THE IMPACT OF MICRO-CREDIT SERVICE ON INCOME LEVEL OF THE TARGET BENEFICIARIES: A CASE OF NATIONAL MICRO FINANCE BANK LIMITED KARIAKOO AREA
THE IMPACT OF MICRO-CREDIT SERVICE ON INCOME LEVEL OF THE TARGET BENEFICIARIES: A CASE OF NATIONAL MICRO FINANCE BANK LIMITED KARIAKOO AREA

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

2013
CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Mzumbe University a dissertation entitled; “The impact of micro-credit service on income level of the target beneficiaries: A case study of National Microfinance Bank (NMB”) which has been submitted in partial fulfillment of the requirement for the Masters of Account and Finance of the Mzumbe University.

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Declaration
I, Kauthar Masoud, declare that, this dissertation is the product of my own original research work and that it has not been submitted for any award or degree in any other University for a similar or any other degree award.

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ACKNOWLEDGEMENT

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Masoud, Kauthar
DEDICATION

This work is dedicated to Amana Bank and National Microfinance Bank which through various pro-active development programs has given me the appetite for further studies.

May this work inspire others too to study and work hard for the full development of the banking and micro financing institutions with a focus in eradicating poverty conclusively in the urban and rural areas.
ABBREVIATIONS

BOT - Bank of Tanzania
CGAP - Consultative Group to Assist the Poor
CRDB - Cooperative and Rural Development Bank
FFI - Formal Financial Institution
GB - Grameen Bank
GDP - Gross Domestic Product
GNP - Gross National Product
GOT - Government of Tanzania
HBS - Household Budget Survey
HESLB - Higher Education Students Loans Board
LDC - Least Developed Country
MFIs - Microfinance Institutions
MoF - Ministry of Finance
MSEs - Micro and Small Enterprises
NBC - National Bank of Commerce
NGO - Non-Governmental Organization
NMB - National Micro-finance Bank
NMFP - National Microfinance Policy
PRIDE Tz - Promotion of Rural Initiative and Development Enterprise (PRIDE) Tanzania
SACCOS - Savings and Credit Cooperative Society
SMEs - Small and Medium Enterprises
UNDP - United Nation Development Program
WDR - World Development Report
ABSTRACT

The impact of the recent global economic and financial crisis on unemployment has been substantial in both developed and developing countries. High unemployment rate among young people increased further during and the after crisis and triggered serious economic and social problems and results on increase in poverty. It has been investigated that, this serious problem has been solved after introduction of Microfinance Institution.

Good performance of Microfinance Institution is one of the strongest means to effective unemployment reduction especially for developing countries. As a result, in many countries it has received an increasing in Microfinance Institution as important elements of society and as a tool for improving the performance of the lower income earners. In connection to this, survey is conducted on selected National Microfinance Bank to assess and determine what current practices and desired practices of the role of Microfinance functions in identifying the impact of micro-credit services on income level of the target beneficiaries. The researcher used the stratified randomly sampling technique in obtaining relevant information.

Findings reveal that, Microfinance can be a critical element of an effective poverty reduction strategy especially for developing countries. The study is an experimental case with the reference to National Micro-Finance Bank where participants in microfinance programs and non-participants where studied over time, thus yielding a rich pooled data for analysis. On integrating time dynamics in the analysis, the result indicates a positive and significant impact of microfinance on the improvement of income level.

Nevertheless, there is a need to create a policy framework to spur growth not only in microenterprises but also in the overall rural economy that would lead to the creation of employment opportunities and an increment in the agricultural output. This is quite a big task to accomplish and may require more than one particular policy intervention. In essence this calls for both private (microfinance) and public
partnerships to create the environment where such poverty reduction objectives could be realized.

Key words: Microfinance Institution, Poverty Reduction and Micro and Small Enterprises.
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CHAPTER ONE

INTRODUCTION

1.1 Background Information

Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, gradually build their asset base, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. Researchers argue that the Microfinance Institutions (MFIs) are useful as they

(i) reduce poverty through increased income and standards of living;
(ii) Empower women;
(iii) Develop the business sector through growth potentials, and
(iv) Develop a parallel financial sector.

Over the past two decade a number of efforts have been made by the Government, Development Partners, and Non-Government Organization (NGOs), Micro Finance Institutions (MFIs) and religious groups in order to solve the problem of poverty in Tanzania. Some of these efforts have resulted into the evolvement of the Development vision -2025, the National Strategy for Economic Growth and Poverty Reduction (MKUKUTA in Swahili), food for all Strategy 2020, the adoption of the Millennium Development Goals 2015, and the Agriculture First Priority Programmed (KILIMO KWANZA) adopted in June 2009 and formally launched in the Farmers Day (NaneNane) on 8th of June, 2009 in Dodoma. The latter, will among others, cause the creation of Tanzania Agricultural Development Bank with a capital of US$500,000,000, and hopefully some of these funds will be channeled to MFIs for On lending to the rural poor in the agri-business sector to stimulate the development of modern agricultural activities and further reduce poverty in Tanzania.

MFIs have been established with the optimism that directing credit to the poor members of the society on favorable terms will help them break the poverty trap in which they find themselves. Although microfinance services were in existence
before, the government viewed them as largely being controlled by the private sector and they remained weak due to: over-dependence on Door Community funding for their operational problems such as poor administration, weak financial control, lack of effective supervision by the monetary authorities, and the fact that micro-financing schemes were operating under different laws, which rendered it difficult to monitor them and develop common standards (MoF, 2000).

Micro-credit programs or the trade policies have emerged as anti-poverty instruments which aim at ensuring that, small scale farmers and new small and micro enterprises get equal and adequate access to credit or are facilitated by shifting income toward the largely untaxed small farmers, small enterprises and the informal sector by reducing the domestic tax ratio (UNCTAD, 2007). This is in contrast to the practices of the many of the formal financial institutions that charge commercial interest rates and whose focus targets the few traditional and well-established industries, large farmers and traders, where the risk profile is low. Furthermore, the geographical location of the most formal financial institution tends to be skewed in favor of the key urban centers (Kulekana, 2004, Mwandenga, 2003).

In cases where the formal credit facilities were available, the borrowers were often subjected to prohibited interest rates, a factor that scared them away. Lending rates for long term credits are too high to attract the productive sectors of the economy and, in the further effort to avoid risk, banks and financial institutions invest sizable amounts of their portfolios in Government securities, a situation that can crowd out private sector capital formation operating. The practices of all banks have tended to discriminate against small venture projects, especially within the agriculture sector and small and micro entrepreneurs (Mwandenga, 2003).

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

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

The increased participation and contribution of MSEs has led to an increased need for financial services. Credit has been recognized as one of the tools for promoting the development of MSEs. Loans enable the individual member or enterprise to enjoy both benefits of economies of scale and those of new high-value technology.

Recognizing the importance of financial services to MSEs, during 2000 the government of Tanzania developed the National Microfinance Policy in line with the overall financial reforms initiated in 1991. The policy aims at enabling low-income earners to access financial services. Microfinance Institutions (MFIs) have become alternative sources for financing MSEs in place of Formal Financial Institutions (FFIs), which regarded MSEs as too poor to save, having low borrowings and carrying a default risk. The policy further aims at raising the income of both households and enterprises, by facilitating savings, payments, and insurance and credit services.

Despite the recognition of the dynamic role of credit to small enterprises, few business owners and the poor in rural Tanzania have access to, and benefit from, the available financial services. MFIs activities remain centered on urban areas. Operational performance demonstrates low loan payment rates and the capital structure reveals a high dependence on donor or government funding.
1.2 Problem Statement

A recent strategy adopted by the Government on introduction of MFIs is seen as the best alternative source of financial services for low income earners especially in the rural areas as a means to raise their income which provide credit on favorable and affordable terms, hence reducing their poverty level. This was after the Government realized that financial market principle enshrines in the 1991 financial sector reforms should be the guiding force as the basis for a sound financial sector development, the search for a better alternative to reach the poor directly was needed and hence, additional focus was placed on the extension of the financial services to micro-level clients (MoF, 2000).

However evidence has shown that these MFIs have limited coverage, poor organizational structures and some are donor driven. These findings stimulated research to investigate if the coverage of MFIs is as stipulated in the National Micro Finance Policy (NMFP) that is, covering small business owners and the poor rural population.

The realization of the above was explicit as portrayed by the Government decision to restructure the National Bank of Commerce (NBC) and establish the National Micro Finance Bank (NMB), in 1997. The NMB was given an additional role by the Government of helping the poor by giving them credit on favorable terms in order to reduce and alleviate poverty. This placed the NMB at the core of efforts in Tanzania.

It is, therefore important to know how credit availability from the NMB has impacted favorably or otherwise on the poor.

1.4 Research Objectives
1.4.1 General Objective

The general objective of the study was to understand the role of Micro-Financing Institutions (MFIs) in poverty reduction.
1.4.2 Specific Objectives
The study centered on the following specific aspects:
   i. To trace the contribution of micro credit services generation of beneficiary group
   ii. To identify the factors influencing the utilization of micro credit services
   iii. To identify challenges in the effective use of micro credit services; and
   iv. To suggest improvements for better performance of micro credit services in improving income level of the target groups.

1.5 Research Questions
   i. Do the conditions and procedures set by MFIs favor the poor and low-income earner clients? Do the target groups receive adequate MFIs services?
   ii. To what extent do micro credit services contribute to poverty reduction? And what strategies used by National Microfinance Bank Limited in reducing poverty reduction?
   iii. What is the performance of micro-credit recipients (SMEs) that are supported by the NMB?
   iv. What is the significance of the National Microfinance Bank in Poverty reduction through development of SMEs?
   v. What are the challenges facing small loans beneficiaries (SMEs) in their endeavors to reduce poverty in Tanzania?
   vi. What are the appropriate measures that should be taken to overcome these challenges?

1.7 Significance of the Study
The Government initiative on poverty reduction policies is based on the consciousness that poverty is a threat not only to the country’s economy but also to individual’s, wellbeing. Thus, the policy should cut across all aspects of socio-economic life and activities in the country if it is going to be effective in improving the life of poor. MFIs have been given a big role of servicing the poor with instruments and tools to help them out of their poverty trap. This study focused on the NMB and its role in poverty reduction.
The finding from this study has a significant importance for the banking sector, Donor community, decision and policymakers as well as for the Government. They can help to make necessary corrections to the financial sector and assessing common objectives for development purposes and also provide a significant input that can be used in evaluating the credit provided by the NMB, and banks in general, for poverty reduction as well as provide noteworthy impact on the evaluation of the future strategies to be adopted by the Government, Micro-financing strategies, microfinancing institutions and banks.

This study will also provide important contribution to the body of knowledge on micro-credit and how it is used as a tool for poverty reduction. And also the study will be of benefit to MFIs, policy makers, MSEs and the community at large. The study explores and recommends potential areas that MFIs need to put more efforts when delivering their services. On the other hand, policy makers will also benefit in the sense that, the findings provide informed suggestions on how policy can be improved. With improved and easy to implement policies, more MSEs and the community at large will be able to access and benefit from the services of MFIs.

1.8 Limitation of the Study
There are several factors that stood as stumbling blocks in the study, these included:

i. Low level of literacy among the small-scale credit beneficiaries and questionnaires and interviews did consume more time than expected in answering them.

ii. Time constraints - due to the nature of the population that was relevant to this study, there was need for more time for physical observations on the penalization of the credit granted and how it was impacting upon the wellbeing of the beneficiaries.
iii. Also given the fact that the study area and respondents are located in an urban setting, the findings of the study cannot generally be applied to the rural areas where the poor majority live.

1.9 Outline and Organization of the Study
This study is divided into six chapters and arranged as follows:

Chapter One – presents introduction and background. It includes background to the study, problem statement, and brief information on the NMB, objective of the study (general and specific), hypothesis to be tested, research questions, significance of the study and limitation of study.

Chapter Two – deal important literature review relevant to this study. It includes published and unpublished materials as well as internet papers on the issues of microfinance institutions and their role on poverty reduction.

Chapter Three – provides the research methodology applied in the study. It includes research design, general approach and rationale, scope of the study and study area, sampling procedure, data collection procedures and data analysis.

Chapter Four – present research findings and their corresponding discussions based on the research problem, research objectives, and hypothesis and research questions.

Chapter Five - provides details on discussion on finding; it’s all about explanation and details discussion about what have been mentioned on Chapter Four.

Chapter Six – draws conclusions based on the key findings of the study and give recommendations.
CHAPTER TWO

REVIEW OF LITERATURE

2.1 The Concept of Micro-Finance
Microfinance refers to “small-scale financial services – primarily credit and savings to people/enterprises that farm, fish or herd; operate an income generating activity, small or micro-enterprises where goods are produced, recycled or sold, who work for wages or commissions, who gain income from renting out small amount of land, vehicles draft animals, or machinery and tools, and to other poor individuals or groups at the local level of developing countries, both rural and urban (Robinson, 2001).

Microfinance, according to Otero (1999, p.8) is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to Ledgerwood (1999) generally include savings and credit but also include other financial services such as insurance and payment services. Schreiner and Colombet (2001, p.339) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks”. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Thus Micro-finance is not only banking but it is a developmental tool. Its activities usually involve small loans, typically for working capital, informal appraisal of borrowers and investments, collateral substitutes such as group guarantees or compulsory savings, access to repeat and obtain larger loans based on repayment performance, streamlined loan disbursement and monitoring and secure savings products (Ledgerwood, 1998).
2.1.2 The History of Microfinance

Microcredit and Microfinance are relatively new terms in the field of development, first coming to prominence in the 1950s, according to Robinson (2001) and Otero (1999). Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programs. These often resulted in high loan defaults, high lose and inability to reach poor rural households (Roninson, 2001). Robinson states that the 1980s represented a turning point in the history of microfinance in the MFIs such as Grameen Bank began to show that they could provide small loans and saving services profitably on large scale. They received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients (Robinson, 2001).

It was also at this time that the term “microcredit” came to prominence in development. The difference between microcredit and the subsidized rural credit programs of the 1950s and 1960s was that microcredit insisted on repayment, on charging interest rates that covered the cost of credit delivery and by focusing on clients who were dependent on the informal sector for credit. It was now clear for the first time that microcredit could provide large-scale outreach profitably. The 1990s “saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale” (Robinson, 2001, p. 54). Ditchter (1999, p. 12) refers to the 1990s as “the microfinance decade”. Microfinance had now turned into an industry according to Robinson (2001). Along with the growth in microcredit institutions, attention changed from just the provision of credit to the poor (microcredit), to the provision of other financial services such as savings and pensions (microfinance) when it became clear that the poor had a demand for these other services.

The importance of microfinance in the field of the development was reinforced with the launch of the Microcredit Summit in 1997. The summit aims to reach 175 million of the world’s poorest families, especially the women of those families, with credit for the self-employed and other financial and business services, (Microcredit
Summit, 2005). More recently, the UN, as previously stated, declared 2005 as the International Year of Microcredit.

2.1.3 **Microfinance Institutions (MFIs)**

Microfinance Institution is the institutions which provide both financial intermediation (saving, credits, insurances etc) as well as social intermediation (such as group formation, development of self-confidence and training in financial literacy and management capability among member group) (Ledgerwood, 1998). MFIs is the provision of a broad range of financial services such as deposits, loans, payment services, money transfer, and insurance to poor and low-income households and their micro enterprises. MFIs can be Government banks, commercial or non-bank financial institutions, Non-Governmental Organization (NGOs) as well as savings and loan cooperatives and credit unions. Microfinance does not only cover financial services but also non-financial assistance such as training and business advice. The principal providers of financial services to the poor and low income households in the rural and urban areas of Tanzania consist of licensed commercial banks, regional and rural unit banks; savings and credit cooperative societies; and several NGOs whose micro-credit delivery operations are funded and supported with technical assistance by international donors.

2.1.4 **Micro-Finance Bank**

A Micro-finance bank is a formal financial institution which characteristics of microfinance institutions (providing small loans to the deprived groups to the society), but also accepts deposits from their members and general public, which they invest at their own risk – that is to say, they are involved in financial intermediation.

2.1.5 **Micro and Small Enterprises (MSEs)**

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.17

2.1.6 Micro-credit: Definition
The Advanced Learner’s Dictionary (2000) explains that a micro-credit is small loan/money borrowed from the bank on a small scale.
Micro-credit in this study is thus defined as any money provided by a micro finance institution to a customer for business purposes.

2.1.7 Micro-credit: Classification
Yunus, (2003) classified micro-credit into several categories as follows:
   i. Traditional informal micro-credit (such as, moneylender’s credit, pawn shops, loans from friends and relatives, consumer’s credit in formal market, etc.)
   ii. Micro-credit based on traditional informal groups
   iii. Activity – based micro-credit through conventional or specialized banks (such as, agriculture credit, livestock credit, fisheries credit, handloom credit, etc.)
   iv. Rural credit through specialized banks
   v. Cooperative micro-credit (cooperative credit, credit union, savings and loan associations, saving bank, etc.)
   vi. Consumer micro- credit.
   vii. Other types of NGO micro- credit, non –NGO and non –collateralized micro-credit.
   viii. Grameen type of micro- credit or Grammen credit.

2.1.8 Definition of Poverty
Poverty at its broadest level can be conceived as a state of deprivation prohibitive of decent human life. This is caused by lack of resources and capabilities to acquire
basic human needs as seen in many, but often mutually reinforcing parameters which include malnutrition, ignorance, prevalence of diseases, squalid surroundings, high infant, child and maternal mortality, low life expectancy, low per capita income, poor quality housing, inadequate clothing, low technological utilization, environmental degradation, unemployment, rural-urban migration and poor communication. 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.

The following figure explains the general perception of the poor emphasizing on the interlink to low productivity within the vicious cycle of poverty.

![Figure 2.1: The poor are help up in the vicious cycle of poverty.](image)

From the above figures its show the circular of the poor with low capital will have low Labour productivity that will cause low income, they have to limit their demand in order to fix on what they earned, low demand of goods and services.

### 2.1.9 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
2000/0120, 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.

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, illiteracy, and prevalence of diseases, natural calamities such as floods, drought and man-made calamities such as wars.

2.1.10 Poverty Eradication in Tanzania
Tanzania, as with other developing countries, has been struggling to reduce poverty. One of the interventions has been the introduction and implementation of social and economic policies which address the issue of poverty both at national and individual levels. This involved State intervention in education and other social services, and the creation of an enabling environment for private sector investment in productive sectors.

During the World Social Summit held in Copenhagen in 1995, Tanzania joined other nations in their commitment to eradicate poverty. Following this commitment, Tanzania has developed plans for poverty reduction which are outlined in the Tanzania Development Vision: 2025, the National Poverty Eradication Strategy, Poverty Reduction Strategy Paper (2000,) and the National Strategy for Growth and Reduction of Poverty (2005). All these stress the importance of equitable, sustainable economic growth and improvement of people’s welfare.

The Government of Tanzania recognizes the role of the private sector in poverty reduction. The private sector has a role of creating employment opportunities by increasing investments. Also, private sector investment in social services will create effective and efficient environment for poverty reduction.
2.2 Units of Assessments
Following on from the design of a model of the impact path comes the choice of the unit of assessment (or levels of assessments). Common units of assessment are the household, the enterprise or the community within which agents operate.
Occasionally studies have attempted to assess impact at an individual level, but this is relatively rare. More recently some studies have attempted to assess impacts at a number of levels, such as Hulme and Mosley (1996) who looked at microenterprise, household community and institutional levels.

The relative advantages and disadvantages of different units of assessment are summarized in table below. As can be seen a focus purely on the ‘individual’ or the ‘enterprise’ has such drawbacks that they could be viewed as discredited. The household economic portfolio model has much to recommend it – especially if institutional impacts are incorporated in the community level analysis. It does have the profound disadvantages, thoughts of making assessment demanding in terms of costs, skilled personnel and time. If used with limited resources it risks sacrificing depth for breadth of coverage of possible impacts.
<table>
<thead>
<tr>
<th>Unit</th>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>Individual</td>
<td># Easily defined and identified</td>
<td># Most interventions have impacts beyond the individual # difficulties of disaggregating group impacts and impacts on relations’</td>
</tr>
<tr>
<td>Enterprise</td>
<td># Availability of analytical tools (profitability, return on investment etc.)</td>
<td># definition and identification is difficult in enterprises # Much Microfinance is used for other enterprises and/or consumption # Links between enterprise performance and livelihoods need careful validation.</td>
</tr>
<tr>
<td>Household</td>
<td># Relatively easily defined and identified</td>
<td># Sometimes exact membership difficult to gauge.</td>
</tr>
<tr>
<td></td>
<td># Permits and appreciation of livelihood impacts</td>
<td></td>
</tr>
<tr>
<td></td>
<td># Permits and appreciation of interlinkages of different enterprises and consumption</td>
<td></td>
</tr>
<tr>
<td>Community</td>
<td>#Permits major externalities of interventions to be captured</td>
<td># Quantitate data is difficult to gather # Definition of its boundary is arbitrary</td>
</tr>
<tr>
<td>Institutional Impacts</td>
<td># Availability of data</td>
<td># How valid are inferences about the outcomes produced by institutional activity?</td>
</tr>
<tr>
<td></td>
<td># Availability of analytical tools (profitability, SDIs, transaction costs)</td>
<td></td>
</tr>
<tr>
<td>Household Economic Portfolio (ie: household, enterprise, individual and community)</td>
<td># Comprehensive coverage of impacts # Appreciation of linkages between different units</td>
<td># Complexity # High costs # Demands sophisticated analytical skills # Time consuming</td>
</tr>
</tbody>
</table>

**Table 2.1 Units of Assessment and its advantages and its Disadvantages**

### 2.2.1 Microfinance and its impact in development

Microfinance has a very important role to play in development according to proponents of microfinance. UNCDF (2004) states that studies have shown that microfinance plays three key roles in development. It:

i. Helps very poor households meet basic needs and protects against risks,

ii. Is associated with improvements in household economic welfare,

iii. Helps to empower women by supporting women’s economic participation and so promotes gender equity.
Otero (1999, p. 10) illustrates the various ways in which “microfinance, at its core combats poverty”. She states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty (1999). By providing material capital to poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector.

Littlefield and Rosenberg (2004) state that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999).

More recently, commentators such as Littlefield, Murduch and Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of microfinance in achieving the Millenium Development Goals. Simanowitz and Brody (2004, p. 1) state,” Microfinance is a key more member receives loans and after another period of successful repayment, the final member receives a loan (Ledger wood, 1999).

The concept of poverty and the impact of microfinance in combating poverty are examined in more detail in the following section of this chapter:

The main functions are

(i) Eradicate extreme poverty and hunger;
(ii) Achieve universal primary education;
(iii) Promote gender equality and empower women;
(iv) Reduce child mortality;
(v) Improve maternal health;
(vi) Combat strategy in reaching the MDGs and in building global financial systems that meet the needs of the most people”.

Microfinance is a critical contextual factor with strong impact on the achievements of the modern development. Microfinance is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale”. Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women.

However, not all commentators are as enthusiastic about the role of microfinance in development and it is important to realize that microfinance is not a silver bullet when it comes to fighting poverty. Hulme and Musley (1996), while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that ‘most contemporary schemes are less effective than they might be” (1996, p. 134). They state that microfinance is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off by microfinance. Rogaly (1996, p. 109/110) finds five major faults with MFIs. He argues that:

(i) They encourage a single-sector approach to the allocation of resources to fight poverty,
(ii) Microcredit is irrelevant to the poorest people,
(iii) An over-simplistic notion of poverty is used,
(iv) There is an over-emphasis on scale,
(v) There is in adequate learning and change taking place.

2.2.2 The impact of Microfinance on poverty
There is a certain amount of debate about whether impact assessment of microfinance projects is necessary or not according to Simonwitz (20001b). The argument is that if the market can provide adequate proxies 10 for impact, showing that clients are happy to pay for a service, assessments are a waste of resources. However, this is too simplistic a rationale as market proxies mask the range of client responses and benefits to the MFI. Therefore, impact assessment of microfinance
intervention is necessary, not just to demonstrate to donors that their interventions are having a positive impact, but to allow for learning within MFIs so that they can improve their services and the impact of their projects (Simanowitz, 2001, p.11).

The focus needs to be on helping the poor to “sustain a specified level of well-being” (Wright, 1999,p.40) by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved. It is commonly asserted that MFIs are not reaching to the poorest in society.

However, despite some commentators’ skepticism of the impact of microfinance on poverty, studies have shown that microfinance has been successful in many situations.

According to Littlefield, Murduch and Hashemi (2003, p. 2) “various studies… document increases in income and assets, and decreases in vulnerability of microfinance clients” They refer to projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda which all show very positive impacts of microfinance in reducing poverty.

Also MFIs provide credit to very poor households, those households were able to raise their incomes and their assets (1996, p. 118). Mayoux (2001, p. 52) states that while microfinance has much potential 11 the main effects on poverty have been:

(i) Credit making a significant contribution to increasing incomes of the better-off poor, including women.

(ii) Microfinance services contributing to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies.

2.2.3 Empowering women
A key objective of many microfinance interventions is to empower women. If we want to see people empowered it means we currently see them as being disempowered, dis advantages by the way power relations shape their choices, opportunities and well-being. Women need empowerment as they are constrained by “the norms, beliefs, customs and values through which societies differentiate between women and men”. The process by which those who have been denied the
ability to make strategic life choices acquire such an ability,” where strategic choices are “critical for people to live the lives they want (such as choice of livelihood, whether and who to marry, whether to have children, etc)”. Therefore MFIs cannot empower women directly but can help them through training and awareness-raising to challenges the existing norms, cultures and values which place them at a disadvantages in relation to men, and to help them have greater control over resources and their lives.

MFIs can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequities. However, they also state that just because women are clients of MFIs does not mean they will automatically become empowered.

However, with careful planning and design women’s position in the household and community can indeed be improved.

The study found that when the violence did rise, the members, because of their increased awareness, reported back to the group on their martial life and got support from the group. The project was found to have increased their autonomy in that they were able to spend family income more freely than non-clients. They had greater control over family planning, but the project was not shown to have had an impact on clients’ control over other decision-making but they were found to have greater access to household resources than non-clients did. Women as key participants in microfinance projects do not automatically lead to empowerment; sometimes negative impacts can be witnessed. MFIs need to work with men to help pave the way for a change in attitudes to women’s enhanced contribution to the household.

2.2.3 Impact beyond the household

In this section I will refer to various findings that show the positive impacts microfinance interventions can have beyond client households. Imp-Act (2004b) gives examples where the impact of microfinance projects goes beyond clients. They refer to studies on MFI in Uganda, which show that loans given to small farmers have resulted in substantial increases in part-time and permanent wage labor of non-clients. Even though the clients themselves were usually above the poverty line, the
people employed were not, thereby showing the positive knock-on effects of such an intervention, even if the poorest were not targeted.

Mosley and Rock (2004, p.467) in a study of six African MFIs found similar results. They concluded from their study that MFI services provided to the non-poor can reduce poverty by “sucking very poor people into the labour market as employees of microfinance clients”. They also state that microfinance services often enhance human capital through increased spending on education and health that may extend to poor households through intra household and inter-generational effects.

Zahir and Matin (2004, p318) state many MFI loans are used for agricultural production, trading, processing and transport, resulting in an increase in the use of agricultural production. This leads to enhanced employment opportunities in these sectors for the wider community and a reduction in the prices of such produce due to increased supply. They also state that trading activities financed by MFIs can help to establish new marketing links and increase the income of traders, and this can lead to reduced migration due to increased employment opportunities and increased income (Zohir and Matin, 2004).

From a social perspective, they state that reduced migration increases family cohesion and greatly contributes towards improving child-upbringing.

Therefore, impact of microfinance projects should not just focus on the individual and household levels if the true impact is to be assessed.
Figure 2.2 Potential Impact of Microfinance Institution at Household and Community level

From the above figure show the impact of MFI at household and community level. The need of both household and Community is for basic needs, they need to be financed for Economic variable in order to access food, renovate their house, increase your income. Also they require for human capital by manage their health, payment for school fees and empower women.

2.3 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. 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).

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.

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 (ibid). 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.
MFI has played a big role for helping small entrepreneur, low income earners and poor people. The wishes of MFIs explained as above figure.

2.4. The Link between Microfinance Institutions and Poverty Alleviation
MFI schemes were initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards,
offering financing to the poor, women’s empowerment, and the development of the business sector as a means of achieving high standards and reducing market failure. Empirical evidences and surveys give mixed results on the performance of MFIs. In some cases debacle stories have been reported, yet there have been success stories. In other cases the reasons for failures or successes have not been well documented.

Recent studies show that, linking MFIs with other interventions such as poverty alleviation often complicates the functioning of MFIs by pushing them to areas not considered sustainable. This implies that there is a conflict in measuring financial performance and poverty alleviation. Most of sustainability indicators focus on the MFI as a profitable institution (loan repayment, profitability and degree of subsidization). Thus for an MFI to meet the microfinance best practices, as given by Consultative Group to Assist the Poorest (CGAP), and be financially sustainable, it has to regard itself as a business venture. As a consequence of this and especially in the rural areas, very few people qualify for a business loan.

2.4.1 Micro–credit and Poverty Eradiation

Micro-credit can be divided into main types. According to Kashuliza et al., (1998) these are famously known as formal micro-credit, semi-formal micro-credit and informal credit. The author continuous by explaining that formal micro-credits are usually provided by the main stream financial institutions and they are highly regulated by the Governments through central monetary authority.

Formal banks and Commercial banks fall under this category, for example Akiba commercial bank, Corporative Rural Development Bank, National Microfinance Bank etc. Semi-formal micro-credit is that which is partially regulated by the Government agencies through supervision or licensing, and sometimes they have some linkages with formal financial institutions. Example of semi-formal credit includes NGOs, Government departments nad religious organizations. The third type of micro-credit is that which is provided by informal moneylenders, pawn shops, rotating savings
and credit associations as well as part time source of money like friends, relatives, traders and large scale farmers (Kashuliza et al, 1998; Yunus, 2003)

In the past microfinance services to the poor, especially micro-credit, were provided by semi-formal and informal lenders. Formal micro-finance banks used to ignore the poor due to their lack of collateral and high risks. Currently, after three decades, the success story of Grameen Bank provides a model and challenge to formal financial institutions in developing countries. Poor people are now seen as credit worthy, they are able to save and repay the loan if they are supervised well. Now there is an increased number of formal lenders in many countries lending to the micro and small scale enterprises sector. The Government introduces the National Microfinance Policy in 2000 and also formed the National Microfinance Bank (NMB) in order to reach the poor through credit and savings.

2.4.2 Lending to the Poor and Challenges to Overcome

Diminishing marginal returns to capital suggest that enterprises with relatively little capital should be able to earn higher marginal returns from an extra unit of capital invested than enterprises that already have a great deal of capital. This is derived from the strict concavity of the production function; it would be the case that poorer entrepreneurs have a greater return on their entrepreneur’s would be willing to pay higher interest rate per extra unit of capital. This kind of logic offers a partial explanation to why microfinance interest rate are high and provides a rational case for the removal of usury rules in order to set interest rates that reflect not only the ability to pay but also the risk of dealing with poorer borrowers.
It has been investigated that the return from richer entrepreneurs is at sort time with high return compared to return from poor entrepreneurs.

### 2.4.3 Review of Studies Done in Tanzania

Recent studies have shown that, there are over 50 registered MFIs in Tanzania but their overall performance has been poor. In her study Chijoriga evaluated the performance and financial sustainability of MFIs in Tanzania, in terms of the overall institutional and organisational strength client outreach, and operational and financial performance.

In the study, 28 MFIs and 194 MSEs were randomly selected and visited in Dar es Salaam, Arusha, Morogoro, Mbeya and Zanzibar regions.

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

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

Other studies on microfinance services, in Tanzania were carried out by Kuzilwa (2002) and Rweyemamu et al, (2003). Kuzilwa examines the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of businesses that gained access to credit from a Tanzanian government financial source. The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that the enterprises whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses. Rweyemamu et al evaluated the performance of, and constraints facing, semi-formal microfinance institutions currently providing credit in the Mbeya and Mwanza regions. The primary data, which were supplemented, by secondary data, were collected through a formal survey of 222 farmers participating in the Agricultural Development Programmer in Mboziand the Mwanza Women Development Association in Ukerewe. The analysis of this study revealed that the interest rates were a significant barrier to the borrowing decision. Borrowers also cited problems with lengthy credit procurement procedures and the amount disbursed being inadequate. On the side of institutions, the study observed that both credit programs experienced poor repayment rates, especially in the early years of operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-payment.

It was further revealed that poor infrastructure of the MFIs led to high transportation costs, which increased the transaction costs in credit procurement, and disbursement
and this ultimately hindered the effectiveness of the credit programs. This happened because most of borrowers lived in rural areas, far from credit offices. The coverage by Kuzilwa was on the National Entrepreneurship Development Fund only, while Rweyemamu et al.’s study was on assessing the micro-finance services for the agricultural sector only.

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

**Figure 2.5 Conceptual Framework of Study**

According to this conceptual framework, the MFIs which refer to critical element of an effective poverty reduction strategy tend to be affected by the size of the company, its strategies, and their services and performance. The impact of MFIs strategies, their services and performance, the marketing effort and channels of
distribution is also considered. In this paper I examine the MFIs strategies and how they are influenced by two selected antecedes, namely the use Intensity (a variable measuring Experience with MFIs) and degree of Product Complexity (a product/market strategy variable).

Specifically in this paper I addressed the following issue:

- I identify some basic demographic characteristics of respondent, including size, product complexity in terms of percentage of market budget allocated to MFIs.
- I identify the degree of MFIs i.e. the use intensity of the SMEs on their marketing strategies, in terms of strategies goals, product, promotion and market strategies.
- I identify interrelationships of use intensity of the SMEs and product complexity with the aforementioned strategies goals and marketing strategies.
- I put forward some recommendations useful for providers of MFIs.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This section presents the methodological approach used in this study. It covers the
description of the study area, research design, sampling procedure, data collection
procedures and data analysis.

3.2 The Study Area
This study was conducted in Dar es Salaam, Kariakoo area Ilala district. Ilala district
is dominantly urban with most dwellers preoccupied with small businesses
operations, medium ones or employed by these enterprises. Kariakoo is the busiest
area of Dar es Salaam.

3.3 Research Design
A research design is the arrangement of conditions for collection and analysis of data
in a manner that aim to combine relevance to the research purpose with economy in
procedure (kothari, 2005). It is the general framework for collection, measurement
and analysis of data.

The sample used in this study is made up of two categories. Category one is a
sample of staff who frequently handle loans and credit needs of clients. Out of this
list, 10 staffs were selected. The second category is made up of 65 micro / small
loans and SMEs loans beneficiaries who were selected randomly by taking 10% of
all such clients.

This research design made it possible for the researcher to observe the respondents
characteristics and get information needed.
3.4 Sampling, Sample size and Sampling Procedures

3.4.1 Sample Size and Sampling
Rubbin and Babbie (1989) and Kothari (2005) define a sample as a specific subset of population selected for purposes of making inferences about the nature of the total population itself. Hence, in social science research, a sample implies a representative portion or part selected from a population to be studied, which is believed to be a true representative of the population from which it is selected. Sampling is the process of selecting or drawing a sample from a total population to be studied (Mshauri, 1997)

3.4.2 Sampling Techniques
In this study the criterion of selecting respondents was obtained from the NMB Bank (Kariakoo Branch) that provided the researcher with a clear number of SMEs/enterprises that received credit and who are still in the credit program.

A stratified random sampling technique was employed by taking the sample total number of NMB borrowers which was perused from the bank borrower register book.

<table>
<thead>
<tr>
<th>Department</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans Department</td>
<td>5</td>
</tr>
<tr>
<td>Credit administration department</td>
<td>5</td>
</tr>
<tr>
<td>Total Size of Sample</td>
<td>10</td>
</tr>
</tbody>
</table>
Table 3.2: Sample Form Loans Beneficiaries

<table>
<thead>
<tr>
<th>Loan group</th>
<th>Loan range</th>
<th>Population</th>
<th>10% Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small and micro enterprises loan group (MSE)</td>
<td>$50,000 To 500,000</td>
<td>330</td>
<td>33</td>
</tr>
<tr>
<td>Economic empowerment loan group</td>
<td>$1,000,000 To 5,000,000</td>
<td>400</td>
<td>40</td>
</tr>
<tr>
<td>Small medium Enterprises loan group (SMEs)</td>
<td>$2,250,000 To 30,000,000</td>
<td>150</td>
<td>15</td>
</tr>
<tr>
<td>Total sample from loans beneficiaries</td>
<td></td>
<td>880</td>
<td>88</td>
</tr>
</tbody>
</table>

3.4.3 Data Collection Methods
In the study two types of data were collected which included primary and secondary data. Primary data was obtained through structured questionnaires and physical observations of respondents in the study area.

3.4.3.1 Primary Data
Primary data are pieces of information collected specifically for the purpose of investigation under the study. In collecting primary data, the researcher used interviews and questionnaires.

3.4.3.2 Secondary Data
In conducting the study, the researcher also visited bank records on among others, making documentary reviewers on credit performance of the credit beneficiaries.

3.4.3.3 Interviews
In this study, fact - to – face interviews as well as unstructured ones were conducted with clients who received loans and some of the stuff of the NMB. According to katundu interviews considered essential not only as a supplement to the questionnaire
in obtaining data and information, but also to offset the disadvantages associated with the use of questionnaires only as data gathering methods. Self-administered questionnaires were given to the respondents which enabled them to fill the questionnaires at their own convenient time and were later collected by the researcher.

3.5 Data Analysis
After the data had been collected, the researcher was left with the task of analyzing them. The analysis of data requires a number of closely related operations such as establishment of the categories, the application of these categories to raw data through coding, tabulation and then drawing statistical inferences (kathari 2005). The researcher edited the data which was gathered from questionnaires and interviews. Responses were checked for completeness, accuracy and uniformity before and quantitatively and qualitatively analyzing them. This helped the researcher to preempt inappropriate responses biases.
CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.1 Introduction
In this chapter, findings of the study are analyzed, presented, discussed. The analysis is presented according to responses from interviews and secondary data sources. Analysis is based on the study objectives. The main objective of the study was to examine the role played by micro-financing institutions in poverty reduction by studying micro-credit services rendered by the National Micro-finance Bank Limited. And the specific objectives of the study were to study were to identify strategies used by NMB to reduce poverty through the development of micro-credit systems of small businesses (micro-enterprises) and SMEs as well as to examine the performance of the SMEs, and determine the significance of the NMB in poverty reduction as gauged by the credit facilitation given to the micro businesses and SMEs and also identify challenges facing these micro enterprises and SMEs in accessing credit facilities.

4.2 Data Presentation Analysis and Discussion
A total number of 93 NMB micro-credits were able to answer questionnaire and SME beneficiaries and 10 NMB bank staff of Kariakoo branch was interviewed. The loan officers and credit staff were responsible for 357 MSEs, 210 SMEs and 371 salaried workers loan out of which 10% was taken as the sample. The research findings are presented below:
Table 4.1  Position of NMB’s staff respondents

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Manager</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Loan Officers</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>SMEs Credit Staff</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Credit follow-up staff</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The loan officers and credit staff were responsible for 357 SMEs and 371 economic empowerment loans out of which 10% was taken as the sample.

Table 4.2  Poverty reduction NMBs Services to MSEs/SMEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan or credit</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Saving account and Loan</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

According to finding in Table 4.2, the respondents indicated that the majorities (70%) of employees of NMB are preoccupied with the offering of loans or credit services, and 30% do other activities like the offering of savings bank services to SMEs.
Table 4.3 Strategies used by the NMB to promote SMEs/MSEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial sustainability, outreach, holistic transformation offer loans</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Business Education</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

According to Table 4.3, 70% of respondents from the NMB confirmed to provide loans and training or business education to SMEs in order to reduce poverty levels in the society.

Other strategies used by the NMB are the nurturing of the small business to promote their financial sustainability and also embark on outreach programs and the provision of holistic information to these clients.

Table 4.4 The performance of SMEs/MSEs supported by the NMB

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Good</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

According to Table 4.4 all respondents from the NMB confirmed that SMEs under its loan portfolio were performing well.
Table 4.5 Relevance of services offered by the NMB to SMEs/MSEs

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant</td>
<td>9</td>
</tr>
<tr>
<td>I don’t know</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Research Data

Table 4.5 gives response on the connection between credit/savings services provided by the NMB and the development of micro, small and medium enterprises. The study indicated that 90% of the respondents revealed that services that are provided by the bank are relevant to the small businesses as well as to SMEs.

Table 4.6 NMBs role in offering economic development services to SMEs/MSEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision of loans and Savings</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Provision of safe custody of money and business education</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Provision of loans, Savings and Business Education</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Table 4.6 shows that NMB staffs are aware that their bank plays its role in providing key financial services to the intended beneficiaries. These are very small business SMEs as 70% of the respondents indicated so.
Table 4.7 NMB’s Training of SMEs/MSEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

All the respondents confirmed that the NMB does provide entrepreneurship training to list clients.

Table 4.8 SMEs/MSEs economic improvement

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>9</td>
<td>90</td>
</tr>
<tr>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>To some extent</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Table 4.8 revealed that there are economic improvements in the operations of SMEs which obtain loans from the NMB as 90% of the respondents confirmed this to be the case.
Table 4.9 The requirements for SMEs/MSEs to obtain loans from the NMB

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Must have a Bank account and stable business</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>Collaterals and stable business</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Table 4.9 depicts responses on the conditions of SMEs for obtaining loans from NMB. Findings from the study indicated that about 70% of the respondents indicated that clients who opt to get loans from the NMB do have a bank account, and undertake income generating activities, and in some cases they must possess collaterals that are acceptable to the bank.

Table 4.10 Problems faced by NMB in providing loans to SMEs/MSEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient Loanable Funds</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>Lack of Collateral</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Most of the respondents in Table 4.10 (70%) reasoned out that were all participants in the informal sector in the study area: roadside, vendors, hawkers, small scale food vendors, small scale shop owners, etc, to approach the NMB for their credit needs available funds will not be enough to cover them all. In the financial year 2006/2007 the Government selected NMB to participate in the giving micro-credit loans to SMEs when it set aside T.Sh. 500 million for reach region with the amount outstanding being guaranteed by Government. The advances under this facility as the
maximum amount agreed upon with the Government has been disbursed (NMB Prospectus, August 2008).

Insufficient loanable funds should not have been an issue at this point in time (2011). If handled well, funds that can be mobilized, as Kida’s suggested, can be programmed to create group saving/ pools of funds that can be used as security against credit from banks/ financial institutions.

Some of the respondents from the banks expressed collateral as a problem in being able to help SMEs with their loan needs. This is particularly the case where clients in need of financial facilitation in excess of TShs. 30,000,000, a title deed of a fixed asset whose value is at least 150% of the amount needed must be provided by the prospective borrower.

### Table 4.11 From the bank’s perspective what are the challenges that SMEs/MSEs go through in accessing credit?

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of business skills and capital</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>Government action plans on SMEs</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Research Data**

Table 4.11 showed that an average, bank staff perceives that SMEs lack both business skills and capital as 60% of the respondents were of this view and 40% suggested that while the SMEs Policy exist since 2002 there are no concrete government initiated action plans that address the issue of poverty among the broad masses of the Tanzania society.
Table 4.12 The key problems faced by the NMB staff in processing and providing credit to SMEs/MSEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defaulting</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Low level of education</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Lack of accounting Skills record keeping</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>Lack of collaterals</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Research Data*

What the contents of Table 4.12 reveal is that, as per the experience of the bank officers, insufficient accounting skills that probably induce SMEs not to give sufficient attention to record keeping, are among the problems faced by small business owners in accessing credit from banks/financial institutions. Defaulting and lack of collaterals attain less importance because as per literature has shown small business entrepreneurs are among the best payers of credit.

Table 4.13 Solution for the problems facing SMEs/MSEs in accessing loans from the NMB

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide Education</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Provide market techniques and loans</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>Government support to SMEs</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Research Data*
Table 4.13 shows responses from the interview and questionnaires on ways to solve problems facing SMEs when attempting to access loans from the NMB. Most of the respondents suggested that one of the ways of solving problems in accessing micro-credit loans from banks was to provide marketing techniques and thereafter advance the credit to the needy clients.

A substantial proportion of the respondents (40%) indicated that the government and other development partners should improve policies and action plans for the development of SMEs in ways that can truly address the poverty problem in Tanzania.

### Table 4.14 The length of time respondents have been clients of the NMB

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than One year</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>One year</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>More than one year</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Research Data**

Seventy-five percent (75%) of the respondents have been customers of NMB for a period of a few months to one year. Two things seem to be of interest here. The NMB has been in operation for more than eight (8) years on the one hand and these small borrowers have been interested in seeking loans just recently, about these years ago to date, on the other hand.

It means either that the NMB has not promoted their SMEs products aggressively to attract more clients, probably because generally most seek very small amounts of loan money, and banks generally prefer to concentrate more of their time and money on corporate clients i.e. those who borrow TShs. 500 million and above or that the SMEs themselves do not feel comfortable to run their small businesses with borrowed money from banks/financial institutions.
The majority of respondents i.e. 75% in Table 4.15 indicated that they have been in business for a few months up to two years. This is rather interesting because these types of operators have been in existence since time immemorial (small peasants, gardeners, fruits growers, hawkers, shop keepers, groceries, etc.). It appear then that it is not that they were not aware of the existence of the NMB or financial institutions but rather than previously they was no interest on the part of banks or financial institutions to help with loan product those small scale operators in the informal sector ie those who operate very small businesses using family labour, have no collaterals and obtain money from their operations just enough for survival on day to day basis.

The types of businesses the SMEs/MSEs are operating

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second hand clothes</td>
<td>9</td>
<td>9.7</td>
</tr>
<tr>
<td>Shops business</td>
<td>28</td>
<td>30.1</td>
</tr>
<tr>
<td>Restaurant</td>
<td>30</td>
<td>32.3</td>
</tr>
<tr>
<td>Stationaries</td>
<td>14</td>
<td>15.0</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>12</td>
<td>12.9</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data
According to the findings in Table 4.16, the mamantilies, small shop keepers and second hand clothes dealers (informal sector) again dominate the nature of the business of the respondents (72%). The stationaries and pharmacies operators would normally not be allowed to operate without licenses, registration with TRA etc, hence belong to the formal sector (SMEs). The fact that they are operating on more favourable platform than their small-scale counterparts, they face fewer problems in being assisted with credit facilities by the NMB and by extension other banks or financial institutions.

It is of utmost importance to our government policy makers to rethink, rebuild, and reenergize policy formulations and action plans that target the poor in more tangible ways than is the practice currently. Since 50% of our people live below the poverty line of less than U.S.D 1.0 per day (UNDP 1997) and that 90% of our people live in the rural areas and belong to the informal sector. Hence, more attention should be directed to this category of our people.

### Table 4.17 SMEs earning per month

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000 – 1,500,000</td>
<td>35</td>
<td>37.1</td>
</tr>
<tr>
<td>1,000,000 – 5,000,000</td>
<td>37</td>
<td>39.8</td>
</tr>
<tr>
<td>2,250,000 – 30,000,000</td>
<td>21</td>
<td>22.6</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Research Data**

As per the results of Table 4.17 about 37% of the respondents earn between T.Sh 100,000 and 1,500,000 per month. These first categories reflect the reality of typical life style of our people in urban and rural areas, and about 40% earn between TShs. 1,000,000 and 5,000,000 per month. With the little support of whatever can be exchanged for money: fruits, vegetable, spices, drinking water, firewood, charcoal, used clothes, small food stuff, life is carried on in the urban, peri-urban and rural setting through the credit provided financial institutions or banks providing small
capital and the SMEs keep on striving for survival. More can be done by banks or financial institutions to improve the services delivery systems of the majority of those in the small businesses category to enable them to grow bigger gradually.

Table 4.18 The range of capital of SMEs/MSEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000 - 1,000,000</td>
<td>35</td>
<td>37.6</td>
</tr>
<tr>
<td>1,000,000 – 10,000,000</td>
<td>37</td>
<td>39.8</td>
</tr>
<tr>
<td>More than 10,000,000</td>
<td>21</td>
<td>22.6</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>100</td>
</tr>
</tbody>
</table>

While 27.4% of the respondents as per Table 4.18 operate with a capital base of between TShs. 100,000 and 1,000,000, cumulate however, 77.4% have a capital base of between TShs. 100,000 and 10,000,000. Relatively reasoning, the first group operate under financially constrained situation. Even the capital base of the second group is small (TShs. 1-10 million) and both need further development assistance as also observed in the findings under Table 4.17.
Figure 4.1 The range of capital of SMEs/MSEs

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Once</td>
<td>40</td>
</tr>
<tr>
<td>Twice</td>
<td>29</td>
</tr>
<tr>
<td>More than two times</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
</tr>
</tbody>
</table>

**Source: Research**

About 74% of the respondents in Table 4.19 indicated that they had once or twice obtained loans from the NMB. As above earlier, low loan funds are also easy to retire hence their renewal. The 26% of the respondents, who showed that they have taken loan funds more than two times indicate that it is not difficult to renew loan requests, most likely because of the good retirement of loans taken or that most loan seekers opt for small amount of loans, use them and make renewals.
Figure 4.19 The number of times SMEs/MSEs have obtained loans from NMB

Table 4.20 The length of time it takes to obtain loans for the NMB

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>One to two months</td>
<td>23</td>
<td>24.7</td>
<td>24.73</td>
</tr>
<tr>
<td>Two to Three Months</td>
<td>39</td>
<td>41.93</td>
<td>66.66</td>
</tr>
<tr>
<td>Three to Six Months</td>
<td>31</td>
<td>33.33</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data

About 67% of the respondents in Table 4.20 explained that it takes between one to three months to get loans from the NMB. This is understandable as it does take some time to discuss loans officers, loans officer’s visits to operate sites, long decision making time on the part of management of the NMB and sometimes a training period is conducted on new loan seekers.

For formal SMEs which are registered and do have business licenses and having an account with the bank, it takes at least six months to be eligible for loans.
Table 4.21: SMEs/MSEs opinion on NMB’s loans procedure

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely provision of loan and Education on entrepreneurship</td>
<td>54</td>
<td>58</td>
</tr>
<tr>
<td>Rationalize collaterals</td>
<td>39</td>
<td>42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>93</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

Data in Table 4.21 indicated that the collaterals criteria seem to bother loan beneficiaries as 42% of the respondents observed. The researcher is of the opinion that for very small loan amounts of the level taken by the largest group (used clothes dealers, groceries, hawkers, small- scale peasants, small- scale shop owners) i.e. 70% of the respondents in Table 4.16. Some relaxation in ‘collateral needs’ should be contemplated by the NMB in loans provisions to SMEs because this is their only bank and financial institution with the mandate to economically develop them.

Table 4.22 The problems SMEs/MSEs face in accessing NMB’s credit

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureaucracy and high interest rate</td>
<td>54</td>
<td>58.1</td>
</tr>
<tr>
<td>High value collaterals</td>
<td>39</td>
<td>41.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>93</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

Data from Table 4.22 shows that 39 (41.9%) out of the respondents cited high value collateral needed as a problem and 54 (58.1%) out of the 93, be bemoaned bureaucracy and high interest rate as being a problem to them when seeking loans from the NMB. In the opinion of the researcher, there is an urgent need on the part of the NMB to revisit these two stumbling blocks by taking the issue with Government on ways of relaxing high interest rates and needs for collaterals by the utilization of the SMEs Credit Guarantee Scheme being operated by the Bank of Tanzania (BOT)
Table 4.23 Suggestions by SMEs/MSEs on accessing loans from NMB

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplify loan policies and procedures</td>
<td>55</td>
<td>59.1</td>
</tr>
<tr>
<td>Reduce interest rates</td>
<td>38</td>
<td>40.9</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Research Data**

While interest rates are considered high as 41% of the respondents suggested that interest rates be rationalized, 59% of the respondents were of the view that loan policies and procedures need to be restructured in favor of SMEs. With respect to the need for collaterals and the suggestions from the SMEs that loan policies and procedures need to be restricted (Table 22 and 23 taken together); we may compare our situation and life sustenance practice elsewhere in the world. In the developed countries like in the U.S.A for example, those without jobs (unemployed) are given free assistance of U.S.D 600 per month (about TShs. 840,000) in order to enable them meet daily food needs, pay utilities and house rent and recently, they were lobbying for this to be raised to U.S.D 1000 (equivalent to TSh.s 1,400,000) per month.

The TShs. 1,000,000,000 that was given to every region by Government (His Excellent President J.K Kikwete’s special assistance to regions), a little while ago, as well as quarterly amount of funds given to districts (DADPs- District Development Programs), or the money concessionary given to SACCOS, can be a starting point in beefing funds for the NMB for on – lending to SMEs of the category being discussed in this study on more favorable terms. The unemployed in the developed world are given interest free, collateral free survival money simply because they are human being.
Our SMEs actors need to be nurtured to grow into more formalized SMEs with capacity to offer more services or products to the society and contribute more to national development through paying taxes, etc. Most unemployed in the USA do not own land or homes. Their level of poverty is different from ours. Nonetheless, our poor SMEs participants have a safety net inform of land assets which can be used to produce food/cash crops if our agricultural extension officers are utilized more effectively and relevant crop production training and crop production facilitation are given to the poor who will then desist from rural urban migration tendencies.

Table 4.24 NMB’s provision of entrepreneurship training to SMEs/MSEs

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>93</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
</tr>
</tbody>
</table>

Source: Research Data

Data from Table 4.24 show that all respondents indicated that the NMB provide entrepreneurship training to SMEs before loans are disbursed to them. This is excellent on the part of the NMB. The learning philosophy here is that today’s small actors (the small borrowers) may, with proper and sustained incubation packages, graduate into medium actors and later become corporate clients. We may observe here that Rabobank which has taken over the management of NMB started as a small actors system in the Netherlands about 300 years ago as individual SMEs, grew into small SACCOS, then became medium actors as strong SACCOS and later formed themselves into a strong bank or financial institutions. This is an approach or a development path that micro financial institution took in Continental Europe and in the Scandinavia countries. There is no logical reason why this financial intermediation development path cannot be developed in Tanzania.
Table 4.25 The number of times SMEs/MSEs were trained by NMB

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Once</td>
<td>45</td>
</tr>
<tr>
<td>Twice</td>
<td>19</td>
</tr>
<tr>
<td>More than two times</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
</tr>
</tbody>
</table>

Source: Research Data

About 48% of the respondents in Table 4.25 have received entrepreneurship training once and 20% have received training twice. This is not enough. On the banks and borrowers part there is need for more hard work, training, retraining, financial discipline sustained perseverance and the building up of strong capital bases through savings in order for the SMEs to be able to grow into economically strong SMEs that support the operations of the NMB and in turn the NMB support, further the operation of SMEs.

Table 4.26 Record – keeping by SMEs/MSEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>35</td>
<td>30.6</td>
</tr>
<tr>
<td>No</td>
<td>58</td>
<td>62.4</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

It is interesting that 58 (62.4%) of the 93 respondents in Table 4.26 started that they do not keep records of their business operations. This should not discourage decision makers on the part of financial institutions or part of government policies maker. Rather, it should act as a stimulus to embark on additional training programs for the SMEs operators as it is mostly likely that these are the ones who do not keep records of their operations.
Table 4.27 SMEs/MSEs overall advice to NMB

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen SACCOS/ Small Micro financing firms</td>
<td>28</td>
<td>30</td>
</tr>
<tr>
<td>Education entrepreneurship on business skills reduce bureaucracy</td>
<td>39</td>
<td>42</td>
</tr>
<tr>
<td>Provide credit timely</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data

Reduction of bureaucracy has been suggested as a way of improving loan services delivery by financial institution as 28% of respondents observed in the above table while increasing training on business skills has been suggested by 42% of the respondents. Bureaucracy here probably means the unnecessary questioning time, frequent visits by SMEs to loan officers desks, lengthy discussions on loan merits, the length of time it takes to sanction loans and probably the long paperwork to be filed by loan applicants. Other respondents (30%) suggested that micro-lending institutions like SACCOs who receive funding from NMB for on-lending to their members should be strengthened by the NMB management. This suggestion has a lot of merits. Under Tables 5.4 and 4.10 the NMB cannot, as of now, reach out to provide credit to all SMEs. Through giving more economic development facilitation to the SACCOs/ micro-lending institutions and then these micro-credits to the SMEs, more SMEs can be accessed, facilitated and facilitated and poverty reduced.
Table 4.28 Principal limiting factors in accessing loans from the NMB by SMEs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>High interest rates</td>
<td>49</td>
<td>52.7</td>
</tr>
<tr>
<td>Need for high value collaterals</td>
<td>44</td>
<td>47.3</td>
</tr>
</tbody>
</table>

Total 93 100

Source: Research Data

Data from Table 4.28 appear to be more of a repetition of observations in some of the findings above but may be interpreted as emphasizing that if interest rates were lower than they are currently (2% per month), say if they were reduced to something like 1% per month and the need for high valued collaterals were relaxed, say, in favor of some other formula like the use of fixed deposit accounts (F.D.As) as collaterals, more SMEs will find it easier to access loans from the NMB.
CHAPTER FIVE

DISCUSSION OF THE FINDINGS

When the findings of Table No. 28 (high interest rates and high valued collaterals) are combined with the results of Table 10 and 11, (insufficient loanable funds and absence of pro-poor Government policies on MSEs, we observe that financial institution charge high interest rates probably because they are trying to match deposits rates with lending rates and still leave a margin that may cover NMB in case perceive risks turn in to reality i.e. defaulting rates become in a big resulting into large portions of the loan portfolio being written off as irrecoverable amount and hence losses.

The interest rates spread, in the opinion of the researcher, is high i.e. 19% on average (24% leading rate – 5% deposit rate). For the year ended 31st of December 2009, for instance, NMB paid out about TShs. 5 billion to the Treasury as dividend to government. It had made a profit of about TShs. 15 billion in that period. In the opinion of the researcher, these high interest rates of performance may be attributed of high interest rates on borrowed funds; some could be ploughed back into the NMB for the further development of SMEs.

When the businesses of the SMEs, their operating capital and what they can earn per month: the mamantilies, small shop-keepers, etc. and are able to renew their loans. (Tables No. 16, 17, 18 and 19) and the perspectives of NMB on the operations of SMEs as relevant, relatively good, and that improvements are made on their performance (Table No. 4.4, 4.5 and 4.8) are analyses together, several observation can be made.

i. Not any of the MSEs under discussion produce the primary articles of their trade, yet they buy them, convert them into tradable goods using bank credit and improvements are made on their operations.
ii. Despite low capital and small monthly earnings, SMEs are able to repay previous loans and obtain loans a second time. This positive development need to be explored further and capitalized upon by the NMB so that the SMEs are developed to the greatest extent possible and thus enable them rise above current poverty levels in the country.

iii. The NMB’s Kariakoo Brach and the analyzed SMEs are all based in Dar Es Salaam –Ilala District which is urban settings, but one things is certain. If the NMB were to extend its branch operations to help primary production activities take place (production of food and cash crops) and then have these sold directly to the SMEs, it seems very probable that both the primary producers (peasantry societies) and the SMEs will gain more than they are doing currently. For example, one kilogram of rice is priced at TShs. 500 by primary producers ex-farm- gate price while SMEs buy same from wholesalers in Dar Es Salaam at TShs.1000 per kilogram in retail shops. Who gain most? The middle agents who are not part of the NMB or SMEs configuration. Thus, by buying their food stuff from retailers, the primarily producers as well as middle agents. To reach the rural producers, the researchers concedes, more challenges need to be overcome because the constraints that militate against reaching the rural communities are multifaceted and require more comprehensive interventions.

The researcher is of the opinion that when MFIs/ banks capital is not sufficient to cover the needs of all SMEs and unavailability of collateral are taken together it means that SMEs that need funds but do not have fixed assets as collateral are denied the opportunity to operate in better manner.

At the policy level, Government may assess the possibility of providing special funds to the NMB specifically to cater for the young SMEs (less than 1 year old to 2 years old) without collateral so as to help in nurturing them, say for a period of 5-10 years to enable them to graduate as fully collateralized borrowers.
This suggestion is important in that given the nature of the informal sector (small-scale peasant and small-scale sole traders) which has been operating in this manner for many decades and has been able to raise families (the majority of those who are not adults of 18 years and above), pay for their education, health, food, shelter, travelling, clothes needs, among others, cannot now afford to pay their children’s tertiary education (college education, specialized skilled training, etc) given the high cost of higher education.

The need for loan packages that given more operating advantages to SMEs is now very crucial to enable adults of today survive and compete in this new era of market economy. The SMEs facilitated to take maximum advantages of opportunities surrounding them including the ability to meet the high cost of educating their children through higher learning institutions.

With respect to non-record keeping, it is understood that NMB operations are computerized. It is quite possible to design simple customer reporting formats and avail these to small loans beneficiaries for recording their performance and hence solve the problem of inability to keep records on the part of SMEs and also respond to the challenges posed by UNCTAD that only 35% of African SMEs do maintain records of their activities.

An operating base of between TShs. 100,000 and 10,000,000 and respectively earning between TShs. 100,000 and 5,000,000 per month puts the SMEs operations in a very tight operating situation. However, in practical terms, the ‘mamantilies’ interviewed would not wish to begin with borrowed funds of more than TShs.100,000. They reasoned out that for making buns pan cakes (chapatti) in the mornings and ‘ugali’ and rice dishes in afternoons and evening times, this level of funding is enough. The low level of funding is easier to apply to their business and also easier to retire on monthly basis.

However, the question is ‘should they always remain at this level of operating?’ As noted in the literature review that SMEs play an important role in the economy, then those in the lowest ranks of credit needs (Tshs. 100,000 categories) can be
interlinked with their counterparts in the formal sector so that what they produce is absorbed by their more formal counterparts ‘mamantilies’ can produce buns, pancakes samosas, fried fish, ugali, rice dishes and sell to the SMEs in the restaurants business. In the same manner, peasantry SMEs can produce fruits, vegetables, flowers, foodstuffs and sell etc., to SMEs that are in this business, in urban areas, and rural handcrafts/ carvers can produce their articles of trade per specifications/ demands set out by art galleries for on sale to tourists and so on so forth.

On the issue of collaterals, an interesting parallel situation which can be mentioned is the conditions attached to students aspiring for education sponsorship under the Higher Education Students Loans Board (HESLB) – no physical collateral is required but some indication of seriousness is demanded in the retirement prospects for the education loans advanced which is about TShs.2,500,000 per annum or TShs.7,500,000 for a three year study programme and the numbers involved are in excess of 40,000 students. Some of the items asked in the HESLB forms is whether the students or sponsor own land (shamba) or house. It appear that the HESLB wants to satisfy itself on whether they should give 100% scholarship or 60% cost-sharing scholarship or 100% sponsorship to those students that are orphans. But these are still loans. Now if the students are provided with uncolaterized and interest free loans of at least TShs. 7,500,000 shouldn’t our poor people (82% of the population) be treated more favorable when in need of small credits with which to run their income generating activities? In the opinion of the researcher, more work need to be done on this by Government policy makers if truly poverty should be reduced by 50% come 2015 as per the requirement of the Millennium Development Goals.

On the entrepreneurship training there is a lot of leaning in these types of skills – building sessions on how to deal with loans, proper application of loans, the in calculating of a savings culture, how to prepare practical budgets, how to add more value to SMEs articles of trade, the importance of individual savings and group savings with an eye for the SMEs to eventually form their own functioning and sustainably thriving financial institution/bank.
A bigger picture needs to be infused into the minds of the SMEs operators. For instance if SMEs deposits every month into a group saving account just TShs. 1000, then we are discussing of a figure of TShs.2, 700,000,000 every month for the 2.7 million enterprises in the country (www.tanzania.com – 12.01.2009). The training sessions conducted by financial institutions should give the SMEs trainees such a goal to aim at, among others.

At the Government level, poverty alleviation / reduction endeavors are found in the high office of the Vice – President of the United Republic of Tanzania. Efforts directed at poverty reduction are spread over various ministries, banking/ financial institutions and Non – Governmental Organizations and sometimes the Donor Community/ Development Partners through their Embassies or international NGOs, for example, the Agricultural Bank being initiated will address specific agricultural production credit needs of the farming communities. Other SMEs members of the society such as artisanal fishers folks, artisanal miners, livestock keepers, real estate’s developers, construction industry, traders/ processors (value adding SMEs) are left out of this U.S $ 500,000,000 financing prospect (the budgeted capital of the Agriculture Bank).

Agriculture practices are not the only activities in a typical rural household in Tanzania. Some of these times, rural people may all be involved crop production to take advantage of the rainy season. At other times, some members of the society may be involved in fishing or in artisanal mining (gemstones, salt, sand, aggregates, etc.) or in livestock related activities / food processing / in related activities or in a small scale trading activities. A holistic approach and one which is inclusive of the understanding of the diverse preoccupations and credit needs of rural/ peri-urban SMEs and which embrace all the dynamics of constant socio economic changes is needed to be able to cater for the credit needs of SMEs and truly redress the poverty menace in our society.

Kida (1999) has suggested the formation of such banks/financial institutions to cater for specific operating sectors of our economy. His book was inaugurated by the then
Prime Minister Hon. Frederick Sumaye at the Parliament Groups in Dodoma and was availed to Members of Parliament

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion
The study has taken the task of practically looking at the way small and medium enterprises (SMEs/MSEs) are financed by the NMB with a view to how the latter contributions to poverty reduction in Tanzania. The performance of Kariakoo Branch was studied which is located in Ilala district in Dar Es Salaam region. The interest to financially help the development of SMEs is contained SME Development Policy of 2002, and Government supports their strengthening through various empowerment mechanisms such as the NMB the business Environment strengthening inTanzania (BEST programme) the Bank of Tanzania SMEs Guarantee Scheme, the small Industries Development Organization (SIDO), as well as the Government encouragement of the Donor Community to support NGOs.

The study concentrated on the role of NMB Limited in giving Loans to micro, small and medium enterprises in order to reduce poverty in the society. Going by the size of the loan amount given to SMEs by NMBT.Shs. 302.729 billion was advanced, while corporate loans amounted to T.Shs.33.729 billion (10% of total loans), the NMB may be said to have done well in heading the call by Government for the banks to financially assist small and medium enterprises (SMEs/MSEs).

Much as one would wish to loud praise on the part of the NMB for its proactive role in supporting SMEs/MSEs, there is still very big gap in reaching and meaningfully assist the most of the registered 2,700,000 small and medium enterprises in a country. Added to this, is the challenge that all banks and financial institutions are not yet ready to venture into the giving of credit to the peasantry and rural societies where 82% of the population (or 33 million people) live, with their myriad of small – holder farms/ gardens or herds of livestock, that in aggregate contribution to 46.7%
of the nation’s GDP but are not facilitated in their endeavour’s by any financial intermediation so far.

This is fertile ground for banks and financial institutions to find the right formula and entry points to move in and offer their products and services to the rural sector because of the numbers involved. All can be reached, in financial intermediation terms, if their routine preoccupations and products thereof are closely woven with secured local and international markets, warehouse managers, transporting systems and shipping and insurance arrangements. Probably, this need to be more seriously looked at by banks and financial institutions as the nation is working hard to initiate the agriculture as Priority Number One Programme (KILIMO KWANZA).

The need for collaterals and high interest rates on borrowed funds are correlated. Banks take all lending operations to small businesses as very risky and the transaction costs to manage these many borrowers are high. Hence, they charge high interest rates (at least 24%). Innovative ways should be involved to respond to the borrowers complaints that high value collaterals and high interest rates discourage SMEs participants in their growth aspiration. Aligned to this is the reality that all banks and financial institutions are reaping huge profits as shown by their reported performance reports (balance sheets/ income statements) periodically reported in newspapers.

This is tantamount to shifting profit from the SMEs/MSEs to the banks and financial institutions which are growing (opening of more branches/ increasing number of employees) but the SMEs seen to be struggling for survival. NMB and other banks/ financial institutions then should find way of rationalizing the collateral /high interest rates and the smooth operating arrangements for the continuous growth of SMEs and poverty reduction in the society.

I have reviewed the evolution of microfinance and examined briefly three of the MFI models that exist today. The role of MFIs in development, specifically in relation to alleviating poverty was also examined. Key challenges facing MFIs today that are affecting their impact on poverty alleviation were seen to be an over-emphasis on
financial sustainability over social objectives, and a failure of many MFIs to work with poorest in society. Therefore, there is a greater need for MFIs to carefully design services that meet the needs of the poor and this can only be done when MFIs understand their needs and the context within which the poor are working. If MFIs are no to meet their overall objectives then they need to ensure financial sustainability and outreach of financial services designed to meet the needs of those most in need of such services. The impact of microfinance on poverty alleviation is a keenly debated issue as we have seen and it is generally accepted that is not a silver bullet, it has not lived up in general to its expectation. However, when implemented and managed carefully, and when services are designed to meet the needs of clients, microfinance has had positive impacts, not just on clients, but on their families and on the wider community. There is however a need for greater assessment of these wider impacts if the true value of microfinance to development is to be understood. One such tool for measuring wider impact is a livelihood security analysis based on a livelihoods framework which analyses how a project impacts on the livelihoods of beneficiaries.

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Therefore, there is greater need for MFIs to carefully design services that meet the needs of the poor and this can only be done when MFIs understand their needs and the context within which the poor are working. If MFIs are to meet their overall development objectives then they need to ensure financial sustainability and outreach of financial services designed to meet the needs of those most in need of such services. The impact of microfinance on poverty alleviation is a keenly debated issue as we have seen and it is generally accepted that it is not a silver bullet, it has not lived up in general to its expectation.
However, when implemented and managed carefully, and when services are designed to meet the needs of clients, microfinance has had positive impacts, not just on clients, but on their families and on the wider community. There is however a need for greater assessment of these wider impacts if the true value of microfinance to development is to be understood. One such tool for measuring wider impact is a livelihood security analysis based on livelihoods framework which analyses how a project impacts on the livelihoods of beneficiaries.

5.2 Recommendations
It is important that SMEs/MSEs are linked with the international community, in term of obtaining reliable/suitable markets, technology transfer skills and more competitive export prices for imports. This can be done through mutually collaborative business linkages with Transnational Corporations (TNCs) as recommended by UNCTA in 2006. The UNCTAD’s facilitation is free but we have not yet taken advantage of it. As noted in (3) above, if SMEs are properly linked with TNCs, it is quite possible for the NMB and other banks/financial institutions to perceive SMEs/MSEs as being less risky and thus relax the high value collaterals conditions as well as to reduce the high lending interest rates. This will also pave the way for and of lending to the peasantry and livestock keeping communities and other rural groups in the rural areas like small- scale miners, fisher folks and traders.

Business Clinics
Financing micro- enterprises is a profitable business to the banks and MFIs. To increase the performance effectiveness of the clients, the NMB may consider the creation of business clinics by renting premises close to the branches and there in offer business skills like record- keeping, budgeting and marketing techniques to the SMEs/MSEs.

Business Incubators
The NMB may also consider setting up some solid arrangements which link similar preoccupations together, and have their products interlinked with larger SMEs that need such products at the local levels or at the international markets. The objectives is to have the small entrepreneur’s nurtured as cohesive groups, provided with credit that enable them to meet the demands of the markets identified. The “incubator” principle works in a way that the small entrepreneurs’ are developed on a step-by-step basis until they graduate as competent SMEs.

5.3 Future Research
Closing this paper, we need to stress that since MFIs started their services the achievement has been growing faster, so we need to focus on the performance strategies, in productivity and efficiency terms, in order to evaluate the contribution of the MFIs superhighway in the effectiveness of the business marketing strategies and customer benefits. Special performance measures have to be developed inorder to substantiate how MFIs performance may be influenced by lower customers and BOT procedures. Along similar lines, we need to develop specific measures in order to evaluate quality issues of MFIs strategy. For example, we may use productivity enhancement, increase of sales, or efficiency improvement as direct performance measures. However, indirect performance measures, such as improvement of SMEs image, increase of brand equity and reinforcing of SMEs public relations may be more difficult to be used as quality evaluation measures of SMEs marketing strategy. The above issues may be major objectives for future research in the scope of MFIs.
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APPENDIX
QUESTIONNAIRES

Questionnaires to Staff of NMB, Kariakoo Branch

My name is KautharMasoud from the Mzumbe University pursuing a Masters of Account and Finance. I am now doing a research on the “Impact of micro-credit service on income level of the target beneficiaries”

Please read the questions carefully and kindly answer them accordingly, adding your comment where you think necessary to do so. All information will be confidentially treated.

1. What is your position in the NMB ………………………………………

2. What services does the NMB offer to SMEs
   a. Saving Account (    )
   b. Investment (    )
   c. Loans/Credit (    )
   d. Other (    )

3. What strategies do you have to promote SMEs?
   a. .................................................................
   b. .................................................................
   c. .................................................................

4. What is the performance of SME’s that get financial support from the branch
   01 = Very good
   02 = Good
03 = Poor

5. Is your service relevant to your clients?
   01 = Relevant
   02 = Not relevant
   03 = I don’t know

6. Briefly indicate the role played by NMB in developing SMEs
   a) ..........................................................
   b) ..........................................................
   c) ..........................................................

7. Do you have training programs for your clients?
   a) Yes ( )
   b) No ( )

8. Are there any economic empowerment SMEs that get loans from the NMB
   a) Yes ( )
   b) No ( )

9. What are the key requirements for SMEs to obtain loans?
   a) ..........................................................
   b) ..........................................................
   c) ..........................................................

10. What problems does the NMB face when providing loans to SMEs?
    a) ..........................................................
    b) ..........................................................
    c) ..........................................................

11. In your opinion what are the challenges facing SMEs in general in Tanzania.
a. .......................................................................................  

b. .......................................................................................  

c. .......................................................................................  

12. What problems do you face in processing loans to SMEs  
a. .......................................................................................  

b. .......................................................................................  

c. .......................................................................................  

13. What should be done to overcome problems that face SMEs in Tanzania.  
a. .......................................................................................  

b. .......................................................................................  

c. .......................................................................................  

**Questionnaires to SMEs**

My name is KautharMasoud from Mzumbe University pursuing a Master of Accounting and Finance. I am now doing research on the “Impact of micro-credit service on income level of the target beneficiaries”

Please read questions number 14-28 carefully and kindly answer them accordingly, adding your comments where you think necessary to do so. Question number 1-13 was given to the NMB staff for their comments on the best way of helping the growth of SMEs. All information will be confidentially treated.

14. Are you a customer of National Microfinance Bank (NMB)  
(i) Yes ( )  
(ii) No ( )  

If yes for how long? .................................................................  

15. How long have you been in this business?  
a. One year
b. Two year

c. More than Two years

16. What kind of business are you dealing with .................................

17. How much do you earn from your business per month?

.................................

a. TShs. 100,000 – 1,500,000 (   )

b. T.Sh. 1,000,000 – 5,000,000 (    )

c. T.Sh. 2,200,000 – 30,000,000 (    )

18. What is the range of your capital

a. T.Sh. 100,000 – 1,500,000 (   )

b. T.Sh. 1,000,000 – 10,000,000 (   )

c. More than T.Sh. 10,000,000 (   )

19. Which problems do you face in operating business?

................................................................................................................................

................................................................................................................................

20. How many times did you get loan from the NMB – Kariakoo Branch

a. Once (   )

b. Twice (   )

c. More than two times (   )

21. How long does it take to get loans from the NMB?

a. Not many days

b. Two to three weeks

c. Many days

22. What re your views on the procedures used by the NMB in providing loans?
23. What problems do you face in the process of receiving the loan from the NMB?

24. What are your suggestions on the loans provided by the NMB?

25. Does the loan department in financial institutions provide entrepreneurship training to SMEs?
   a. Yes ( )
   b. No ( )
   If yes, how many times were you trained on entrepreneurship?

26. Do you keep records of your business?

27. What is your advice to financial institution that extent loans to SMEs

28. What challenges do you face in the process of getting loans from financial institutions?