority of respondents had a better access to health services. Owing to findings by Midgley (2003) a better access to health services implies that there is a decrease in the rate of poverty of an individual. In that meaning it implies that contribution of microfinance institutions to the social development of entrepreneurs exists whereby through provision of loan from microfinance helps entrepreneurs to open and expand their existing business then the income increases so that they can better access health services which means that there is reduction of poverty.

4.4.2 Current access to educational services

Education is another dimension of poverty, access to educational services by an individual shows his/her level on poverty.

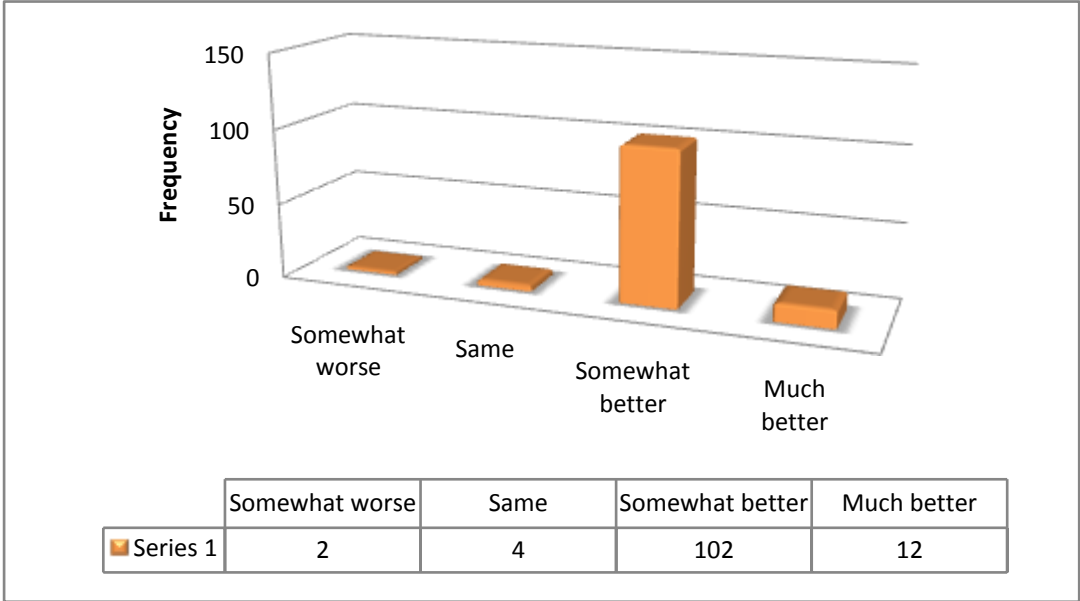
Table 4.8: Current access to educational services

	Frequency	Percent
Valid Somewhat worse	2	1.7
Same	4	3.3
Somewhat better	102	85.0
Much better	12	10.0
Total	120	100.0

Source: Survey data, 2015

Total number of respondents from study was 120. Findings show 102 respondents constituting to 85 percent access to educational services was somewhat better, 12 respondents constituting to 10 percent their access was much better, 4 respondents constituting to 3.3 percent was the same as before and 1.7 percent of 2 respondents was somewhat worse. The above table can be presented pictorially in the figure 4.7

Figure 4.7: Current access to educational services



Source: Survey data, 2015

These findings show that majority of respondents had a better access to educational services. Midgley (2003) said that we can know the poverty status of an individual by checking his access to education services. Education seeks to provide students with the knowledge and skills to encourage entrepreneurial success in various ways. This better access to educational services implies that there is a decrease in the rate of poverty of an individual whereby the income obtained from their business can be used to take their children to school also for them to go for further education. In that meaning it implies that contribution of microfinance institutions to the social development of entrepreneurs exists, meaning that poverty was reduced.

4.4.3 Current access to basic services like water, light and sewerage

Access to better basic services like water, light and sewerage determines the level of development of some individuals.

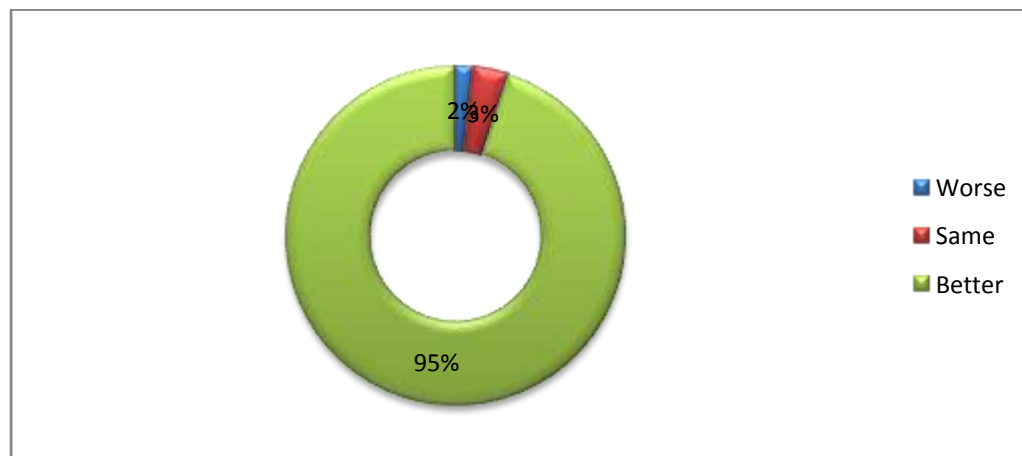
Table 4.9: Current access to basic services like water, light and sewerage

	Frequency	Percent
Valid Worse	2	1.7
Same	4	3.3
Better	114	95.0
Total	120	100.0

Source: Survey data, 2015

According to the study which has the total of 120 respondents. Findings show that 114 respondents constituting 95 percent had better access to basic services such like water, light and sewerage, 4 respondents constituting of 3.3 percent said the access to basic services remained the same and 2 respondents constituting 1.7 percent said the access to basic services is worse. The above table can be presented pictorially in the figure 4.8

Figure 4.8: Current access to basic services like water, light and sewerage



Source: Survey data, 2015

Access to better basic services like water and light is another indicator of poverty according to Midgley (2013). Being the case this implies that a better access to basic services means there is reduction in poverty. In that regard contribution of

microfinance institution on provision of loan to entrepreneur can increase in income which will be used in the access of water, sewerage, food, shelter and clothes. This meaning that social development plays a good role to poverty reduction.

4.4.4 Current social respect by the community

The last dimension used by researcher was social respect by the community. Researcher believes that increase or rather better access to social respect from the community is positively impact to poverty reduction.

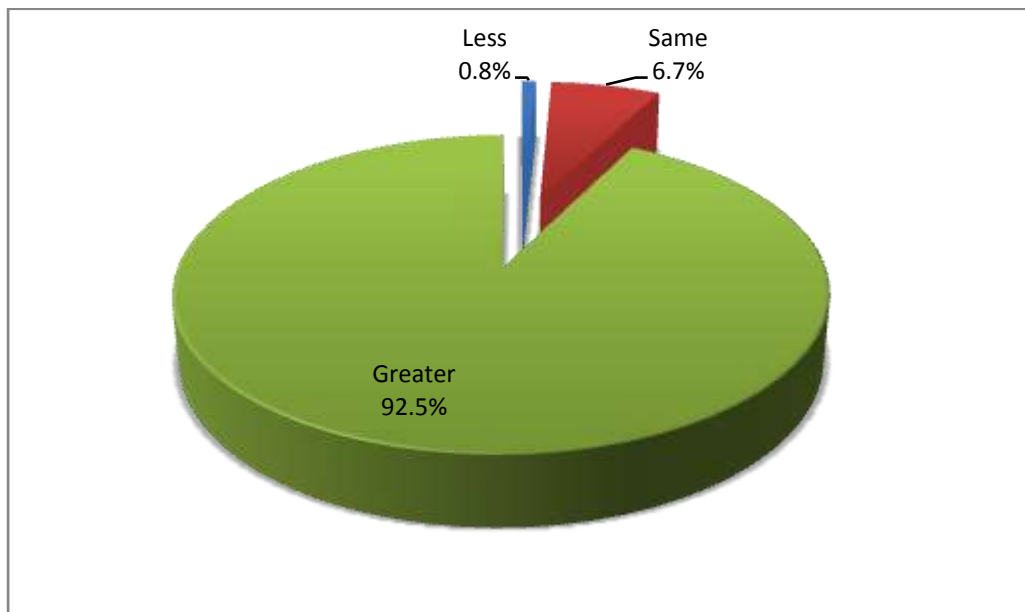
Table 4.10: Current social respect by the community

		Frequency	Percent
Valid	Less	1	0.8
	Same	8	6.7
	Greater	111	92.5
	Total	120	100.0

Source: Survey data, 2015

Findings show that 111 respondents constituting 92.5 percent of respondents had greater social respect by the community when compared to before engagement in MFIs, 8 respondents constituting 6.7 percent of respondents said that their social respect by the community remained the same and 1 respondent constituting 0.8 percent said they had less social respect. The above table can be presented pictorially in the figure 4.9

Figure 4.9: Current social respect by the community



Source: Survey data, 2015

These findings show that majority of respondents had greater social respect when compared to before accessing loans from microfinance institutions. Being another dimension of poverty (Midgley, 2013), greater social respect show that there is decrease in poverty levels. Therefore social development in that aspect of greater social respect contributes to poverty reduction.

4.5 Impact of microfinance institutions to poverty reduction

The second objective was to find the impact of microfinance institutions to poverty reduction. In order to capture this objective researcher went through the following points.

4.5.1 Rate of income increase of respondents after joining microfinance institutions in borrowing

Increase in income is also an indicator of poverty, the higher the income the lower the poverty. In that meaning income is positive impact to poverty reduction

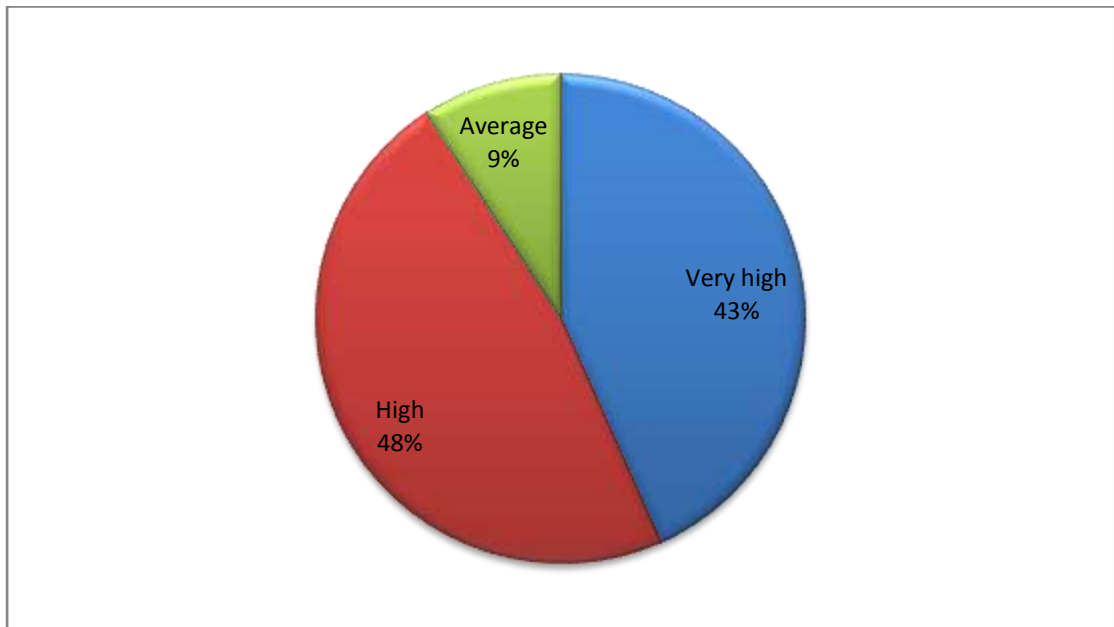
Table 4.11: Rate of increase in income before and after borrowing loans from financial institutions

		Frequency	Percent
Valid	Very high	52	43.3
	High	57	47.5
	Average	11	9.2
	Total	120	100.0

Source: Survey data, 2015

From the above data the total number of respondents were 120. Findings show that 52 respondents constituting 43.3 percent said that there was a very high increase in income, 57 respondents constituting 47.5 percent said there was high increase in income and 11 respondents constituting of 9.2 percent said income remained average. The above table can be presented pictorially in the figure 4.10

Figure 4.10: Rate of increase in income before and after borrowing loans from financial institutions



Source: Survey data, 2015

Therefore according to these results there was increase in income and savings. The increase in income reduces poverty (Davis, 2004). This study found that there was high increase in income after engaging in microfinance institutions and therefore

there was reduction in poverty levels. In that meaning there is positive impact of microfinance institutions to poverty reduction through access to better standard of living

4.5.2 Living condition before and after accessing loans

The three basic needs for a human being are shelter, clothing and food. The access to a better shelter shows the level of living standards. The better the living conditions the lower the poverty levels.

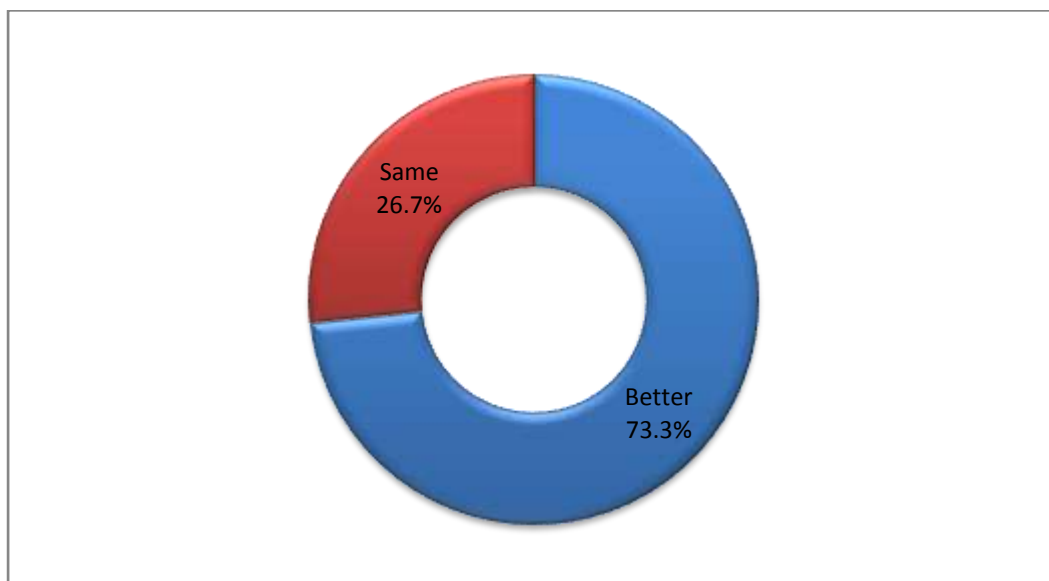
Table 4.12: Current living condition compared to before accessing loans

	Frequency	Percent
Valid Better	88	73.3
Same	32	26.7
Total	120	100.0

Source: Survey data, 2015

The findings show that 88 respondents equals to 73.3 percent of respondents said that they had a better life after accessing the loans than before and 32 respondents constituting 26.7 percent of respondents said they had the same life. The above table can be presented pictorially in the figure 4.11.

Figure 4.11: Living condition before and after accessing loans



Source: Survey data, 2015

These results showed that to the majority life was better after accessing loans than before. Davis (2004) points out that better living conditions is also an indicator that there is reduction in poverty. Better living conditions include the ability to take children to school, building good house, access to health services and improving the existing business. Therefore there is positive impact of microfinance to poverty reduction.

4.5.3 Access to basic needs after accessing loans than before

Access to basic needs such as food, clothes and shelter means that there is reduction in poverty levels of an individual. The study shows that there is positive contribution between loan provided by MFIs and access to basic needs.

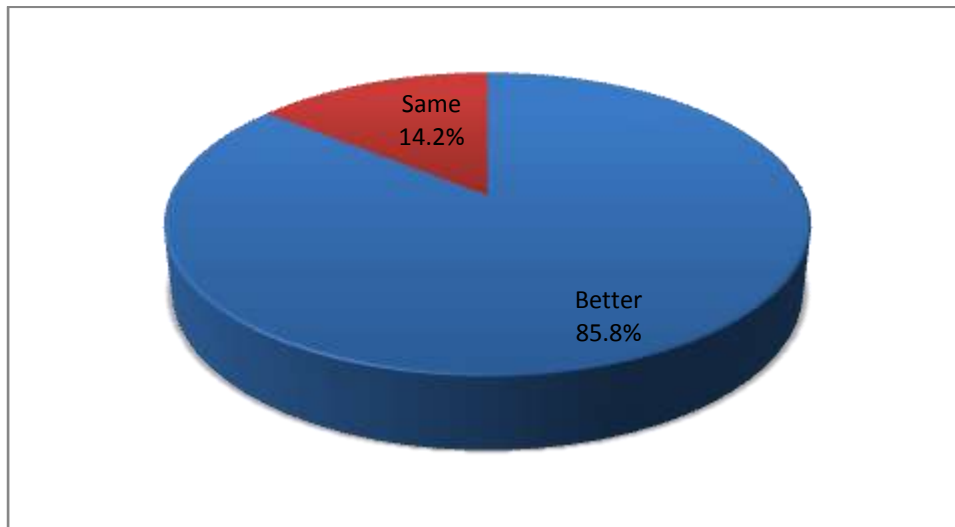
Table 4.13: Access to basic needs such as food, clothing and payment of various fees compared to before accessing loans.

		Frequency	Percent
Valid	Better	103	85.8
	Same	17	14.2
	Total	120	100.0

Source: Survey data, 2015

The study consists of 120 respondents where by the findings show that 103 respondents constituting to 85.8 percent of respondents had better access to basic needs after accessing loans from financial services than before and 17 respondents constituting 14.2 percent had the same access of basic needs. The above table can be presented pictorially in the figure 4.12

Figure 4.12: Access to basic needs after accessing loans than before



Source: Survey data, 2015

Therefore this study has found that the majority had better access to basic needs than before. These findings imply that to the majority there was reduction of poverty. These findings are similar to Midgley (2013) who found that there was better access to basic needs such as food, better house and clothes after engagement in microfinance institutions.

Having gone through the above points the researcher have seen that first there was increase in income after accessing loans; secondly there was better living conditions and the access to basic needs such as food, clothing and payment various bills was much better after accessing loans. By increasing income, having better living conditions and by being able to have better access to basic needs it is obvious that there is impact of microfinance institutions to poverty reduction.

4.6 Challenges facing Entrepreneurs in the credit acquisition from microfinance institutions

The third objective was to find out the challenges facing Entrepreneurs in the credit acquisition from microfinance institutions. In order to get these challenges researcher went through the following points.

4.6.1 Time given to repay the loan

Researcher believes that if time given to repay the loans is enough, it enables borrowers to utilize the money borrowed properly and comes up with profits. Higher profits will increase the speed in poverty reduction.

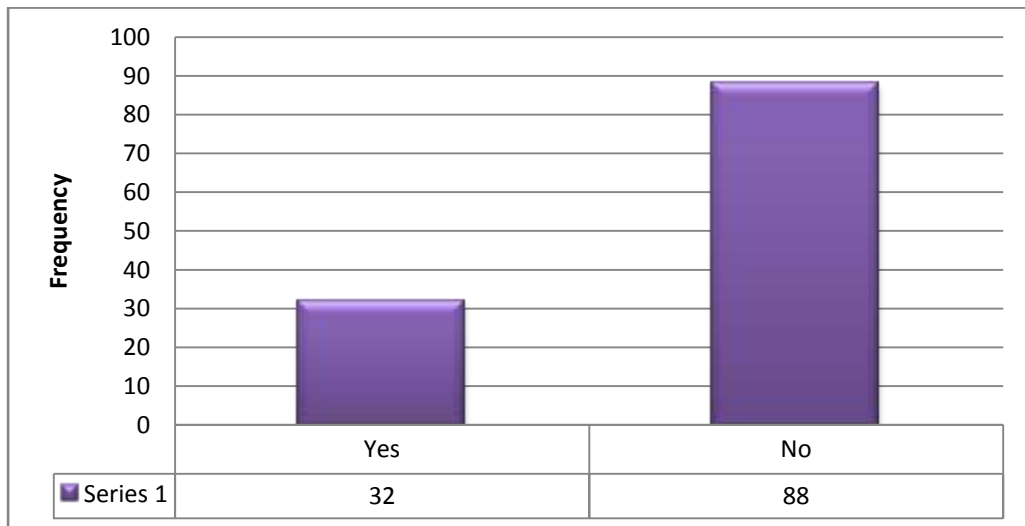
Table 4.14: Time given to repay the loan enough or not

		Frequency	Percent
Valid	Yes	32	26.7
	No	88	73.3
	Total	120	100.0

Source: Survey data, 2015

From the above table respondents were 120 people. Findings show that 88 respondents which is equal to 73.3 percent of respondents said no that the time given to repay loan is not enough and only 32 respondents equals to 26.7 percent agreed that the time given to repay loan is enough. The above table can be presented pictorially in the figure 4.13

Figure 4.13: Time given to repay the loan enough or not



Source: Survey data, 2015

Therefore to the majority time given to repay the loans is not enough. It is therefore recommended that time for repayment of loans should be increased in accordance to the agreement between borrowers and lenders. Doing this will enable more people to generate more profits and as a result a good number of people will be out of poverty in a higher rate. Dahir (2015) points out lack of understanding of the definition and concept of microfinance by clients is a challenge to MFIs. Perhaps it is because of this challenge that MFIs require their loans back in a short time so as to be borrowed by other people. All in all the study has found that shortage of time in loan repayment is a challenge.

4.6.2 Amount borrowed from banks

In this study the researcher examines if the amount provided by the Microfinance Institutions are enough for opening of new business or improving the existing one.

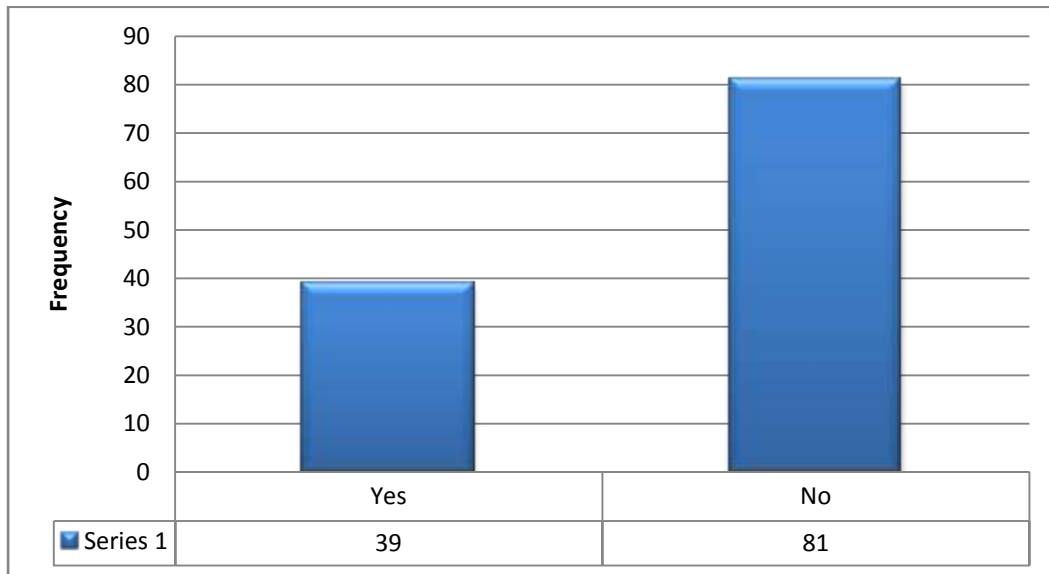
Table 4.15: Amount borrowed from financial institutions enough or not

	Frequency	Percent
Valid Yes	39	32.5
No	81	67.5
Total	120	100.0

Source: Survey data, 2015

The higher the amount borrowed the quicker the rate of poverty reduction. Findings show 81 respondents constituting to 67.5 percent said the amount borrowed was not enough and only 39 respondent's equals to 32.5 percent said that the amount was enough. The above table can be presented pictorially in the figure 4.14

Figure 4.14: Amount borrowed from financial institutions enough or not



Source: Survey data, 2015

These findings imply that the amount given by financial institutions is not enough compared to the type of business they need to start, the lower the amount the lower the type or level of business. It is therefore recommended that depending on the ability of someone to repay back then the amount can be increased accordingly, moreover the institution can give their clients enough loan by assisting them on the type of business to open and writing business plan, training and business advices, follow ups to see the performance of their clients hence poverty will be reduced because people could own large businesses.

4.6.3 Type of collateral required for loan borrowing

Many Microfinance in Tanzania seeks for some kind of collateral like land rights/offers, fixed assets like house, official identification and other regulations for poor farmers. MFIs needs collaterals because they can be sure of their loans to be paid back.

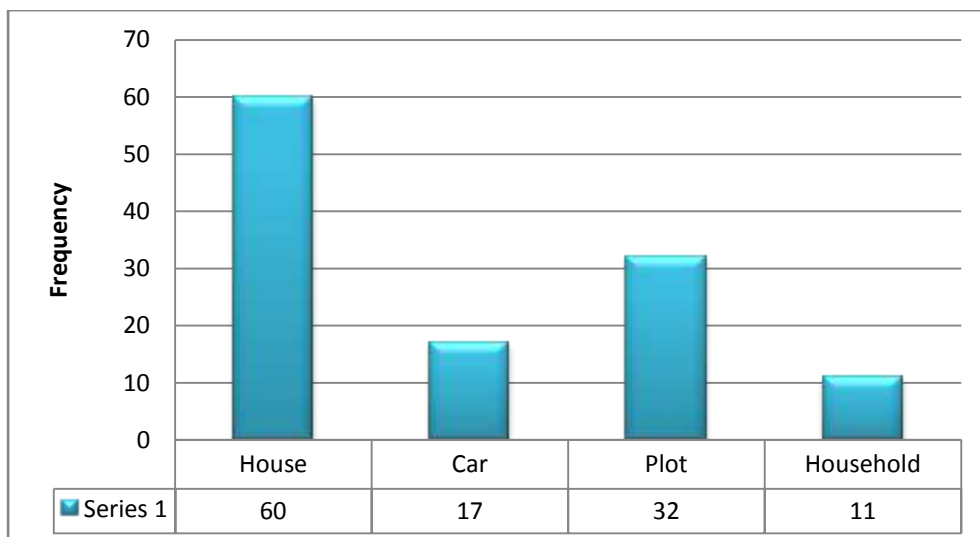
Table 4.16: Type of collateral required for the loan

		Frequency	Percent
Valid	House	60	50.0
	Car	17	14.2
	Plot	32	26.7
	Households	11	9.2
	Total	120	100.0

Source: Survey data, 2015

Table 4.15 reveals that number of respondents in the study was 120. Findings show that 60 respondents constituting 50 percent said that they were required to offer house for loans acquisition, 32 respondents equals to 26.7 percent said they were required by the microfinance institutions to offer plots, 11 respondents constituting to 9.2 percent said they were required to offer household properties and 11 respondents equals to 14.2 percent said they were required to offer cars for loans. The availability of collateral determines the access and amount of loans from MFIs. Lack of required collateral results into lack of acquisition of loans at the end results to increase in poverty levels. The above table can be presented pictorially in the figure 4.15

Figure 4.15: Type of collateral required for the loan



Source: Survey data, 2015

This is a challenge because the majorities either do not have valuable assets like houses and land, for that matter if such houses are used as collateral the amount of loans to be provided must be large. It is therefore recommended that decision on collaterals should reflect the characteristics of those in need of loans, trust should be considered because most of entrepreneurs are known and have good relationship with lenders. MFIs must give easier conditions to their clients so that they can afford to obtain loan.

4.6.4 Interest rates

In this study the researcher investigate on interest rates which are paid by borrowers for the use of starting business which are paid in a certain period of time like weekly, monthly and yearly. Researcher wanted to know whether interest rates are too high or not and if it has contribution to poverty reduction.

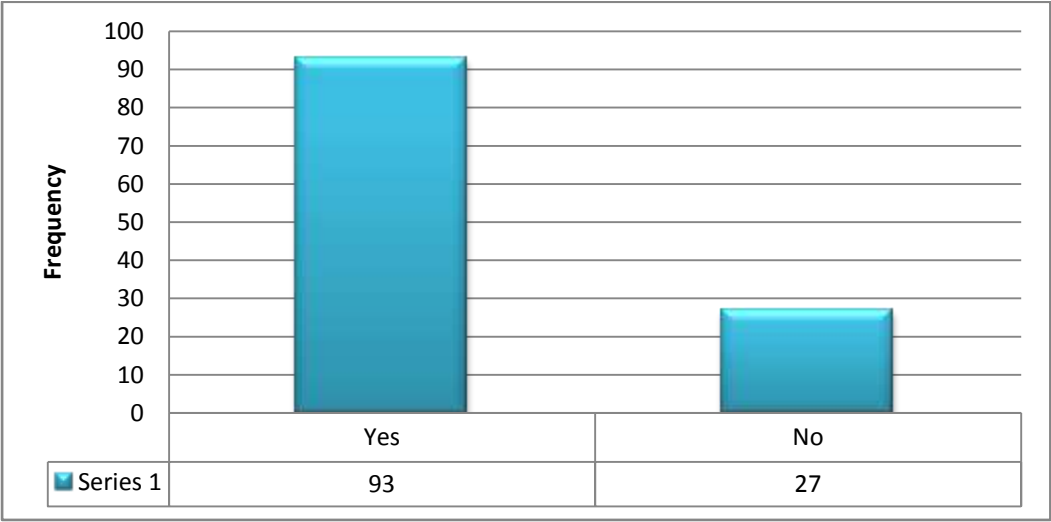
Table 4.17: View on interest rates whether too high or not

	Frequency	Percent
Valid Yes	93	77.5
No	27	22.5
Total	120	100.0

Source: Survey data, 2015

According to researchers findings responses were as follows 93 respondents constituting of 77.5 percent of respondents said that the interest rates were too high and only 27 respondents equals to 22.5 percent of said that interest rates were not too high. Higher interest rates go with higher amount reimbursed back to MFIs. If the interest rates are low clients will be able to save more and reduce poverty, vice versa is true. Findings show that there is impact on interest rates and poverty reduction. The above table can be presented pictorially in the figure 4.16

Figure 4.16: View on interest rates whether too high or not



Source: Survey data, 2015

Researcher wanted to know whether interest rates are too high or not. Rweyemamu et al (2003) DOM assessed the performance of, and constraints facing, semi-formal microfinance institutions currently providing credit in the Mbeya and Mwanza regions. The analysis of this study revealed that the interest rates were a significant barrier to the borrowing decision. This researchers study reveals that Microfinance institutions are charging high interest rate with short term loan also deduction are beginning immediately after taking a loan either after one week which causes them not to recover the cost, where by borrowers are not in the state to repay back the loan with interest within a short beginning period of time. It is therefore recommended that interest rates should be lowered and time to repay the loan should be increased also the Government should write the policy or regulations to MFIs on the amount of interest to charge in favor of entrepreneurs

Having seen all the above points, this study has found that the challenges in this study area are as follows; first time given to repay the loans is not enough, secondly the amount borrowed from banks is not enough, thirdly type of collateral to be offered for loans is a challenge and fourthly high interest rates is also a challenge.

4.7 Contribution of education level and entrepreneurial skills on poverty reduction?

The third objective was to find out the contribution of education level and entrepreneurial skills on poverty reduction. In order to get these contribution researcher went through the following points.

4.7.1 Education level

In this study the researcher wants to investigate if the education which is informal, training and advices provided by MFIs and their own formal education have contribution on the usage of loan to poverty reduction.

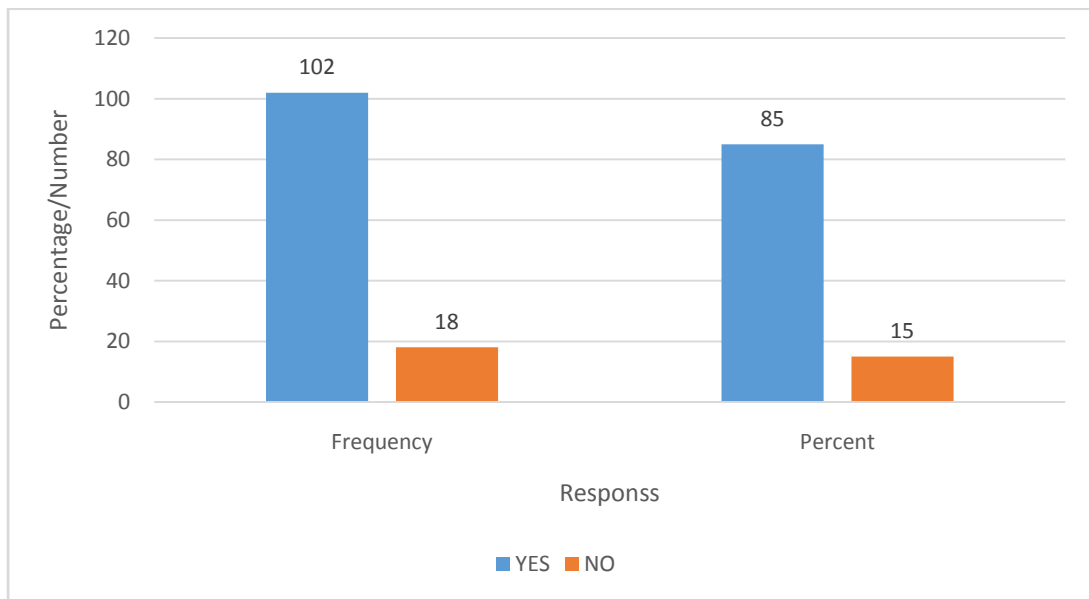
Table 4.18 Education contribution on usage of loans

	Frequency	Percent
Valid YES	102	85.0
NO	18	15.0
Total	120	100.0

Source: Survey Data (2015)

The researcher collects data from 120 respondents and the following are the findings 102 respondents constituting 85 percents agreed that education that is provided by MFIs and that which they have got have positive contribution on the usage of loan while 18 respondents constituting 15 percent said no that education have no any contribution on usage of loan. This implies that educated people have a wider chance of succeeding using the loans from microfinance hence contributing to poverty reduction also training and business advices is more important for entrepreneurs because they can maintain their business, to pay interest and increase standard of living. The above table can be presented pictorially in the figure 4.17

Figure 4.17: View the contribution of education level on microfinance usage



Source: Survey Data (2015)

4.7.2 Entrepreneurship skills

In this study the researcher wants to know if their entrepreneurship skills have any impact to the loan which is given by Microfinance institutions. Most of entrepreneurs' have business skills like the ability to manage money, the ability to identify risks and weakness and good managerial skills and ability to access market which makes their business and loans to sustain an they are sure of paying interest.

Table 4.19 Does entrepreneurship skills plays role on usage of microfinance loan

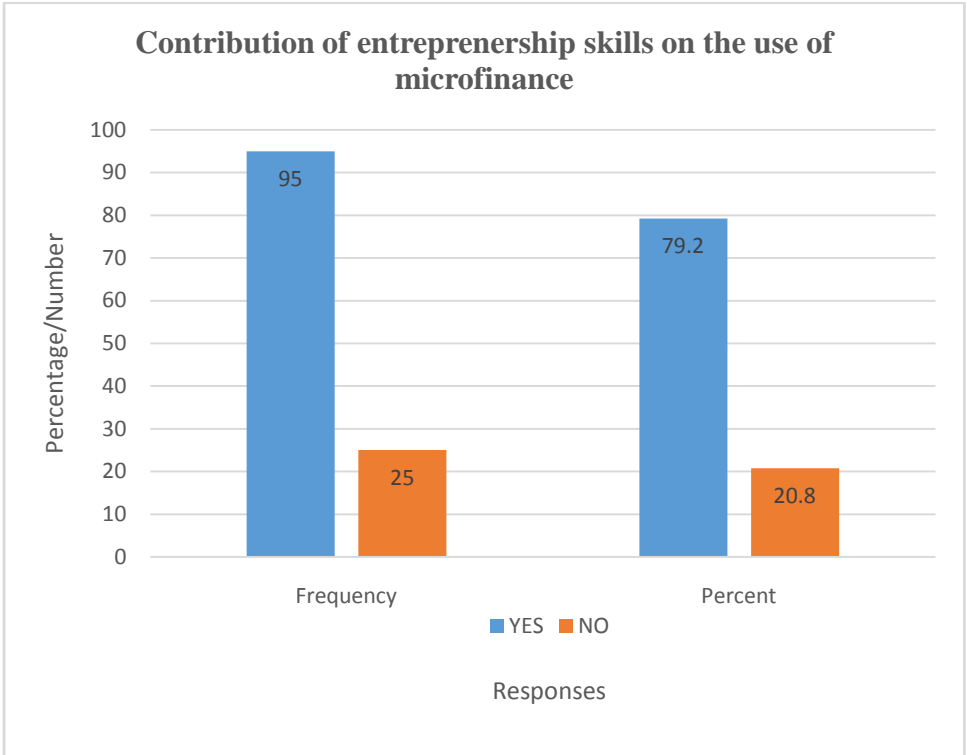
		Frequency	Percent
Valid	YES	95	79.2
	NO	25	20.8
Total		120	100.0

Source: Survey Data (2015)

The researcher collects data from 120 respondents and the following are the findings 95 respondents constituting 79.2 percents agreed that skills which they have in business operations plays positive role on the usage of loan also have positive

contribution on poverty reduction while 25 respondents constituting 20.8 percent said no that entrepreneurship skills have no any contribution on usage of loan. This implies that entrepreneurship skills has positive contribution on the effectiveness of microfinance loans to entrepreneurs. The above table can be presented pictorially in the figure 4.18

Figure 4.18: View the contribution of entrepreneurship skills on the use of microfinance loan



Source: Survey Data (2015)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents the summary of the study findings from the objectives, conclusion, and recommendation of the researcher and states the areas for further research based on the preceding chapters and objectives.

5.1 Summary

This study was conducted to at Kinondoni Municipal with the purpose to assess the contribution of microfinance institutions on poverty reduction. The study has two intervening variables which included clients' education level and entrepreneurship skills. In order to achieve the study purpose specific objectives of the study were developed which included the following; assessing the contribution of microfinance institutions to the socio economic development of entrepreneurs, determining the impact of microfinance institutions on poverty reduction as well as finding out the challenges facing entrepreneur in the credit acquisition from MFIs and finding out the contribution of clients' education level and entrepreneurship skills on poverty reduction. The study was guided with the following questions, what is the contribution of microfinance institutions to the social development of entrepreneurs? What is the impact of microfinance institutions to poverty reduction? What are the challenges facing entrepreneurs in the credit acquisition from microfinance institutions? And what are the contribution of clients' education level and entrepreneurship skills on poverty reduction?

The study was descriptive in nature which used a case study of entrepreneur who acquire loan from MFIs at Kinondoni Municipal. The study is very important since it gives out recommendations for improvement microfinance institution services in order to pave the way toward poverty reduction also it will be useful for policy makers to provide sounding policy in order to strengthen MFIs and their clients in order to reduce poverty. Despite the fact that similar studies have been conducted globally as well as Tanzanian context, a need has been determined to continue

studying the concept of microfinance in relation to poverty reduction especially when subjected with other factors such as clients' education level and entrepreneurship skills since microfinance has become an increasingly common method for alleviating poverty. As far as this study is concerned, education level of microfinance clients has an impact on the relationship between microfinance and poverty reduction. Moreover, the study population was comprised of all entrepreneurs conducting their activities in Kinondoni Municipal. The sample size of the study was 120 respondents selected by using convenience sampling technique. Questionnaires and interview were used for data collection. Types of data used by the researcher were primary and secondary data. The researcher use descriptive statistics data in Statistical Package for Social Sciences (SPSS) for data analysis.

In addition to all, the research findings have revealed that microfinance institutions have positive impact on poverty reduction especially when intervened with clients' education level and entrepreneurship skills. It has been found that the clients with formal education level can experience more positive results of microfinance on poverty reduction. The case is negative for the clients having no formal education, however they may observe positive impact but it won't be to the same extent of the educated ones. Clients with formal education are capable of planning for better utilization of microfinance loans, they are capable of being trained and far most they can better and professionally utilize the loan in a profitable manner. So far, findings have shown that microfinance when intervened entrepreneurship skill brings out positive impact on poverty reduction. This implies that clients with entrepreneurship skills are innovative hence they can creatively use the loan for the intended productive purpose.

Regarding the specific objective of the study it has been revealed that microfinance institutions have a positive contribution to the socio economic development of entrepreneurs. It has been observed that, after utilization of microfinance services entrepreneurs have improves their living standard by having access to education services, health service, water service, food and shelter. So far, income level of entrepreneurs as well as savings have improved and entrepreneurs have managed to expand their business activity and making them sustainable.

Moreover, the study findings have revealed that microfinance institutions have a positive impact on poverty reduction by showing up increase in income as a result leads to increased savings, and providing access to basic needs for better living standards. Despite these positive findings, the study has revealed some challenges facing entrepreneur in the credit acquisition from MFIs which included high interest rates on loan and difficult conditions and requirements for loan applications especially the need for collateral security. Most of MFIs requires collateral as loan security to insure repayment of their loans by entrepreneurs. Another challenge was short period for loan repayment. More important it has realized that clients' education level and entrepreneurship skills have positive contribution on the usage of microfinance services to poverty reduction.

5.2 Conclusion

The study has the purpose of assessing the contribution of microfinance institution on poverty reduction. Conclusively, it has been found that microfinance institution have a positive impact on the poverty reduction but the impact is more positive when microfinance services are provided to clients' with high formal education rather than uneducated microfinance clients. As per specific objective the following conclusions have been drawn, first was to assess the contribution of microfinance institutions to the social development of entrepreneurs. The research findings have revealed that microfinance institutions have positive impact on poverty reduction especially when intervened with clients' education level and entrepreneurship skills. It has been found that the clients with formal education level can experience more positive results of microfinance on poverty reduction. The case is negative for the clients having no formal education, however they may observe positive impact but it won't be to the same extent of the educated ones. Clients with formal education are capable of planning for better utilization of microfinance loans, they are capable of being trained and far most they can better and professionally utilize the loan in a profitable manner. So far, findings have shown that microfinance when intervened entrepreneurship skill brings out positive impact on poverty reduction. This implies that clients with entrepreneurship skills are innovative hence they can creatively use the loan for the intended productive purpose. Second objective was to determine the

impact of microfinance institutions to poverty reduction. The study has revealed that microfinance institutions have a positive contribution to the socio economic development of entrepreneurs. It has been observed that, after utilization of microfinance services entrepreneurs have improved their living standard by having access to education services, health service, water service, food and shelter. So far, income level of entrepreneurs as well as savings has improved and entrepreneurs have managed to expand their business activity and making them sustainable.

Third objective was to find out the challenges facing entrepreneurs in the credit acquisition from microfinance institutions. The study has revealed that microfinance institutions have a positive impact on poverty reduction by showing up increase in income as a result leads to increased savings, and providing access to basic needs for better living standards. Despite these positive findings, the study has revealed some challenges facing entrepreneur in the credit acquisition from MFIs which included high interest rates on loan and difficult conditions and requirements for loan applications especially the need for collateral security. Most of MFIs requires collateral as loan security to insure repayment of their loans by entrepreneurs. Another challenge was short period for loan repayment. Last objective was to find out the contribution of entrepreneurs' education level and entrepreneurial skills on poverty reduction. More important it has realized that clients' education level and entrepreneurship skills have positive contribution on the usage of microfinance services to poverty reduction.

As stated in the National Poverty eradication Strategy (1998), the long term objective of the government is to reduce poverty by 50% by the year 2010 and eradicate poverty by the year 2015; the government needs to develop more financial system that can reach the majority of the poor in urban as well as in rural areas so as to increase employment and per capital income of people so that poverty can be reduced.

Moreover it should be known that poverty reduction is not only about meeting our needs like food, shelter, clothes, health services and house but it needs participation and power.

5.3 Recommendation

Based on the study findings and conclusions drawn, the following recommendation are provided with a view of alleviating microfinance challenges discovered during the process of this study in order to improving microfinance service delivery for poverty reduction.

- **High interest rates:** it is recommended that government and other stakeholders should work together to ensure that microfinance institutions should consider to reducing the amount of interest rate charged on loan to entrepreneur.
- **Collateral requirement:** Most of the entrepreneurs doesn't own assets which are required by microfinance institution as collateral security of the loan. Microfinance institution and the government at large should consider introducing an alternative way of securing their loans to entrepreneurs in order that their loan can be accessible to large number of clients in order to foster the speed for poverty reduction.
- **Short repayment period:** since it has been found that most of microfinance institution has weekly and biweekly loan repayment, it is recommended to increase the duration for loan repayment to monthly or bimonthly repayment. This will give clients an ample time to accumulate funds for repayment without problem and for sustaining their life.
- **Increase coverage:** many of the microfinance institution are established and positioned in urban areas despite the rural areas where most needy people are found. MFIs are advised to increase its covered to rural areas so as poor people can access loan so as to increase standard of living

Moreover it is recommended that Microfinance institutions have to increase the amount which is borrowed so that entrepreneurs can expand and be able to diversify their business , savings should be mobilized and timely credit delivery to the people also credit alone is insufficient in ensuring growth of small business, particularly people engage in such activities needs basic knowledge and skills related to business management through training and advices on how to use credit and establish market channels for their product. The Government should establish market channels for the

entrepreneurs product so that they can increase sales and profit so as they can pay their interest on time also can increase income hence poverty reduction.

5.4 Areas for Further Research

This research assessed the contribution of microfinance institutions to poverty reduction. However, this study is not exhaustive on the role that microfinance institutions should play in order to reach more entrepreneurs in rural areas as well. Therefore, future research work could investigate/assess the role of microfinance institutions in empowering rural entrepreneurs. In this case there is a need for a baseline survey data that will provide accurate, formative data on the importance of reaching more people in rural areas.

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APPENDICES

Appendix 3.1: Research questionnaire for SMEs (Business Entrepreneurs)

THE MZUMBE UNIVERSITY

Dear respondent the bearer of this questionnaire is an MBA student at The Mzumbe University. As part of this ongoing academic development she is required to conduct a research and write a report on **Assessment of the contribution of Microfinance Institution to Poverty Reduction**. You have been selected for purpose of this study and therefore requested in support to our country's higher education sector, to complete this questionnaire and submit the same to its bearer.

Please note that the information to be collected will be treated with utmost confidentiality and used solely for academic purposes indicated hereon, thank you for your assistance and supporting us.

Kindly please fill in the following blanks

1. What is the form of ownership of your enterprise if any (Please tick appropriate answer)

- (a) Sole owner ()
- (b) Partnership ()
- (c) Company ()
- (d) Cooperative ()
- (e) Other please specify _____

2. Type of activity your enterprise dealing with :(Please tick appropriate answer)

- (a) Manufacturing ()
- (b) Service ()
- (c) Commerce and trade ()

3. Gender (Sex) of respondent: (Please tick appropriate answer)

(a) Male ()

(b) Female ()

4. Marital status (Please tick appropriate answer)

(a) Single ()

(b) Married ()

(c) Widowed ()

(d) Widower ()

5. What is your age group? (Please tick appropriate answer)

(a) Age between 18 – 30 year ()

(b) Age between 31 – 40 year ()

(c) Age between 41 – 50 year ()

(d) Age above 51 year ()

6. What is your education level (Please tick appropriate answer)

(a) Informal education ()

(b) Primary school ()

(c) Secondary school ()

(d) College level (Diploma) ()

(e) University level (degree) ()

(f) Post graduate ()

7. What reasons made you starting this business please tick to indicate to what extent each of the following factors was important in influencing your decision to start this business? (Please tick appropriate answers).

(a) It is the only way I could make a living. ()

(b) To supplement income from other sources in order to meet basic needs m
()

(c) To avoids having to work from others ()

(d) To achieve a higher position for myself in the society ()

(e) Other please specify

8. Is the Business registered? (Please tick appropriate answer)

(a) Yes ()

(b) No ()

9. What is your current annual turnover in Tshs? (Please tick appropriate answer)

(a) Less than 100,000 ()

(b) Between 100,001 – 300,000 ()

(c) Between 300,001 – 500,000 ()

(d) More than 500,000 ()

10. Did you ever borrow any loan in your business operations? (Please tick appropriate answer)

(a) Yes ()

(b) No ()

11. What are reasons made you to apply loan from bank or other financial institutions? (Please tick appropriate answers)

(a) For start-up business. ()

(b) For additional working capital of business ()

(c) For increasing fixed asset of business ()

12. What is the total number of employees of the business before getting loan? (Please tick appropriate answer)

(a) 1 – 4 employees ()

(b) 5 – 9 employees ()

(c) 10 – 49 employees ()

13. Is there any increase of employment rate after you have been given a loan? (Please tick appropriate answer)

(a) Yes ()

(b) No ()

14. What was the amount borrowed at the first time Tshs? (Please tick appropriate answer)

(a) Below - 500,000 ()

(b) 500,000 – 1,000,000 ()

(c) 1,000,000 – 2,500,000()

(d) 2,500,000 – 5,000,000 ()

(e) Above - 5,000,000 ()

15. How often do you repay your loan? (Please tick appropriate answer)

(a) Weekly ()

(b) Monthly ()

(c) Yearly ()

16. Was the time given to repay the loan enough for you? (Please tick appropriate answer)

(a) Yes ()

(b) No ()

17. Did the amount you borrow from banks and other financial institutions for your business enough? (Please tick appropriate answer)

(a) Yes ()

(b) No ()

18. Was it easy to access loan at the first time when you started to borrow? (Please tick appropriate answer)

(a) Yes ()

(b) No ()

19. Were you required to offer collateral for the loan? (Please tick appropriate answer)

(a) Yes ()

(b) No ()

20. What was the collateral required for the loan (Please tick appropriate answer)

- (a) House ()
- (b) Car ()
- (c) Plot ()
- (d) Households ()
- (e) Not applicable ()

21. What do you think about the interest rates for loans? Are they too high (Please tick appropriate answer)

- (a) Yes ()
- (b) No ()
- (c) Please specify the rate

22. Does servicing your loan affects negatively your financial performance?(Please tick appropriate answer)

- (a) Yes ()
- (b) No ()

23. After a completion of repayment of first loan did you opt to continue for second loan? (Please tick appropriate answer)

- (a) Yes ()
- (b) No ()

If No give reasons

i _____

ii _____

iii _____

24. Please indicate the level of your firm's achievement adopted since started being financed by financial institutions in terms of the following aspects by putting a tick

in the box that corresponds to your situation

Levels of Achievement

1= More decreased

2= Slight decreased

3= Stable

4= Slight increased

5= More increased

	Factors	Levels of Achievement				
		1	2	3	4	5
No:						
A	Sales revenues					
B	Profitability					
C	Physical assets					
D	Financial assets					
E	Markets coverage					

25. What are the barriers to the development of your enterprise please tick to the appropriate answer (Please tick as much as possible):

- (a) Competition in business ()
- (b) High level of taxation ()
- (c) Low purchasing power of the population ()
- (d) Procedural difficulties in starting a company ()
- (e) Difficulty in accessing to credit facilities ()
- (f) Low coordination between financial institution and SME ()
- (g) Lack of qualification ()
- (h) Lack of market information ()
- (i) Poor infrastructure facilities. ()
- (j) Technological changes. ()
- (k) Changes of exchanges rates. ()
- (l) Lack of management skills ()

- (m) Unstable legal environment ()
 - (n) Lack of business support and training ()
 - (o) High interest rate ()
 - (p) Others please specify
-

26. Tick among those factors which prevent SMEs/ entrepreneurs borrowing from financial institutions. (Please tick only as much as possible)

- (a) Lack of collateral ()
- (b) Lack of track records ()
- (c) Newness in the business (start-up) ()
- (d) Lack of entrepreneur skills ()
- (e) Poor documentation ()
- (f) Corruption ()
- (g) Competition from other borrower ()
- (h) Too bureaucratic ()
- (i) High interest rate ()
- (j) Other please specify _____

27. How could you rate the impact of microfinance institutions to poverty reduction

(a) Very high ()

(b) High ()

(c) Average ()

(d) Low ()

(e) Very low ()

28. Do you think microfinance institutions have any contribution to the economic development of yourself?

(a) Yes ()

(b) No ()

29. The current access to health services for you and your household compared to before engagement in MFIs is ...

- a) Much worse
- b) Somewhat worse
- c) Same
- d) Somewhat better
- e) Much better

30. The current access to educational services for you and your household compared to before engagement in MFIs is...

- a) Much worse
- b) Somewhat worse
- c) Same
- d) Somewhat better
- e) Much better

31. The current access to basic services like water, light and sewerage for your household compared to before engagement in MFIs ...

- a) Worse
- b) Same
- c) Better

32. The current state of your diet, compared to before engagement in MFIs..

- a) Much worse
- b) Somewhat worse
- c) Same
- d) Somewhat better
- e) Much better

33. To what extent are you involved in decision making, compared to before engagement in MFIs...

- a) Less
- b) Same
- c) Greater

34. The current social respect by the community, compared to before engagement in MFIs..

- a) Less
- b) Same
- c) Greater

35. What are the challenges facing you as one of the users of the microfinance services.....

.....

.....

36. Do you think education level have any contribution on the use of microfinance loans on poverty reduction?

(a) Yes ()

(b) No ()

37. Does entrepreneurial skills play role on microfinance loan?

(a) Yes ()

(b) No ()

Thank You for Taking Your Time in Filling this Questionnaire.