ASSESSING CONTRIBUTION OF MICROFINANCE BANKS IN POVERTY ALLEVIATION: THE CASE OF NMB PLC NGARENARO BRANCH

BY

Mugendi Lucas David

A thesis/dissertation submitted in partial/fulfillment of the requirement for the degree of masters of finance and accounts (MAF) of Mzumbe University

2013
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CERTIFICATION
We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a research report entitled Assessing Contribution of Microfinance Banks in Poverty Alleviation: the Case of NMB PLC Ngarenaro Branch, in partial/fulfillment of the requirements for the degree of Master of Accounting and Finance of Mzumbe University.

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DECLARATION

I, Mugendi David Lucas, declare that this report is my own original work and that it has not been presented and will not be presented to any other university for a similar or any degree award.

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ACKNOWLEDGEMENT

I would like to acknowledge the assistance I received from different people in producing this work and during my studies. I am greatly indebted to my supervisor Jema Myava for her guidance. I am also thankful to all the staff of the NMB NGARENARO branch.

In a very special way, I am highly grateful to my lovely and adorable Father and Mother who was always there to support me during field time.

I am also grateful to my Father and Mother, who accommodate me for all the time of my study in Morogoro. May God bless them abundantly, without forgetting my friends Elia Ngalu Rumisha Gerard, and Harrison H.Temu.

Over and above all, I thank God almighty, whose grace and abundant blessings upheld me through high and low periods during my study.
DEDICATION

This work is dedicated to the memory of my lovely and adorable grandmothers, may her soul Rest in Perfect Peace. I also dedicate this work to all those poor men, women and children, who on most occasions may not even know from where the next meal will come.
# LIST OF ABBREVIATION

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BFIA</td>
<td>Banking and Financial Institutions Act</td>
</tr>
<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poorest</td>
</tr>
<tr>
<td>DTU</td>
<td>Demographic Training Unit</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>NBC</td>
<td>National Bank of Commerce</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non Government Organizations</td>
</tr>
<tr>
<td>NMB</td>
<td>National Microfinance Bank</td>
</tr>
<tr>
<td>NPES</td>
<td>National Poverty Eradication Strategies</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>SMEDP</td>
<td>Small Medium Enterprises Development Policy</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>TAS</td>
<td>Tanzania Assistance Strategy</td>
</tr>
<tr>
<td>THB</td>
<td>Tanzania Housing Bank</td>
</tr>
<tr>
<td>TPB</td>
<td>Tanzania Postal Bank</td>
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<tr>
<td>WBS</td>
<td>Work Breakdown Structure</td>
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ABSTRACT

Microfinance can be a critical element of an effective poverty reduction strategy especially for developing countries. The services provided by microfinance institutions can enable the poor to smoothen their consumption, build their assets gradually, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life.

A study to assess the performance of micro-finance banks in poverty reduction in Tanzania was conducted in Arusha using NMB bank, Ngarenaro branch as a case study. The study was guided by the following research questions: Do the NMB direct their services to the poor population and micro and small businesses? Do the condition and procedures for credit set by NMB bank favors the poor and low income earners clients? To what extent do NMB services contribute to poverty alleviation? And, do the poor and low income earners receive adequate NMB services? The report examined the extent at which the microfinance contributes to poverty alleviation. It also assessed whether the NMB bank directs their services to the poor population and micro and small businesses and whether conditions and procedures for credit favor these target groups.

The study included a sample of 60 customers and 20 staff, who were interviewed to know the contribution of NMB services to poverty alleviation. Simple random and purposive sampling techniques were used to get the number of respondents during the study. Data were collected through questionnaires, structured interviews, observations and documentary reviews. Data analysis was based on descriptive statistics and presented in tables and percentages.

Following the information collected from NMB and their clients it was revealed that microfinance has changed the life of poor people in a positive way. Microfinance clients have increased their incomes, capital invested and therefore expansion of their businesses. Despite these achievements it was further observed that, some conditions like grace period for loan repayment, collateral and microfinance coverage have been limiting factors for poor people to access the microfinance services.
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CHAPTER ONE
BACKGROUND INFORMATION

1.0 Introduction
This chapter explains the background of the organization, the background of the problem, statement of the problem, objectives of the study, scope, research questions and significance of the study.

1.2 Background of national micro finance bank (NMB)
NMB was established in 1997 under act No 22 of 1997 after the split of National bank of commerce, which was a Public institution with majority of shares held by the government of URT. NBC at that time was divided into two separates banks.

In 2008, NMB was privatized but his or her name remained, as it was, NMB.

In 2009, NMB sold its shares to the public and his/her name changed to NMB PLC, the name under which it is still operating. The bank was mandated to promote savings and allow deposits from low and high Income earners.

As part of its privatizing policy, the Government commenced the privatization process of NMB in 2004. Specifically the repeal of the NMB Ltd Incorporation Act of 1997 was assented by the president on 30th January 2004, paving way for its privatization and on 30th September 2005, the Government sold 49% of its shareholding in the Bank to a consortium led by the Cooperative Centrale Raiffeisen- Boerenleen bank B.A. (Rabobank) of the Netherlands. The Government is now selling a further 21% of the NMB’s shares to the public in accordance with the undertakings given under the shareholders agreement executed with Rabobank consortium.

NMB has over its lifetime consolidated its market position to become the most profitable and largest bank in Tanzania. In the last five years, its financial performance has improved from a profit of about TZS 5 billion in 2002 to about TZS 39 billion in 2007, this shows that the profit has increased about 600% in five years. Similar, the
shareholders funds has increased from TZS 11 billion in 2002 to TZS 122 billion in 2007, while total assets have more than doubled over the same period.

1.2.1 Vision
To be the preferred financial service partner in Tanzanian

1.2.2 Mission statement
Through innovation, and its extensive branch network, NMB offers affordable, customer focused, financial service to Tanzanian community, in order to realize sustainable benefits for all its stakeholders. NMB will provide access to a full range of financial services for the rural and urban population in Tanzania and its current and prospective client base, in a sustainable and viable way. Special attention will be given to micro entrepreneurs, SME’s, rural enterprises and agriculture.
In order to achieve its mission of providing the rural and urban population in Tanzania, access to full range of financial services, NMB has formulated a pillar of three values namely;
   i. Customer value; to become recognized as the leading rural bank in Tanzania
   ii. Financial value; to generate sufficient profits to remain financially sustainable
   iii. Employee value; to be a challenging employer for its workforce providing sample opportunities for their career development

1.2.3 NMB’S services and Products
NMB offers both commercial banking and microfinance services and products to its customers. Some of these services and products include,
Microfinance loans;
The NMB microfinance product focuses on the financial needs of micro and small entrepreneurs with short-term needs up to two years, Example of these loans are small and medium enterprises loans, MFI and SACCOS loans, corporate loans, personal loans,
salaried workers loans and Pensioners loans. The micro entrepreneurs as individuals will also have access to other personal banking products.
Deposits;
This include saving account, business account, bonus account, junior account, time deposit and short-term deposit.

1.2.4 NMB core values

Eagerness
Ownership
Customer Focus
Team working
Integrity
Compliance

1.3 Background of the problem

Poverty eradication is at the forefront of Tanzania’s development strategy. The long-term vision to this phenomenon is to provide sustainable financial services to the economically active poor (the majority of Tanzania’s population) who lack access to the services from the main stream of financial services. Previous studies, (Wangwe, 2005 and URT, 2000) show that, about 50% of the Tanzania population is living below the poverty line of $1 per day. Access to well functioning and efficient financial services can empower individuals economically and socially, allowing them to better integrate into the country’s economic activity and actively contribute to economic growth and thus poverty reduction (Morwa, 2006).

Microfinance is a critical element of an effective poverty reduction strategy. It is a field which has gained recognition worldwide due to its contribution to social and economic development, particularly in poverty reduction. Moreover microfinance is one of the practical development strategies and approaches that should be implemented and
supported to attain the bold ambition of reducing poverty by half (Kessy and Urio, 2006).

Recognizing that financial services constitute a vital component of many households’ survival strategies, the government of Tanzania has taken variety of measures since early 1990s aimed at speeding up private investment in the country (Wangwe 2005). The measures have made sizeable achievements, notably in the financial sector. The government of Tanzania liberalized the financial sector in 1991 with the expectation that will increase the volume and efficiency of the financial system in the delivery of the financial services, especially lending to the private sector which is regarded as a stimuli for economic growth through wealth creation and reduction of poverty (Morwa and Salay, 2006).

The financial services involve; savings, credit and insurance. Microfinance banks seem to be friendly and supportive to poor communities that are cut off from the sophisticated financial services system. Morwa (2006) depict that, during the 1990s Tanzania had few banks which provided financial services only and they include Cooperative Rural Development Bank (CRDB), Tanzania Postal Bank (TPB), and National Bank of Commerce (NBC) as well as Tanzania House Bank (THB).

In order to improve the soundness of financial sector, Tanzania implemented the structural reform measures on the financial sector with enactment of the Banking and Financial Institutions Act (BFIA) in 1991. The BFIA was aimed at enhancing efficient mobilization and use of financial resources in order to improve economic development in the country as well as increasing efficiency in the delivery of financial services through competition. The BFIA allowed not only establishment of both local and foreign private banks and financial institutions but also restructuring and recapitalization of publicly owned banks (CRDB, NBC, and THB). As a result, CRDB was fully restructured and privatized in 1996; THB was closed in 1995 due to huge losses while NBC was split into two banks in 1997 which were NBC itself and National Microfinance Bank (NMB) (Mbowe et. al (2006) and BOT (2002).
Currently, there are about thirty registered commercial banks in Tanzania, with over 200 branches. To mention a few we have the following banks, NMB Plc, Akiba Commercial Bank (ACB), CRDB Bank, NBC, Exim Bank, Mwanga Community Bank, Dar Es Salaam Community Bank, Mbinga Community Bank which deals with micro finance activities. Apart from the above mentioned banks, the government in the process of reducing poverty has established some programs which deal with microfinance services such as TASAF, SELF and RFSP (Salay, 2006).

1.4 Statement of the problem
Poverty reduction is a global issue and joint exercise. In the process of dealing with this problem, the government of Tanzania has put in place poverty reduction policy for ensuring implementation. In implementing poverty reduction strategies, microfinance banks and financial Non Government Organizations (NGOs) have considered to be among the effective and efficient mechanism. These institutions work hand in hand with the government by extending small loans to economically active poor people to avoid total risk/loss of their funds. These groups use the small loans to establish micro business or enrich already existing small businesses.

Some Banks and Non Bank Financial Institutions (NBFI) have embarked on extending their financial services to the low-income earners although they are doing so very reservedly on the pretext that provision of these services to the poor is too risky and too costly to undertake. They have therefore, limited services to the urban areas. The National Micro-finance Bank, specifically established by the Government to provide micro-finance services has so far the biggest branch networks. National Microfinance Policy (2007)

Despite of the several advantages of these microfinance banks and financial NGOs, their contribution in poverty reduction has not clearly been established. Rather than improve the conditions of the poor, most of the microfinance programs operating in Tanzania have left the so-called beneficiaries in debts. In a similar vein, most organizations
involved in providing microfinance services, including government institutions, cooperatives and NGOs have in most cases performed very poorly (Juanah, 2005). This study therefore intended to fill the gap by assessing the performance of microfinance banks in poverty alleviation in Tanzania, a case of NMB Ngarenaro branch in Arusha.

1.5 Research Questions

i. Do the conditions and procedures set by NMB favor the poor and Small Businesses

ii. Do the condition and procedure set by NMB favor Microfinance Enterprises?

iii. To what extent do NMB services contribute to poverty alleviation?

iv. Do the poor and low income earners receive adequate NMB services?

1.6 Objectives of the Study

The main objective of the study is to assess the performance of microfinance banks in poverty alleviation.

The specific objectives are as follows:

i. To assess whether microfinance bank direct their services to the poor population and micro and small businesses

ii. To determine whether conditions and procedures for credit favor the poor and Micro Small Enterprises (MSEs).

iii. To examine the effects of micro credit and micro savings on peoples’ standard of living

1.7 Significance of the Study

The research was reveal the extent at which NMB contribute to poverty alleviation. From the data collected, it is revealed how much has NMB contributed in poverty alleviation at national level and not individually.
Generally, the significance of any study work is either for acquisition and addition of new knowledge or problem solving. This research has the following significances:

i. To the academicians, students the research produces information which can be used as a reference material for other researchers and readers who want to continue with further studies in the similar area.

ii. To the policy makers, to modernize their standards so that they could be exercised for the benefit of the entire organization to avoid problems in Loans operations in microfinance organizations

iii. For the strategic developers within loan organizations, this study will assist them in their strategy on what should be done to achieve poverty reduction in the societies

iv. The research comes up with recommendations for decision and policy makers on how to solve the identified problems concern poverty reduction in Tanzania

1.8 Scope of the study

The researcher covered four departments of NMB. The study was conducted at administration department, Account and Finance department, back office, and loan office department as well as customers as the external stakeholders to NMB. These departments were useful due to the fact that they are direct involving in providing loans and poverty reduction. Yet conducting a research on these departments help the researcher to reduce biasness in doing research and come with a fair conclusion.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
A literature review is a “critical analysis of a segment of a published body of knowledge through summary, classification, and comparison of prior research studies, reviews of literature, and theoretical articles” (Harrison 2012)
This chapter reviews the different issues, theories, problems and how the research is done in the area concerning the contribution of micro finance banks in poverty alleviation in Tanzania. The concern of the chapter is to brainstorm and familiarizing the researcher with any relevant information about the problem. After having done that, the researcher is able to study the problem by comparing the actual practices at NMB PLC (NGARENARO BRANCH) ARUSHA with those theories employed by others from different texts. The chapter will help the researcher to meet his important requirements of the study through learning and getting experience of the others.

2.2 Theoretical literature reviews
Is the process of reading, analyzing, evaluating, and summarizing scholarly materials like books contains educational theories given out about a specific research topic and there should be a link between the aim of research and literature review by focusing the specific problem and means to be used in data collection, discussion as well as conclusions and recommendations.

2.3 Definitions of terms and concepts
Doubler (1997) recommends that building an idea on the key words is an input way to help researcher to make an overview of the terms and concepts associated with the topic under research. Researcher put effort on how to organize, and summarize his findings,
and suggests that including one or more information from the data collected based on the
definition given out by different individuals so that to create a good literature review.

2.3.1 Poverty

Poverty is an income level below some minimum level necessary to meet basic needs. This minimum level is usually called the “poverty line”. What is necessary to satisfy basic needs varies across time and societies. Therefore, poverty lines vary in time and place, and each country uses lines which are appropriate to its level of development, societal norms and values. But the content of the needs is more or less the same everywhere.

Or Poverty is the deprivation of common necessities such as food, clothing, shelter and safe drinking water, all of which determine our quality of life. It may also include the lack of access to opportunities such as education and employment which aid the escape from poverty and/or allow one to enjoy the respect of fellow citizens (World Bank 1995). Poverty has no precise definition. It is a multi-dimensional phenomenon related to the inadequacy or lack of social, economic, cultural, and political entitlements. Poverty is hunger. Poverty is lack of shelter. According to International Monetary Fund (IMF) (1999) cited in World Trade Organisation (WTO, 2002), poverty has been defined as lack of basic capacity to participate effectively in society. It means being sick and not being able to see a doctor, not being able to go to school and not knowing how to read. Poverty is not having a job, is fear for the future and living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom (World Bank, 2000).

Poverty has many faces, changing from place to place and across time, and has been described in many ways. Most often, poverty is a situation people want to escape. So poverty is a call to action – for the poor and the wealthy alike – a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities (World Bank, 2000).
Schubert (1994) describes poverty as either absolute or relative or both. Absolute poverty being that which could be applied at all time in all societies, such as, the level of income necessary for bare subsistence, while relative poverty relates to the living standards of the poor to the standards that prevail elsewhere in the society in which they live.

Bagachwa (1994) defines poverty as the inability to attain minimum standard of living. He added that poverty is intimately linked to the welfare levels of the society and hence to the overall level of development.

Furthermore, Hazel and Haddad (2001) argue that, poverty consists of two interacting deprivations- physiological and social. Physiological deprivation describes the inability of individuals to meet or achieve basic material and physiological needs. It can be measured as a lack of income, which limits access to food and to education, health, housing, water and sanitation services. Social deprivation refers to an absence of elements that are empowering, such as autonomy, time, information, dignity and self-esteem. Lack of empowerment is also reflected in exclusion from important decision-making processes, even when the outcomes are of considerable importance to the poor-for example, decisions about public investment in the local community, management of common properties and priorities for agricultural research and extension. For the purpose of this study, researcher defines poverty as the situation of having small amount of money where by one cannot be able to get the necessaries of life such as food, shelter, cloth and all other social services. Again it is the lack of having a well balancing diet or getting a single or nil meal per day, having malnutrition as well as being illiteracy.

Development of Microfinance in Tanzania

The major categories of Small-scale enterprises in Tanzania are agriculture, trade, services and manufacturing. The range of activities involved is very wide but the important ones are cereals farming, keeping dairy cows, poultry keeping, retail shops, restaurants, food processing, tailoring, selling cooked food, bites vending, second hand clothes trade, selling charcoal, grain milling and hairdressing/beauty salons. In Tanzania the importance of micro-financing and micro enterprises, own their origin from the efforts
taking in the provision of micro credit financing to small business enterprises. These can be explained by looking at different changes in the economic policy before and after independence.

Before independence, 1950s to 1960s most of the Tanzanians were craftsmen and small and medium size traders. This means colonialism forcibly restructured its goods and services that complemented the economic needs of the colonizing power. Colonialist opened up local production of basic consumer goods, which naturally out-competed local producers (Biesteker, 1978).

The foreign commercial banks that were later opened in the colonies tended to discriminate against indigenous entrepreneurs. Likewise in Tanganyika, a former country of east Africa, a British mandate after 1920 it become independent in 1961 and joined with Zanzibar to form Tanzania in 1964, there was a regulation that prohibited foreign wholesalers from selling to African trader goods worth more than Tshs 600 on credit. Africans require specific government permission before they could apply for a loan (Rweyemamu, 1972:29).

After independence, national entrepreneurs pressurized the government to initiate immediate legislative interventions to repeal all discriminatory colonial laws. They proposed specific policy incentives like soft loans, free industrial estates, control of retail trade and immediate representations in key government decisions organs. Financial and non-financial institutions were established in order to grant loans and to solve liquidity problem faced by micro-enterprises in the country as well as to promote National Policy for the development of the informal sector and micro-enterprises as adopted by International Labour Organisation (ILO) in 1972.

In 1973, the government established Small Scale Industries Development Organisations (SIDO) vide Act No.28 as Parastatal organisation. Among the objectives for establishment were to promote and assist small-scale industries and provide loans for working capital, management support, equipment, and training.

In 1983, the government also passed Human Resources Development Act (Nguvu Kazi), which was mainly targeted the emerging small entrepreneurs and required all Tanzanians
to either to be employed or create self-employed through entrepreneurship? The recent moves include, establishment of the donor support fund for promoting micro-entrepreneurs Development Trust (NEDF), Presidential Trust Fund (PTF) where as the major objectives of its establishment is to supplement and complement others national production efforts, especially in agriculture, animal husbandry, fisheries and small-scale industries, and variety of NGOs to promote the same.

2.3.2 Microfinance
Microfinance is a term for the practice of providing financial services, such as microcredit, microsavings or microinsurance to poor or disadvantaged individuals. By helping them to accumulate usably large sums of money as their medium of exchange, this expands their choices and reduces the risk they face in their daily life.

Microfinance consists of making small loans and medium of usually less or average to individuals in order to help them to establish or expand a small, self-sustaining business.

Today microfinance plays a major role in the development of many Tanzanians. Its impact is substantial enough to have warranted acknowledgement by the United Nations which declared 2005 that “the international year of microfinance,” reminding people that millions worldwide benefit from microfinance activities.

2.4 Regulation of Microfinance in Tanzania
In this case, the microfinance sector has involved and developed according to different patterns and growth paths in various countries and regions. The literature on microfinance identifies the legal and regulatory framework as one factor that influences the emergence of different kinds of institutional providers of microfinance and especially, their development into self-sustaining commercial microfinance institutions capable of reaching growing numbers of SME’s especially in rural areas.

According to Chavez and Gunzalez-vega (1993), regulation of microfinance refers to the government regulation that should serve three basic goals. The first one, macroeconomic in nature, is to ensure the solvency and financial soundness of all intermediaries, in order
to protect the stability of the country’s payment system. The second objective is to provide consumer protection against undue risks of losses that may arise from failure, fraud or opportunist behavior of the suppliers of financial services, the third goal of financial regulation is to provide the efficient performance of institutions and markets and the proper working of competitive market forces.

Moreover, Banks are regulated to protect their depositors and prevent risks to the financial system. Credit only MFI’s do not take deposits from the public and are too small to pose much risk for the financial system. Regulation by the financial authorities is needed for MFI’s that do take deposits, for instance, savings based financial co-operative or credit based MFI’s that want to start taking deposit to finance their growth (CGAP) (2006)

However, supervision of MFI’s consists of the examination and monitoring mechanisms through which the authorities verify compliance with regulation and determine the actual risks faced by an intermediary. Therefore, in Tanzania commercial banks, non-bank financial institutions, regional banks and rural unit banks are subject to licensing, regulation and supervision by the Bank of Tanzania under the provisions of the Bank of Tanzania Act (1995), Banking and Financial institutions Act (1991), Foreign Exchange Act (1992).

In addition to that, there are two categories of financial providers of microfinance, which are not subject to prudential regulation by the Bank of Tanzania. That is, the savings and credit cooperative societies (SACCOS) and the financial non-governmental organizations (NGO’s). SACCOS though are subject to little effective regulation and supervision by the cooperatives Development Department.

Furthermore, microfinance regulations in Tanzania which was published in March 2005 as “Banking and Financial institutions, (microfinance institutions and micro credit Activities) regulation 2005. To qualify for the license financial or microfinance institutions are required to be incorporated as company limited by shares with a minimum capital of Tshs 800 million for microfinance company (MFC) with nationwide branches and 200 million for unit microfinance company (MFC). (CGAP)(2005). In that case, licensed companies can open branches in any district of Tanzania upon BOT approval
except for single unit MFC. They are also allowed to established mobile agencies in rural and urban area. Subject to evidence of insurance cover, make micro loans, remittances, payments orders and funds transfer domestically and to do any other activities as may be authorized by BOT. Restricted business for licensed MFC includes, opening clients current accounts, foreign trade business, trust operations and investment in enterprise capital and any business other than banking business.

2.5 Importance of Microfinance in the Economy

A Review of microfinance efforts from various parts of the world suggest that, by and large access to microfinance had a positive economic impact. That this impact has been often larger for those closer to the poverty line than those that are further away and that they increase with duration of membership or intensity of loans, as members begin to invest in assets rather than consumption, (Morduch and Haley 2001).

As credit plays vital role in beginning and expanding the business, microfinance has been treated as an important tool for economic development. Microfinance lenders offer small loans to aspiring as well as current business owners. These loans assist people in getting access to traditional financing and offer jobs to local communities.

Yunus, (1989) argued that, availability of credit to low income households and small business could greatly enhance their economic strength and eventually break the vicious circle of low income, low saving, low investment and low productivity and emphasized the importance of micro-finance in assisting the poor on self-employment

2.6. Empirical literature reviews

Literature review involves systematic identification, location, and analysis of documents containing information related to a research problem under investigation. This portion focus on what the previous researchers wrote on the similar topic for instance. (Harrison 2012)
Hassan (2010) mentioned the reasons behind success of micro finance and highlights that it is only having no collateral against loans. The negative point of the conventional micro finance is the fixed high interest rate.

Knight and Farhad (2008) mentioned that micro finance directly improves quality of life and promotes poverty reduction. By getting loans the client become self employed and protect himself for the external threats. By getting employment they become raised from the poverty line and the poverty decreased. Micro finance is in the initial stages and in these stages most of the peoples do not know about the reality of micro finance. Some peoples take that example of micro finance where the result of micro finance is negative. It is more important that the examples where the result of micro finance is more positive than negative should be highlighted so that more and more peoples get benefit from micro finance and cross the poverty line.

Seibel (2003) proved through the survey that micro finance is that chemical through which the germ of poverty can be killed. The study also showed that micro finance is equally profitable in the poor countries as in the rich countries. He rejects the concept that Microfinance is a poor solution for poor countries. If properly regulated and supervised, they have great potential in poverty alleviation and development, both in rural and urban areas.

Matovu (2006) mentioned that without any doubt it is obvious that micro finance play an important role in poverty alleviation but the part of micro finance in poverty alleviation is like a drop of water in a sea. Micro finance helps in improving the standard of living of peoples. The main hurdle in this is the finding of relevant data. It is very difficult to find the poor people and help them.

It requires a deeper analysis to find the poor people and help them through micro finance. Next hurdle was the kind of poor peoples. It was difficult to divide the poor into different portion and what be the base for this division. Along with positive role, micro finance has also a negative role because micro finance only finds out the symptoms not the real causes.
Other portion that is not well developed till now is the woman empowerment by the help of micro finance. It requires much more research for the real empowerment of women by giving a chance to them to get access to the micro financial institutions.

Ali & Alam (2010) concluded that Microfinance is the most important resource to provide loans and other basic financial services to increase the employment rate, productivity and earning capacity. It will impact the people’s lives through removing poverty, improving living standards, such as health, education, food and other social impacts. The microfinance sector is developed day by day. Most of the population is based on the rural area, where people live below the poverty line. The need for micro credit is higher in the rural area than urban area. The large numbers of microfinance borrowers show the market opportunity and need. Study showed that high interest rates on micro credit are one of the problems faced by the microfinance sector. But poor people still favour and want micro credit because they don’t have access to the commercial loans, which are collateralized loans. These poor people are very hard working and may have innovative ideas about business but they don’t have opportunity. That is why they take micro loans on high interest rate and often they get success in their business and repayment of these loans.

Bakhtiari (2006) concluded that micro credit and microfinance have received extensive recognition as a strategy for poverty reduction and for economic empowerment particularly in rural areas having poor population. Providing poor people the small amounts of credit at reasonable interest rates give them an opportunity to set up their own business at small scale.

Mawa (2008) conducted a research study focusing the issue under discussion and concluded that microfinance is an innovative step towards alleviating poverty. The author mentioned that microfinance facilities provided to the people help them to use and develop their skills and enable them to earn money through micro enterprises. Moreover provision of micro finance helps them to smooth their consumption level and manage unexpected risks. Micro finance helps the poor to built assets, educate their children and have a better 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 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 micro credit but a political problem, and political intervention of the state holds the ultimate resolution to struggle against poverty.

Kumar, et al (2008) found that micro finance is the only way to overcome poverty in India. A great potential exists for micro finance in the country. Major cross-section can have benefit if this sector will grow in its fastest pace. An annual growth rate of about 20% should be continuing if they want to control poverty.

Abiola & Salami (2011) in his study mentioned that a lot of literature is present on the positive role of micro finance in poverty alleviation, but every time and everywhere, micro finance is not so profitable. Many scholars wrote that micro finance is a good tool for poverty alleviation but in many occasion the result is opposite. The main reason behind the negative effect of the micro finance on poverty alleviation is due to the time shortage. The time is not enough for generating the income i.e. the shortness do not give room for loan to generate future income. The researcher mentioned that at the repayment time the loan taker is not in the position to repay the loan, if he so his business will collapse. He shows through the respondents that before the end of the loan the business would have almost collapsed. At the time of repayment he is almost in the middle of the business process. If he pays he has to close the business because the business is not in the position to continue any more. This put an extra pressure on the client. The client lost his time as well as some money in his business.
2.7 Indicators of Poverty

According to oxford advanced learners dictionary (2006), defines indicator as a sign that shows you what something is like or how a situation is changing, therefore the indicators of poverty means that the primary ability signs or symptoms that shows that there are existence of poverty in a certain community. Example disease is the indicator of poverty and the causes of diseases can be lack of safe drinking water. Poverty has a number of indicators, including low income, low production, unemployment, illiteracy, hunger, poor infrastructure, high mortality rate, malnutrition, homelessness or poor housing and powerlessness.

It also include poor social services such as poor health services and lack of clean and safe water, prevalence of diseases, squalid surroundings, low life expectancy, low per capita income, inadequate clothing, low technological utilization, environmental degradation and rural-urban migration (URT, 1999).

2.7.1 Individual (Domestic) Assets

The ability of citizen to own major assets such as house, furniture, domestic animals, is totally low. Basing on the real facts that all these needs better financial assets to maintain and own.

The researcher found most of the people own household assets like refrigerators and television which does not directly productive assets, in terms of the assets which could produce income like boats with engines and other machine for generating income

2.7.2 Food Sufficient

The living community which is poor has been totally suffering to obtain food caused by lack of farm to cultivate food crops, ability to run those farms also. The negative impact of this is that it leads to malnutrition among the living community which has also negative impact towards the development of the nation.
2.7.3 Ability to pay for Health Services
The individual and family ability to pay for health services is absolutely low causing, increasing in low life expectancy and death mortality. The decrease in number of working capital is absolutely negative upon the development of the Nation.

2.7.4 Ability to Pay for School Fees
The ability of families to pay for school fees of their children is low. This has been causing increasing in poverty and dependency ratio while also leaving the Nation with great number of people without school.

2.7.5 Ability to open or sustain Business
Running business needs more funds to operate and open. Majority of Tanzanians are poor and running business is still a nightmare. The poverty among the people and Nation at all is the main reason behind this. The development of the Nation depends much on this hence, decrease in its income also.

2.7.6 Unemployment
Most Tanzanians still depends on employment while the capacity of the Nation to employment graduates from schools is low. This has lead to daily increase in unemployment, and the people paying tax also has decreased.

2.7.7 Poor Infrastructure
Infrastructures such as roads, electricity, are poor. To any developing country like Tanzania having such situations is detrimental effects to the development of the Nation. It is through these infrastructures where investors are being motivated to invest their funds in a country.

2.7.8 Low income
Another indicator of the poverty is the low income due to the fact many people get low income, majority of the people cannot afford to live in good life causing increasing in poverty and dependency ratio in the Nation also in the family level.
2.7.9 Low production

Low production is another indicator of the poverty in Tanzania. The level of the production is low in all sectors such as industry, agriculture, activities, mining, and all active sectors of the production, which all causes by many factors such as technology, capital, and skilled labor. In the national level and also family level, it can lead to an increase in poverty.

2.8 Causes of Poverty

Poverty is caused by both internal and external factors. Whereas the internal causes can be clustered into economic, environmental, and social factors, the external causes relate to international trade, the debt burden, and the refugee problem (Kessy and Urio, 2006).

2.8.1 Internal Causes

The internal causes of poverty in Tanzania include lack of support to rural industries, insufficient support to the agricultural sector, laziness and irresponsibility, low level of technology, lack of income and assets, diseases, large families, and culture/traditions.

2.8.2 Lack of Support to Rural Industries

The establishment in rural areas of small scale, agro-based industries could have complemented the agricultural sector in the utilization of slack labor, in adding value to agricultural commodities and providing a basis for technological development (Chamwali and Shumbusho, 2001). By not developing small scale and cottage industries in the rural areas, the rural sector has continued to depend on peasant farming system, as a result perpetrating poverty.

2.8.3 Insufficient Support to Agricultural Sector

Despite the fact that agriculture is the backbone of the economy, the sector is receiving small support over years not commensurate with its relative importance.
Table 2.1: Share of Agriculture Budget in Overall Budget and Gross Domestic Product

<table>
<thead>
<tr>
<th></th>
<th>2000/01</th>
<th>2001/02</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2007/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture budget (in billion Tshs)</td>
<td>42.04</td>
<td>45.62</td>
<td>60.76</td>
<td>130.67</td>
<td>154.21</td>
<td>379</td>
</tr>
<tr>
<td>Agriculture budget as percentage total budget</td>
<td>3.8</td>
<td>2.8</td>
<td>4.4</td>
<td>5.6</td>
<td>4.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Agriculture budget as percentage of GDP</td>
<td>7.4</td>
<td>0.6</td>
<td>0.9</td>
<td>1.4</td>
<td>2.6</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: URT Economic Surveys, 2007

From the Table 2.1 it shows that the budget allocation to the agricultural sector is not commensurate to the sector’s contribution to the GDP, it is small and declining. The fact that agriculture was allocated meager and declining resources despite its importance in the economy was also noted in the national agricultural and livestock policy (URT, 2007)

This is reflected in poor rural infrastructure and lack of modernization of the sector. Smallholder farmers who dominate the sector remain virtually inaccessible to credit and other forms of relevant support to improve productivity. Lack of irrigation scheme, poor infrastructure, inefficiency of marketing system, lack of critical farm inputs, inability to modernize the technologies used in the sector have also contribute to the poor performance of the agricultural sector (Chamwali and Shumbusho, 2001). Furthermore lack of subsidies from the government has also lead to poor performance of this sector and hence contributes to the poverty in the country.

2.8.4 Laziness and irresponsibility

Lack of self motivation to perform one’s duties due to laziness and being irresponsible contribute to poverty. Loitering and misuse of time is prevalent in urban areas where many people are either unemployed or irresponsible (Chamwali and Shumbusho, 2001).
2.8.5 Culture/traditions
Customs and norms based on traditional beliefs are expected to influence people’s behavior in their livelihood and productive activities (Mascarenhas, 2006). For instance in some traditions women are being prohibited to engage in production activities as a result reduce the working power. Moreover, Culture/traditions such as various tradition ceremonies like marking puberty and burial rituals use people’s time and income as well as other resources (URT, 1998). By consuming more time and money for tradition ceremonies means that more resources are being used, hence contribute to the perpetuation of poverty.

2.8.6 Low level of technology
The uses of poor or inappropriate technology lead to low productivity in all sectors of the economy and hence contribute to poverty (Chamwali and Shumbusho, 2001). Low level of technology is due to several reasons such as, high cost of acquiring new technology and again obtaining technology which are out of date.

2.9 External Causes
Some of the external causes of poverty in Tanzania include; unequal exchange in international trade, problem of refugees, debt burden, impact of colonialism and world insecurity.

2.9.1 Unequal exchange in international trade
Agricultural products are sold at low prices in comparison to industrial products. Again there are trade barriers like high taxation on import goods and services and these have limit the ability of developing countries like Tanzania to break down the vicious cycle of poverty (URT, 1998).

2.9.2 Debt Burden
In Tanzania, debt servicing is currently about 23.8% of the recurrent budget URT (2008). This inhibit the government to adequately provide social and other services to
the public such as infrastructure, quality education, increase health care services and creating job opportunities.

2.9.3 Problem of refugees
Refugees from neighboring countries bring about problems such as destruction of physical structures like health centers, school as well as interference in the host country’s budget. Moreover, they also cause environment degradation and depletion of food and natural resources thus aggravated poverty in the host country (URT, 1998).

2.9.4 World Insecurity
This includes war and conflicts between nations, terrorism and other related problems. The problem of insecurity hinders the flow of aids to poor countries and also causes destruction of resources and physical structure (URT, 1998).

2.9.5 Impact of Colonialism
The structure of economy which was inherited from the colonial masters is based on monoculture system, mainly agricultural products like coffee, cotton, cocoa and others. The price of these products is still very low in the world market hence farmers get low income. Colonialism also created dependency which makes people feel inferior in decision making (URT, 1998).

2.10 Prevalence of Poverty in Tanzania
Poverty is not uniformly distributed geographically or within the population. Distinctions can be noted between rural and urban poverty, gender and along agro-ecological zones. According to the Tanzania Household Budget Survey (HBS) of 2000/01 URT (2002), the widest gap is between urban and rural populations. At one extreme, Dar es Salaam is substantially better off than the rest of the country; at the other, rural households are much poorer than their urban counterparts in almost all respects (URT, 2002).

Differences in poverty between men and women are smaller than geographical differences. Poverty is a result of many and often mutually reinforcing factors including
lack of productive assets to generate material wealth, literacy, and prevalence of diseases, natural calamities such as floods, drought and man-made calamites such as wars (URT, 2004).

2.11 Poverty Reduction Strategies

Poverty reduction means reducing the severity of poverty. It is different from poverty eradication which implies making the society completely free from poverty. Eradication can be possible for the absolute poverty approach, that is, if the incomes of those below the poverty line are raised beyond the set minimum standard, then society will be out of poverty using income consideration only (Makauki, 2006 cited in Haule, 2008).

To reduce poverty various schools of thought advocated a number of measures. For instance, the early development economists of the 1940s and the 1950s advocates the theory of forced-drift industrialization via Big push, Balanced growth and Labor transfer, while the World Bank (1990) and Sen (1985) emphases on macroeconomic stability, basic needs and capability and entitlement approaches to poverty reduction (Ijaiya 2002).

Tanzania has attempted poverty reduction since its political independence in 1961 when the three enemies of the national: poverty, ignorance and diseases were proclaimed. Since then efforts have been made to reduce poverty. More recently efforts to tackle poverty and other development problems in Tanzania include the formulation of the Tanzania Development Vision 2025 (1998), National Poverty Eradication Strategy (NPES) (1998), Tanzania Assistance Strategy (TAS) (1999) and Poverty Reduction Strategy Paper (PRSP) (2000). TAS is a medium-term national strategy of economic and social development. The Tanzania Development Vision 2025 is a long term plan and stipulates the national vision of economic and social objectives to be attained by the year 2025. The objectives include total eradication of absolute poverty by the year 2025. The NPES and PRSP contain medium term policies geared at reducing absolute poverty by 50 % by 2010 (Demographic Training Unit (DTU), 2003)
2.12 Concept of Microfinance

Micro-finance, which offers a variety of services ranging from savings, credits, to payment transfers, leasing, agriculture is defined as “the provision of financial services to low income households, small holder farmers and small micro-enterprises” (The National Micro-finance Policy, 2000). Moreover microfinance does not only cover financial services but also non financial assistance such as training and business advices. Like other types of financial services, micro-finance is a facilitator not a creator of opportunities that leads to wide spread economic prosperity. Hence the success of the micro-finance is in tandem with the development of other sectors in the economy.

2.13 Micro and Small Enterprises

There is a wide range of definitions for MSEs, but for the purpose of this study, a MSE is defined as a productive activity either to produce or distribute goods and or services, mostly undertaken in the informal sector. A typical micro enterprise employs fewer than five workers, usually family members and has very limited fixed assets. A small enterprise on the other hand, employs more than five workers and most of them are in a formal sector with much higher fixed assets compared to micro enterprise. According to the Small and Medium Enterprises Development Policy, small enterprises are formal undertakings engaging between 5 and 49 employees, or with capital investment ranging from Tshs. 5 million to Tshs. 20 million (URT, 2003).

2.14 Microfinance Policy

Microfinance in Tanzania is one of the approaches that the government has focused its attention in recent years in pursuit of its long term vision of providing sustainable financial services to majority of Tanzanian population (Rubambey, 2001). In Tanzania, before the current financial and banking restructuring took place, most of financial services for rural, micro and small enterprises were offered by the National Bank of Commerce (NBC) and the Co-operative and Rural Development Bank (CRDB) (Chijoriga, 2000).
Since 1991, the government has been implementing financial sector reforms aimed at putting in place a competitive, efficient and effective financial system. Although the reforms have had reasonable success in bringing about the growth of competitive and efficient mainstream banking sector, it has not brought about increased access to basic financial services by the majority of the Tanzanians, particularly those in rural areas (Rubambey, 2001).

The realization of the above shortcoming led to the Government’s decision to initiate deliberate action to facilitate alternative approaches in the creation of a broad based financial system comprising of a variety of sustainable institutions with wide outreach and offering diverse financial products.

The government’s choice of microfinance was influenced by the conviction that, given adequate attention, microfinance has the potential to contribute considerably to the economic development of the country because it is more adapted to the needs of the low-income population which makes up the majority of Tanzanians.

2.15 Types of Services and Products Offered By NMB

NMB offers both commercial banking and microfinance services and products to its customers. The microfinance services provided are mainly in the form of loans and deposit. Loans issued are of different types and they include small and medium enterprises loans, corporate loans, MFI and Savings and Credit Cooperatives Societies (SACCOs) loans, personal loans, salaried workers’ loans and pensioner’s loans (NMB, 2008).

Deposit include saving account, business account, bonus account, junior account, time deposit and short term deposit. Furthermore, NMB provide other products such as NMB mobile, NMB salary alert, trade finance, treasury products, and guarantees (NMB, 2008).
Other NMB services include cheques, standing orders, foreign exchange and foreign USD, travellers’ cheques cashing facilities and co-ordinating bank services for public offers (NMB, 2008).

2.16 The Link between Microfinance and Poverty Alleviation

Microfinance was initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards, offering financing to the poor (Harper et al, 1999), women’s empowerment (Rahman, 1999), and the development business sector as a means of achieving high standards and reducing market failure (Chijoriga and Cassimon 1999). Empirical evidences and surveys give mixed results on the performance of Microfinance schemes. 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.

Studies by Mosley (2001), Hassan and Renteria (1997), showed that, linking Microfinance with other interventions such as poverty alleviation often complicates the functioning of Microfinance 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 Microfinance as a profitable institution (loan repayment, profitability and degree of subsidizations). Thus for the Microfinance program 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.
CHAPTER THREE
THE RESEARCH DESIGN

3.1 Introduction
“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)
The successful outcome of the report of any scientific study largely depends on, and is a direct function of, the quality and accuracy of data collected and used during the research. This chapter is concerned with the development of the logical framework of the research method. This section discusses the approach adopted for data collection and analysis (the case study method), data classification and sources and the major instruments of data collection.

3.2 Research Design
In undertaking this study, case study designs were adopted because it is less expensive and helps to get in-depth insight of the unit under investigation. Moreover, the researcher decided to use this design since the study were conducted in a single organization and again case study is flexible in terms of data collection, methods and analysis. NMB PLC was chosen as a case study for this study because it is actively involved in the field of micro credit and micro savings in Tanzania.

3.4 Sample size
Simply, Sample means a selected unit from the population or universe. Sanga (1985), define sample as a small part of the large population. Kothari, (2004), argued that, sample size involves the decision to the type of sample and technique to be used in selecting the items for sample.
In this case, since it was difficult for the researcher to collect data from every individual in the NMB, the researcher sampled from population to get the representatives of the entire population, the researcher use a sample of 80 respondents out of them 02 were heads/managers from top management and departments, 04 were from finance/Accounts department, 04 were from back office, 10 were from loan department while the remaining 60 respondents were selected randomly from willing customers from different companies/organizations.

The size was affordable and adequate to the study putting into consideration of time frame and other resources available. The distributions of sample size were as shown below in Table 3.1.

**Table 3.1: Population**

<table>
<thead>
<tr>
<th>S.N</th>
<th>Departments</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Management (Managers)</td>
<td>02</td>
</tr>
<tr>
<td>2</td>
<td>Back office</td>
<td>04</td>
</tr>
<tr>
<td>3</td>
<td>Loan department</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>Finance and Accounts</td>
<td>04</td>
</tr>
<tr>
<td>5</td>
<td>Customers/Stakeholders</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
</tr>
</tbody>
</table>

**Source: Researcher 2013**

**3.5 Area of the Study**

The researcher covered five departments of NMB. The study was conducted at administration department, Account and Finance department, back office, and loan office department as well as customers as the external stakeholders to NMB. These departments were useful due to the fact that they are direct involving in providing loans and poverty reduction. Yet conducting a research on these departments help the researcher to reduce biasness in doing research and come with a fair conclusion.
3.6 Sampling technique

Research studies are distinct events that involve a particular group of participants. However, researchers usually intend on answering a general question about a larger population of individuals rather than a small select group. Therefore, the main aim of psychological research is to be able to make valid generalizations and extend their results beyond those who participate (Brown 2006). For this reason, the selection of participants is a very crucial issue when planning research. The researcher find out that it is difficult and cannot collect data from every single individual from the population of interest, since this would be extremely expensive and take a very long time! So instead researcher use a small group of individuals – called a sample. The sample is chosen from the population and is used to represent the population. Researcher use sampling techniques to select the participants for the sample – these techniques help to minimize cost whilst maximizing generalisability (David Brown 2006).

3.7 Sampling design

Sampling design is a process of selecting a required number of the respondents to represent the target population. The selection procedures were based on purposive sampling and simple random probability. Purposive sampling was used to get a list of heads of the departments who are linked or integrated to the procurement activities especial procurement of goods to be included in the sample while in sample random, probability sampling method were used to get a number of staffs example the procurement officers and accounts officers as well as customers from different organizations having different activities with the organization.
## 3.2 Table Sampling techniques

Table 3.1 Sampling techniques: Advantages and disadvantages

<table>
<thead>
<tr>
<th>Technique</th>
<th>Descriptions</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple random</td>
<td>Random sample from whole population</td>
<td>Highly representative if all subjects participate; the ideal</td>
<td>Not possible without complete list of population members; potentially uneconomical to achieve; can be disruptive to isolate members from a group; time-scale may be too long, data/sample could change</td>
</tr>
<tr>
<td>Stratified random</td>
<td>Random sample from identifiable groups (strata), subgroups, etc.</td>
<td>Can ensure that specific groups are represented, even proportionally, in the sample(s) (e.g., by gender), by selecting individuals from strata list</td>
<td>More complex, requires greater effort than simple random; strata must be carefully defined</td>
</tr>
<tr>
<td>Cluster</td>
<td>Random samples of successive clusters of subjects (e.g., by institution) until small groups are chosen as units</td>
<td>Possible to select randomly when no single list of population members exists, but local lists do; data collected on groups may avoid introduction of confounding by isolating members</td>
<td>Clusters in a level must be equivalent and some natural ones are not for essential characteristics (e.g., geographic: numbers equal, but unemployment rates differ)</td>
</tr>
<tr>
<td>Stage</td>
<td>Combination of cluster (randomly selecting clusters) and random or stratified random sampling of individuals</td>
<td>Can make up probability sample by random at stages and within groups; possible to select random sample when population lists are very localized</td>
<td>Complex, combines limitations of cluster and stratified random sampling</td>
</tr>
<tr>
<td>Approach</td>
<td>Method Description</td>
<td>Advantages</td>
<td>Disadvantages</td>
</tr>
<tr>
<td>---------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Purposive</td>
<td>Hand-pick subjects on the basis of specific characteristics</td>
<td>Ensures balance of group sizes when multiple groups are to be selected</td>
<td>Samples are not easily defensible as being representative of populations due to potential subjectivity of researcher</td>
</tr>
<tr>
<td>Quota</td>
<td>Select individuals as they come to fill a quota by characteristics proportional to populations</td>
<td>Ensures selection of adequate numbers of subjects with appropriate characteristics</td>
<td>Not possible to prove that the sample is representative of designated population</td>
</tr>
<tr>
<td>Snowball</td>
<td>Subjects with desired traits or characteristics give names of further appropriate subjects</td>
<td>Possible to include members of groups where no lists or identifiable clusters even exist (e.g., drug abusers, criminals)</td>
<td>No way of knowing whether the sample is representative of the population</td>
</tr>
<tr>
<td>Volunteer, accidental, convenience</td>
<td>Either asking for volunteers, or the consequence of not all those selected finally participating, or a set of subjects who just happen to be available</td>
<td>Inexpensive way of ensuring sufficient numbers of a study</td>
<td>Can be highly unrepresentative</td>
</tr>
</tbody>
</table>

*Source: Researcher 2013*
3.8 Data Collection Strategies

For the purpose of this study two types of data were collected and analyzed which were primary data and secondary data. Primary data in a simple way are the first hand data that to mean, data collected at the first time by the researcher (Kothari, 2002). Much emphasis was placed on the collection of accurate and reliable data so as to be able to come up with objective evaluations and to make informed conclusions and judgments.

The basic instruments which were employed in collecting primary data include questionnaire, interview and observation.

Secondary data was the data from existing empirical studies and reports that were collected by other people in a certain field of study for an intended purpose. The data was obtained from various organization records as well as search from library literature. Data collection methods vary depending on the compatibility of the information collected and source of data, for the purpose of this study data was collected from primary and secondary sources, the following methods were used.

Figure 1 below show the data collection methods applied by the researcher

Figure 3.1: Data collection methods

Source: Researcher 2013

3.8.1 Questionnaire

Questionnaires were prepared and administered to the relevant respondents. These were one of the methods which enable the researcher to get enough information (Kothari, 1990). The researcher use both open and close questionnaires. The questionnaires were
administered to credit customers of the NMB. Simple random samplings were used to obtain 60 credit beneficiaries of the NMB PLC who was provided with the questionnaire. Simple random were used to ensure there is an equal chance to all the customers to be selected.

With the use of questionnaire the researcher was able to collect different information. The questions were based on ease of accessing loans and whether they obtain advices or technical support from NMB. Question concerning the changes to their welfare as a result of NMB loan were also taken into consideration.

### 3.8.2 Interviews
This is a way of collecting information by asking questions to a person having knowledge concerning the study (Kothari, 2002). It is a good method because if the enquirer does not understand he/she may seek for more clarification. Structured interview was used to obtain the required data. Purposive sampling was applied to get the number of NMB employees where by 12 members of staff were interviewed from loan department together with the branch manager and 04 employees from the back office and 04 finance officers. Purpose sampling was used so as to obtain the information from the reliable sources, that to mean, to get the information from the persons who have an idea about the study. Again simple random sampling was used to get 60 customers to be interviewed. This method is easily compared to questionnaire since interview is cheaper than questionnaires.

### 3.8.3 Observations
The researchers also participated in some of the day to day activities of NMB, working with employees and loan beneficiaries as part of the data collection process. Through observation the researcher has an opportunity to obtain information as observed, listened or experienced.

Researcher was able to observe the whole process of loans advancing and recovery and knowing the main customers of the NMB based on sex. Again, the researcher
encounters a lot of complaints from clients concerning the accessibility of the NMB services, loan conditions and overcrowded of the bank.

3.8.4 Documentary Review
Secondary data were collected using documentary review. This is the method whereby the researcher pass through various organization’s documents and be in a position to know its past records. Data were obtained from bank’s documents which included credit reports, trend on portfolio, schedule of interest rates and charges on deposits and lending, credit policies, credit intelligence reports, and NMB prospectus.

Documentary reviews were used so as to enable the researcher to analyze the trend of NMB from the past years compared to the current year. Reviews were made from 2006 to early 2010 since the researcher is interested to know the trend of NMB in past four years. By so doing the researcher was able to obtain relevant information relating to loans granting, repayments, financial products offered as well as default hence assess the trend of the bank.

3.9 Data Reliability and Validity Issues

3.9.1 Reliability
This is the extent to which an experiment, a test or any measuring procedure gives the same results on repeated trials (Kothari, 2004). The researcher used the test and retests the procedure in which the pilot questionnaire was compared with the field questionnaire and observed to suit the intended objective of study.

3.9.2 Validity
Validity shows the degree of which an instrument measured what it is supposed to be measured (Kothari 2004). The researcher based on the facts obtained in literature review in which data analysis relied on. Generally researcher makes sure the researched data are valid and reliable.

This was achieved by constructing questionnaires that were appropriate with the research problem, drawing a representative sample, secondary data once used must
be analyzed its source, content, time collected and its applicability on the particular research problem.

### 3.10 Data Analysis Strategies

The quantitative and qualitative data analysis were used, basing on data and information collected from primary and secondary sources, on both microfinance bank and bank’s clients. Customers’ views on the changes to their welfare as a result of the NMB loan were analyzed quantitatively alongside descriptive analyses.

Most of the data collected through questionnaire and interview, for instance on examining the effects of micro credit and micro savings on people’s standard of living, were analyzed quantitative by calculating the frequency and percentage of respondents. The extent at which NMB contribute to poverty alleviation were analyzed by comparing the frequency of responses. Other information which required views from respondents was analyzed qualitatively by expressing those views provided by them.

The information collected from documentary sources as well as observations concerning the type of services and products provided by NMB, loan conditions and procedures and the nature of NMB customers was analyzed qualitatively.
3. Drawing Conclusion

From the data analyzed both qualitative and quantitative the researcher were be able to interpret the collected data and ultimately make necessary recommendation and conclusion on the role played by the micro finance bank in poverty reduction.

In assessing the performance to micro finance banks in poverty alleviation the researcher use the opinion of both the employees and clients. To determine whether the conditions and procedures set by the NMB favor the poor and MSEs, the researcher set the criteria that, if the percentage of respondents who says Yes, reaches 80% then the conditions and procedures are favorable. Moreover, if the percentage of respondents who says, Yes Less than 80% then the conditions and procedures is unfavorable.

Upon determining the extent at which NMB contribute to poverty alleviation, the criteria set is 70% whereby, if the percentage of respondent who says NMB has brought changes to their lives reaches 70% and above then, NMB contributes to poverty reduction.

On assessing whether the poor and SMEs receive adequate microfinance services (NMB services) the researcher set the criteria that, if the percentage of clients who provided with questionnaire exceed 90% by agreed that they received adequate NMB services then the poor and SMEs receive adequate NMB services. 90% and below indicated that the poor do not receive adequate NMB services.
CHAPTER FOUR

RESEARCH FINDINGS AND PRESENTATION

4.0 Introduction
Researcher presents the finding and carries out analysis of the findings from different methods used by the researcher and also to explore ways in which data and results can be presented effectively within a report.

This section covers the types of services provided by NMB, customers who have access to credit, credit condition as well as nature of NMB customers. It also presents analysis and discussion of the contribution of microfinance banks to poverty alleviation. The chapter concludes by giving the summary and implication of the results.

4.1 Access to Credit
Credit accessibility by the poor is an important factor in assessing the performance to microfinance banks in poverty alleviation. To determine the number of customers met by the microfinance services the location of the bank, nature (characteristic) of customers and credit condition were put into consideration. Location of the bank may indicate the nature of clientele focused or served by the bank, and the accessibility of the bank. NMB ngarenaro branch is located in the town centre of Arusha city as among operating branch of NMB in the city while the other two are still in operating which are located also in city and other out of Arusha city. This has led to more population in the branch and again so many customers have to incur some cost to follow the services. This has discouraged those customers out of the Arusha region from saving or even accessing loan.
4.2 Credit Condition
There are various conditions which must be fulfilled before granting loans to customers. These conditions may either smoothen or complicate credit accessibility by the poor. Taking an example of salaried loan, borrowers must have a permanent employment and should be guaranteed by his/her employer. It was observed that most of the poor people do not have permanent employment due to low level of education and hence they cannot be reached with this type of product. Moreover, few of them are employed in low cadre jobs such as cleaners, security guards and or messengers who cannot be easily guaranteed by their employers due to the nature of their jobs being risky or small salary amount that one can disappear easily after obtaining loan. Furthermore, even if they get guaranteed the size of loan they obtain is quite small that cannot help them to alleviate poverty. The size of the salaried loans accessed by the poor is insignificant because of the loan principle which states that, the size of the loans is only 10 times the net salary of the employees, considering the small salaries of the poor they end up obtaining the small loan amount.

For small and medium enterprises loans, individual loans, and business loans one should has collateral to secure his/her loan such as a house, fixed deposits, cars, a plot of land, and other household items like television, fridge, and furniture. From the observations most of the real poor do not have such collaterals and hence they cannot be in a position to obtain this kind of loans.

Other condition that excludes the poor from lending is the high interest rate which has been set by the bank. The high interest real discourages the poor since they find it unprofitable to obtain the small amount of loan with high interest rate.

From 60 clients who were interviewed, only 34 client 57.14% responded that, the credit conditions and procedures are favorable. Compared to the decision criteria of 48 client
80% set by the researcher, it showed that, the credit conditions and procedures are not favorable.

4.4 Nature of NMB Customers

In order to know the nature and categories of NMB clients the researcher examined a number of respondents in the study area. These included sex and education level. The study finding shows that, men are the major borrowers making up 33 customers (55%) of all the NMB borrowers while women accounted only 27 customers (45%). Due to the lack of education many women are not able to secure jobs as a result; women do engage themselves on self employed activities which necessitate them to borrow from different financial institution so that they can be able to run their businesses.

Table 4.1: Customers interviewed (by gender)

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequencies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>33</td>
<td>55%</td>
</tr>
<tr>
<td>Female</td>
<td>27</td>
<td>45%</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2013

Another characteristic that was considered was education level due to the fact that a certain level of understanding is required for one to access and analyze the relevance of loans towards poverty reduction. Again, most of the real poor people are illiteracy or with low level of education as a result the researcher used this characteristic to determine whether the real poor are met with banks services particularly, loans facilities.

The researcher obtained the information concerning the education level of the NMB customers through documentary review whereby she uses different banks documents to get this information such as loan application forms as well as opening account forms.
Table 2.2: Customers Interviewed (by Level of Education)

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Frequencies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No formal education</td>
<td>3</td>
<td>5%</td>
</tr>
<tr>
<td>Primary education</td>
<td>15</td>
<td>25%</td>
</tr>
<tr>
<td>Secondary education</td>
<td>30</td>
<td>50%</td>
</tr>
<tr>
<td>Degree</td>
<td>12</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: documentary review 2013

From the research findings, it shows that majority of NMB clients who access credits have secondary education 30 client (50%) followed by those with primary education 15 client (25%) while those with post-secondary education (degree holder) accounted for only 12 client (20%). Findings showed that, people with no formal education (and who are considered to be the real poor) are likely to have no access to bank’s services due to lack of awareness and lack of assets.

This is due to the fact that, customers with no formal education in counted only 3 client (5%) from all the customers interviewed which is just a very small number compare to other groups. Furthermore, people with formal education can easily understand the availability of loans in the banks and follow instruction toward loans. Findings also reveal that, people with post-secondary education have more awareness and understandings to bank’s services and when it comes for loans advances most of them find it unprofitable hence they don’t apply for it.

From the observation only 80% of the poor population and SMEs receive adequate NMB services and this is below the decision criteria of 90%. Bank’s conditions, procedures, lack of employment by the clients, lack of knowledge or awareness about
the bank’s services have been the reasons for poor population to receive inadequate bank’s services.

**Respondents Age**

As shown in Table 4.3, majority of respondent during the interview in NMB department and customer’s respondents had the age ranging between. 36-45 making 40(50%), followed by the group ranging between 46-55 years old making up 25(31.25%), minority 15(18.75%) were in the age between 25-35 years old.

**Table 3: Respondents interviewed (by Age)**

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 - 35</td>
<td>15</td>
<td>18.75</td>
</tr>
<tr>
<td>36 - 45</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>46 - 55</td>
<td>25</td>
<td>31.25</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source: Field Survey, 2013**

The age structure shows that NMB is mostly composed of highly energetic workforce that may indicate its vision to adapt the rapidly changing business climate in the country. Furthermore, this age structure is suitable for this research as the employees who have been studied here are more likely to be in the organization for a long time hence they have a very important role for the future performance (well being) of the organization. NMB face low level of risks in working force considering the age of their staffs hence reduction of poverty in Tanzania are in safe way as the man power concern.

**4.6 Education Level of NMB-Ngarenaro Staff**

Most of the respondents that were sampled are graduate i.e. Out of respondents 16 are graduate holder making up 80 percent of total respondents. Postgraduate respondents were only 02 equivalents to 10 percent of the sample size and those who have higher
qualifications were 02 making 10 percent. This shows a large number of respondents to the questionnaires are well educated. This response rate referred in Table 4.3 indicates the fact that, NMB has a strong base of qualified staff.

**Table 4.4: Staff interviewed (by Educational level)**

<table>
<thead>
<tr>
<th>Educational level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postgraduate</td>
<td>02</td>
<td>10</td>
</tr>
<tr>
<td>Graduate</td>
<td>16</td>
<td>80</td>
</tr>
<tr>
<td>Other professional</td>
<td>02</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Source: Field Survey, 2013*

This shows a large number of graduates and professionals responded to the questionnaires. This response rate referred in Table 5.4 indicates the fact that, NMB has a strong base of qualified staff in the field of procurement and logistics. This show that the level of literate is high hence the risk in procurement is minimized.

### 4.7. Respondents Working Experience

The researcher wanted to know distribution of working experience in order to be sure of the quality of responses thus satisfy with the inputs made to the research. The distribution table shows that most of the respondents lie between the periods of 11-15 years, which is adequate experience to be able to provide relevant responses to the research.

As indicated in Table 4.5, the majority of the respondents follow to a class of working experience between 11-15 years which is 40 percent of all respondents. Another group of the respondents lies within in a working experience of between 6-10 years which scored 25 percent of total respondents. The group which seems to have potential to the study is the age of between 16-20 years which marked a total of 10 percent of all
respondents the group of 1-5 years were 03 making up 15 percent and the rest is the group of 21 years and above who were 02 making up 10 percent.

**Table 4.5: Staff interviewed (by work experience)**

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>03</td>
<td>15</td>
</tr>
<tr>
<td>6-10</td>
<td>05</td>
<td>25</td>
</tr>
<tr>
<td>11-15</td>
<td>08</td>
<td>40</td>
</tr>
<tr>
<td>16-20</td>
<td>02</td>
<td>10</td>
</tr>
<tr>
<td>21 and Above</td>
<td>02</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2013

**4.8 Awareness of the Employees at NMB-Arusha on the importance of the reduction of the poverty**

The first specific objective aimed at determining employee(s) and customer awareness on how to reduce the poverty for using microfinance bank NMB. This specific objective is accompanied with the following questions.

**4.9 Awareness on the importance how to reduce the poverty?**

The findings shows that 16 (80%) of the respondents from Management and NMB department agreed that they are aware on the importance of reduction of the poverty while 8 (13.3%) of the respondents from other department said no

**Table 4.6: Staff interviewed (by their awareness of reduction of poverty)**

<table>
<thead>
<tr>
<th>Validity</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>16</td>
<td>80</td>
</tr>
<tr>
<td>No</td>
<td>04</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2013
4.10 Contribution of Micro Finance Bank on Peoples Standard of Living

The contribution of micro finance banks on poverty reduction can be seen by assessing the effect of credit in improving people’s standard of living.

Figure 4.1: Contribution of Micro Finance Bank on Peoples Standard of Living

Source: Researcher, 2013

KEY:
1:100 People
x- Axis: Years
Y- Axis People

4.11 Increases in Personal Income

The total income for an individual has increased due to the credits and grants offered by financial institutions such as NMB. Personal loans and business loans are some of the loans provided by National Microfinance Bank to help public gain momentum towards poverty alleviation.
4.12 Increases in Production

The main factors behind this is the agricultural loans provided by the bank, which has led to increase in agricultural production and hence alleviation of hunger within the Tanzanian community. The researcher asked the question concern the increase in production level as the provision of loans facilitate the poverty reduction in Tanzania.

Table 4.7: Increases in Production

<table>
<thead>
<tr>
<th>S/N</th>
<th>Level</th>
<th>Frequency</th>
<th>percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>high</td>
<td>16</td>
<td>26.6</td>
</tr>
<tr>
<td>2</td>
<td>medium</td>
<td>22</td>
<td>36.6</td>
</tr>
<tr>
<td>3</td>
<td>lower</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>4</td>
<td>poor</td>
<td>4</td>
<td>6.6</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2013

4.13 Employment Opportunities

Employment opportunities provided by the Bank have led to reduction in street beggars and unemployment problem facing the nation. Graduates from different higher learning institutions are being enrolled in different grades.

4.14 Increase in Literacy Rate

The literacy capacity has increased caused by great number of school attendants who has been provided with loans in running their education dreams. The increase in literacy is the main drive towards poverty alleviation, without education then any achievement in poverty alleviation will be nothing. Any Nation will be able to develop if and only if the literacy level is high.
4.15 High Mortality rate

The increase in production and the accessibility in acquiring natural resources have improved the living mortality rate and the food nutrients leading to increase in living capacity.

The capacities of Borrowers have increased which is a good sign of community awareness in fighting poverty. People can judge this through number of different questions:

a. Do borrowers become successful in their undertaking?

b. Who access to credit?

Responding to these questions, Do borrowers become successful in their undertakings, (75%) of the customers interviewed said loans have helped them much to rise their standard of living and improve their businesses. For instance nine clients said that before their first loans their lives were miserable where some could not afford family medical care, had education fees for their children and they were having a single meal per day. Now, they are having three meals per day, their children attend to school and they can even save so as to meet emergencies. (20%) of respondents argued that loans haven’t brought any positive changes to their lives since they can only break even. The (5%) of respondents said that, instead of alleviating poverty, loans are accelerating it, because few assets owned by the poor are being auctioned by the bank in case they fail to repay the loans. Some of the clients were not interested to apply for loans and when they were asked they said that, they do not borrow because most of the borrowers are not showing good example in poverty reduction. They said that, they are seeing borrowers embarrassed because of failure to repay loans on maturity.
Table 4: Trends of Repayments in Year 2006/09

<table>
<thead>
<tr>
<th>Year</th>
<th>No customers given loan</th>
<th>No customers default</th>
<th>Percentage of customers defaults</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>5890</td>
<td>868</td>
<td>14.8%</td>
</tr>
<tr>
<td>2007</td>
<td>6510</td>
<td>450</td>
<td>6.9%</td>
</tr>
<tr>
<td>2008</td>
<td>6569</td>
<td>549</td>
<td>8.45</td>
</tr>
<tr>
<td>2009</td>
<td>6870</td>
<td>200</td>
<td>2.9%</td>
</tr>
</tbody>
</table>


Table 4.8 shows that 868 (14.7%) customers defaulted in the year 2006, 450 (6.9%) customers defaulted in the year 2007, in the year 2008, 549 (8.4%) of customers defaulted together with 2009, (2.9%) failed to pay. Furthermore, researcher observed that, most of the real poor populations are not met with credit facilities since they do not have any undertakings or jobs to apply credits for.

From the research findings, it was also observed that, the agricultural sector is being ignored to access credit. Answering the question, why do you ignore farmers from accessing credit, the credit officers said that, agricultural activities are unpredictable since they highly depend on climate as the result they ignoring farmers so as to reduce the risk of defaulting the loans. However, they said that they are only considering those farmers who are cultivating sugarcanes for producing sugar. Since the researcher’s decision criteria was 70%, then NMB has contributed to poverty alleviation by 5% more above this decision criteria.
CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.0 Introductions
Researcher presents the finding and carries out analysis of the findings from different methods used by the researcher and also to explore ways in which data and results can be presented effectively within a report.

5.1 loans procedure by national microfinance bank (NMB)

5.1.1 Identification
Project identification is done in concert within the country. Once the viability of a project is established, it’s economic, financial, environmental and technical characteristics as well as the conditions that will ensure its success are examined and described in detail. Thereafter the project is included in the pipeline of projects to be financed.

5.1.2 Preparation
Project preparation is the second phase in the cycle of a project. This phase aims at accelerating studies on the project and to prove that the project can achieve its technical, economic, financial, institutional and social objectives. The preparation of a project is mainly incumbent on the promoter.

5.1.3 Appraisal
Project appraisal comes after the preparation phase during which NMB specifies the objective of the project, its institutional and organizational implications as well as its technical, economic and financial justification. The social and environmental aspects of the project are also appraised. This phase ends with the preparation of an appraisal report upon which the Technical and Research Committee bases its technical decision to recommend it to management for financing.
5.1.4 Negotiation
At the end of the appraisal phase, NMB and the borrower enter into negotiations officially. The negotiations lead to an accord which defines the project and specifies the programmed to be implemented in order to achieve the objectives of the project. A report on the main issues raised during the negotiations is prepared and signed by the borrower and the Bank. It is at this stage that the two parties define the modalities for the disbursement of the loan. A representative of the Loan Administration Division makes copies of the manual of disbursement available to the negotiators of the borrower.

5.1.5 Approval
When the negotiations are concluded, the management of NMB submits the project to the Board of Directors of NMB for consideration and approval. After careful consideration of all the aspects of the project, the Board of Directors may approve, reject project or give instructions for further appraisal. The loan agreement is signed once the project is approved by the Board of Directors.

5.1.6 Implementation and supervision
The implementation of the project starts with the signing of the loan agreement. It is incumbent on the borrower which is the beneficiary of the various forms of assistance as specified in the loan agreement to manage and implement the project in a satisfactory manner. The client must periodically provide information on the status of implementation of the project.
NMB must regularly supervise the project in order to verify the progress realized and to ensure that disbursements are made as agreed between the borrower and NMB. This stage of the process calls for mutual assistance and collaboration between the client and NMB.

5.1.7 Project completion report
After the completion of the project, and at least six months after the full disbursement of the loan, the borrower is obliged to prepare a project completion report giving his/her
perspective on the implementation of the project, the performance of those who intervened in the project, as well as on the attainment of the objectives of the project. NMB will also prepare its own project completion report in which it assesses the results of the project, identify shortcomings, highlight the successes and also draw the necessary lessons.

5.1.8 Presentation appraisal
After the preparation of the project completion reports by the client and by NMB, the Bank undertakes a post appraisal mission in order to assess the results achieved in relation to the initial objectives. During retrospective appraisal the necessary lessons are drawn in order to make recommendations on how to ensure more efficient development and improve upon the practices and procedures of NMB.

5.1.9 Legal provisions governing disbursement
This manual is not a legal or contractual document. It is meant to inform clients of the regulations and procedures applicable to disbursements in line with the provisions of the Articles of Association, the General Conditions Applicable to Loans, Guarantee and Counter-guarantee and the Statement of General Policy of NMB.

5.1.10 Loan agreement
The main legal document relating to a project financed by NMB is the loan agreement signed by the borrower and the Bank which specifies the terms and conditions of the loan.

5.2 General Conditions Applicable to Loan Agreements, Guarantee and Counter-guarantee

5.2.1 Currency
The loan amount is expressed in units of account (UA). Exceptionally, it could be expressed in local currency if the resources are raised locally. The guarantee provided by NMB is expressed in the currency of the operation guaranteed. The document processing
fees, interests and other fees are expressed in the currency of the loan, guarantee or counter guarantee as appropriate.

### 5.2.3 Interest rates

The interest rates charged by NMB 18% depend on the nature of the project and its profitability. The rates are pegged taking into account the financial equilibrium of the institution and the need to offer favorable terms to borrowers. The interest rates are reviewed periodically by the Board of Directors to reflect the financial prospects of the Bank and market trends.

### 5.2.4 Situation of the Customer to get loans

The researcher observed that the situation of the customers to get the loans it’s difficult due the long process which induced by the banks and all microfinance in the region. The researcher observed the loans procedure which provided by the NMB its takes a long process of the customers to get the loans and is not productive for time in order to minimize the poverty in Tanzania. NMB minimize the procedure of the customers as well the interest rates which lead the loans to beneficial to the customers and make to reduce the poverty alleviation in Tanzania.

### 5.3 Contribution of the Loans to the Market Actives

The researcher observed that there are contribution of the loans to the marketing activities in the region which provided by the banks to the customers, the market activities increase day after day depend on the number of the borrow to the bank, the researcher find out the bank doesn’t involve direct to teach costumer about performance of the business in order to increase market activities. Also the researcher find out due to the increase market activities the poverty level of the region decrease due to the provision of the loans which provided by NMB.
5.4 Contribution of the loans in decrease poverty

The researcher find the loans is the one key factor leads decrease the poverty level to the region, the loans which provided by NMB contribute for minimization of the poverty, and the indicator shows the number of the children goes to school, the production level increases, ability of the people pay school fees, ability of the people pay health service and the people doing business due to the circulations of the loans which provided by the NMB and overall loans contribute all most the country for minimization of the poverty.

5.5 Analysis of the NMB

National microfinance Bank (NMB) in generally, is facing the internal and external changes in the providing of the loans that put her in either with positive or negative impact during their operations. NMB has their branches in every region in Tanzania that operates under the instructions from the headquarters These Regional Offices have been the authority receiving from the headquarters to have the full authority to take control for their respective region NMB is one of them having the full control to manage the whole region on loans operations under their policies, rule and regulations aiming with compliances of the National Microfinance Bank Plc(NMB)Prospectus2008. NMB is facing the change of conducting their activities due to fact that almost the activities needs authorization from the headquarter that is the system is centralized so there are a need for decentralizing the NMB to give the regional Offices full authority to do their activities and to manage themselves.

5.6 Specific observation

The data that were collected from the field has been presented, analyzed, and discussed in order to give meaningful information. The study aimed at scrutinizing poverty alleviation in the Arusha region by the NMB.

In this chapter, response rate has been dealt with first, followed by the characteristics and findings from the Management staff and then followed by that of the characteristics and findings from NMB.
Frequency distribution was used to organize data, to give meaning to the response rates and facilitate insight. In the relevant tables the frequency distribution of responses has been ordered in the order of occurrences from the highest to the lowest occurrences obtained from
CHAPTER SIX

SUMMARY CONCLUSION POLICY IMPLICATION AND RECOMMENDATION

6.0 Introduction
The chapter shows a general summary of the research findings, conclusions recommendations, policy implication, limitation, success, drawbacks and on what measures should be taken to ensure that NMB PLC would have effective reduce of the poverty.

6.1 Summary of Findings
This study aimed at assessing the Contribution of Microfinance Banks in Poverty alleviation in Tanzania the review at the various literatures was done and revealed that Microfinance can be a critical element of an effective poverty reduction strategy equally for developing countries.

The services provided by microfinance institutions can enable the poor to smoothen their consumption, build their assets gradually, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life.

A case study design adopted were collected and after a proper analysis of the finding it is revealed that the contribution of Microfinance Banks towards poverty alleviation is effective since the rate of individuals seeking loans and grants provided to the public in the year 2013 was about 75% increase compared with 2010 which was only 40%. This shows that NMB PLC loans provision to the public has increased tremendously compared to previous a year which is the positive impact to the Nation and the Financial Institution also.

From the observation only 70% of the poor population and SMEs receive adequate NMB services and this is below the decision criteria of 90%. Banks conditions, procedures, lack of employment by the clients, lack of knowledge or awareness about
the bank’s services have been the reasons for poor population to receive inadequate bank’s services.

The research also reveals that clients are more complicated in returning the loans provided to them, while some of the grants and assistance provided to some families and NGO’S are not effectively and well used. In year 2010 shows most of customers that customer eligibility to repay is high compared to 2008 and 2009 cause most of business collapsed due to financial crisis and economic fluctuation of the country.

6.2 Conclusion

Based on the findings of this study, it can be concluded that, to a large extent microfinance banks particularly NMB (where the study was conducted) has brought about positive changes in the standard of living of the people who access their services. Although some of the clients have not benefited, most of the clients have benefited positively. Despite the achievement of clients, most of them complained about the interest rate being so high.

The findings also revealed that, microfinance banks (NMB) do not provide advices to their clients on how to operate their businesses so that they can be in a good position to repay their loans. Lack of advices and business knowledge has also contributed to the acceleration of defaulters since their businesses do collapse after failing to operate them. The researcher also discovered that the real poor population is not met with credit services due to their lack of guarantors, assets, businesses or salaried employment, and hence the contribution of microfinance banks to reduce poverty can be seen largely at national level rather than individually.

It can generally be concluded that the contribution of microfinance institutions on poverty reduction among poor, is very minimum, due to hard conditions in accessing and servicing loans that poor people cannot afford.

6.3 Recommendations

The following recommendations are put forward in order to improve the operations of microfinance banks particularly in the fight against poverty.
1. Micro finance banks should improve accessibility of their services to real poor by relaxing their terms and condition to make them able to access loans. Moreover, the Government of Tanzania must really put focus on these micro finance banks and other financial institutions to revise their policies and try to work out on how to help the poor raise their incomes as well as standards of living from the services offered by them.

2. Micro finance banks should reduce their interest rate so as to allow majority of people especial the real poor to access credit.

3. Business knowledge and advices should be provided to those acquiring credits so as to make sure their clients operate their businesses as required so as to reduce the number of defaulters due to bad operation of their businesses or even collapse.

4. Furthermore, farmers should be taken into consideration to access credits since the majority of the poor people are farmers and again they are the main stream of the economy, and by ignoring them it will be so difficult to alleviate poverty.

5. Again, education should be provided to the general public on the important of saving and credit since there are still so many people who know nothing about bank’s services.

6. Since most of the customers where complaining about the repayment period being too short, the micro finance banks should lengthen their repayment period so as to give their clients long term loans turn to their businesses.

6.4 Areas for Further Research
As the interest rates have been observed to be a serious problem, there is a need to conduct a study to determine rates that would cater for the operating expenses of Microfinance banks and at the same time facilitate the growth of their clients’ business

6.5 Limitations of the study
The following were the limitations encountered when conducting this study:-

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The study relied on secondary data as well for information, the presence of faulty data definitely posed problem to the study.

The study required the effective co-operation and the involvement of all the people in the study population and any attempt made to shelve information created problem for effective recommendations as a result of faulty finding.

Time constraints whereby during the research and how the activities were scheduled the time were no enough to collect data from different sources that put up the report to be of one Agency hence a challenge arise for concluding to other Agencies on their performance.

Sample unit that were used during the research is too small compare with the industry itself. When the sample is small the conclusion drawn does not fully present the whole population, hence the larger the sample the more appropriate conclusion.

6.6 Critical evaluation of the study

This chapter explains or gives the depth analysis of the internal and external environment to the researcher during writing the dissertation. Here, the discussion will base on what happened during the research study that means what went well or a success for the research and what went wrong or a drawback that researcher faced during the study. The project management techniques used during the study is also a part of this section and what the researcher will do if were supposed to repeat the same project again.

6.7 Success

During the research study the researcher faced different situations among them lead him to set down a successful research report. Before all, the researcher was able to solve any challenges that come up as he developed strategies for any challenge(s). The following are the thing that went well during the research study until its completion;

The researcher succeeded to accomplish the report within the time provided. Although there were challenge in meeting that time due to be short and limited. On other hand the
researcher succeeded to collect the data purposely for the intended work. The topic is new to the bank of NMB in ngarenaro area in Arusha. The researcher get full assist from the supervisor that she direct and help me where i faced challenges. During collection of data, the NMB Management participates fully in assisting the researcher to get the correct data according to the topic researched. Moreover, the researcher was able to compile the data and do the analysis easy due to the fact that the questionnaire was well composed and the NMB-Arusha answered it accordingly. On top of all success the researcher succeeds to conduct research and submit it thoroughly and that will be reason for him to be awarded his MAF the same year of research.

6.8 Challenges/drawback

During the research the researcher faced many challenges that in one way or another to make him strong on how to deal with any challenges in how the microfinance deal with the reduction of the poverty. Some of the draw backs were internal oriented or direct associated with researcher himself and others from the external environment and that for some extent were hard to solve immediately. The following are some of the external and internal drawbacks that the researcher faced during his research study.

i. Some of the responses from the respondents were not goods to the extent that were expected by the researcher. This happened during the questionnaires distribution and personal interviewing. Some of the respondents demanded that they don’t have time to conduct a research with the researcher while others demanded that they don’t have full information or data for answering my questions.

ii. Political pressure in Arusha Region is high, this was discovered by the researcher as when he asked some of the questions the reply was political oriented as the argued that this is the Government Agency and some of the information is totally strictly confidential and not easy to be disclose to any one unless the headquarters authorize the reveal of the needed information.

iii. The NMB-Arusha is facing the challenge of centralization and ruled in zones other data it’s difficult to get that affected the researcher during his data collection.
Example NMB - Arusha do not have a web site to put their major core concerns about providing of the loans and any other associated information for their region, instead the ask for permission from the headquarter to put whatever they have in the website.

iv. Time management was a problem as the researcher gets hard time to wait for long time out of the agreed time to receive the questionnaire from some of the respondents. This brings in a problem of overlapping with other activities and sometimes the researcher delayed for waiting other respondents to send back their feedback.

v. NMB uses the system that is more security in keeping the information and data. It is not easy to get files of all departments on papers especial in the important information like loans and the number of customers who takes those loans. It was not easy for the researcher to trace out the data in the file of 2013 because the file was secure in the place that was security.

vi. Most of the individuals who were responsible for answering the researchers’ questions were not fully aware on the meaning on how poverty reduction,

### 6.9 Project management techniques

The use of project management techniques during the research study is important as it helps to reduce stress because you already have at hand the techniques to do a certain task or activities. It also saves time, save money, and then it helps to meet the intended goals and to ensure accurate data are collected. Project management helps to reduce risk that may arise during the research. During the research, researcher used different techniques to manage his researcher work as listed below;

#### 6.10 Budget

A budget is a forecast or quantified plan of action. A quantified financial plan of action which itemizes a projects income and expenditure that is allocated to be used in the research example a list of all planned process for the project. This technique were applied by the researcher to help him in authorizing expenditure and avoid any
unnecessary expenditure or costs, them for communicating objectives and plans, controlling the operations by coordinating the activities and evaluating the performance by comparing the resources incurred and the actual performance.

6.11 Work break down structure (WBS)

The purpose of work breakdown structure (WBS) is to help to plan effectively for the research project by breaking down the key tasks or activities to be done in a specific time in a manageable and smaller unit of work. This was done by researcher to allow him to have small unit of work in day to day for the easy measurement of the performance. WBS helps the researcher to produce a detailed list of tasks to be done or performed for a research project, helping to deliver the better costing per unit of activity and scheduling the resources for the whole project.

There are some of the advantages of using WBS during conducting project; the following are some of them;

i. Can be used to allocate and delegate responsibilities to help accomplish different task or activities, example control through greater accountability in accessibility of loans

ii. Also can be used as a basis of financial exception reporting that helps in forecasting the project costs

iii. It helps in improving the resource planning and the efficiency on how resources are consumed.

iv. WBS can also help in sequencing and scheduling the timing of different events to improve effectiveness of how long period of time is going to be allocated.

6.12 Project scheduling

The researcher use one of the most common tasks of managing a project by scheduling a series of events for the different activities that are to be completed within a specified time. The duration and dependency of each event directly determine the length of the whole project. From own drawing the researcher maintained the critical path for the
purpose of not allowing any activity (es) to delay or to be removed from the line of activities.

6.13 Suggestions

Stand on the time given and work done during the research period, researcher suggests the following to be done or he will do the following if he were to repeat this research. The time given was not enough so due to time constrain the researcher did not get wide knowledge from the respondents and the data collected can be criticized once they are going to be used to conclude the performance of other microfinance as it didn’t comprise huge sample of population or representatives from different organizations dealing with reduction of the poverty. So the researcher suggest that if the time for conducting the research can be extended the researcher can do it around including more than one microfinance which involving the reduction of the poverty in Tanzania

On other hand, if the research were to be done again the researcher will conduct it using different method(s) of data collection such as quantitative and qualitative method in order to combine the different technique for different results from analysis and interpretations. This will help to come up with data and information from different judgmental perspectives.

6.14 Policy implication

To promote transparent and fair competition, NMB conduct competitive process through financial of the loans and all matter about the finance of public advertizing for all finance cases, and this is done to meet the National Microfinance Bank Plc (NMB) Prospectus 2008 Policy implications at NMB-Arusha based Customer value; to become recognized as the leading rural bank in Tanzania

Financial value; to generate sufficient profits to remain financially sustainable

Employee value; to be a challenging employer for its workforce providing sample opportunities for their career development National Microfinance Policy (2000)
The large core governing principles of NMB in implicating her policy is from the National Microfinance Bank Plc(NMB)Prospectus2008, explain that there shall be established, under the ministry responsible for finance.NMB is under ministry of finance where policy is formulated by the parliament of Tanzania and implication remains to Bank itself.

The policy implication at NMB is well observed but there are some areas need to be improved. This is among the challenges which the NMB is facing, also there are needs for linking the Government with stakeholders’ especial customers on issues related to loans rate provided by bank. Moreover the NMB should analyze financial issues and challenges, advice, provide guidelines, follow-up on their implementation of their policies as per National Microfinance Policy 2000.
7.0 References


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8.0 APPENDICES

8.1 APPENDEX I QUESTIONNAIRES GUIDELINE

Dear respondents, I am Mugendi David L. a student of Mzumbe University carrying out a research on the effectiveness of micro finance banks in poverty eradication in Tanzania. I hereby kindly request you to fill in the answers to these questions. The information is purely for academic purposes and will be treated with maximum consideration and confidentiality.

8.2 APPENDEX II QUESTIONNAIRES

SECTION A: CUSTOMERS

(1) Sex
Male [  ] Female [  ]

(2) Education level
    College secondary primary none
    [  ] [  ] [  ] [  ]

(3) What is the kind of service you acquire from NMB bank?
   a) Savings only
   b) Credit / / 
   c) Both saving and credit
   d) none

(4) If you acquire credit what is the type of loan you take from NMB bank?
(5) How do you assess the lending procedure?
   a) Simple
   b) Complicated / / 

(6) How do you see the interest rate?
   a) High
   b) Moderate / / 
   c) Low

(7) What about the repayment period, is it

   Short [ ]    moderate [ ]    long [ ]

   {Tick whichever appropriate}

   If short suggest the repayment period..........................................

(8) Are the condition of loans advancing and recovery favourable?
   a) Yes
   b) No / / 

(9) Do you think the loan you received was enough?
   a) Yes / / 
   b) No
(10) Did you use the loan as planned?
   a) Yes
   b) No / / 

(11) Do you think loans have improved your life in one way to another?
   c) Yes
   d) No / / 
   If no why do you keep on borrowing?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

(12) Why most of the customers fail to repay the loans?
    ……………………………………………………………………………………………
    ……………………………………………………………………………………………
    ……………………………………………………………………………………………
    ……………………………………………………………………………………………

(13) What do you think NMB bank should perform to improve the whole system of
loans advancing and recovery?
    ……………………………………………………………………………………………
    ……………………………………………………………………………………………
    ……………………………………………………………………………………………
SECTION B: CREDIT OFFICERS

1. What is your position in credit department office?

2. How do you observe the whole process of loan advancing and recovery to your customers? Do you get any complaints?
   a) Yes
   b) No / / 

   If yes what are they?

3. What do you think should be done to reduce the complaints from the customers?

4. Who are your main customers at your bank?
   a) SMEs (Small and Medium Enterprises)
   b) Individuals / / 
   c) Corporate
   d) Both
5. Do you provide business knowledge and advices to your customers?
   a) Yes
   b) No  /   /
6. Agriculture is the backbone of our economy do you provide credit services to farmers?
   a) Yes
   b) No / /  
      If no, why do you ignoring them?
      ……………………………………………………………………………………………
      ……………………………………………………………………………………………
      ……………………………………………………………………………………………
      ……………………………………………………………………………………………

7. What do you think should be done so as to improve the lending capability?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ………

Thank you for your cooperation