ASSESSING CONTRIBUTION OF MICROFINANCE INSTITUTIONS TOWARD POVERTY REDUCTION IN URBAN COMMUNITIES A CASE OF MWASHITA SACCOS IN DODOMA URBAN

By

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A Dissertation Submitted In Partial Fulfillment of the Requirements for Award of The Master of Science In Accounting and Finance

2013

CERTIFICATION

The undersigned certifies that, they have read and hereby recommend for the acceptance by the Mzumbe University, a dissertation entitled **Microfinance Institutions: Assessment on Their Performance and Contribution to the Poverty Reduction in Urban Communities A case of MWASHITA SACCOS In Dodoma urban.** In fulfillment of the requirements for the degree of Master of Science in Accounting And Finance of Mzumbe University.

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DECLARATION AND COPYRIGHT

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

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Date ………………………………..

ACKNOWLEDGEMENT

Most studies require cooperation of the people to be successful, In the same way to this work. This study received the cooperation from various people, without them it would have been difficult to accomplish although; it is very hard to thank all of them by names. Therefore, I will take this opportunity to acknowledge some of them.

First, my supervisor Mr. Deogratius Kibona for his time, advice and corrections as well as commitment and his guidance during proposal development, report writing and for the well completion of my dissertation.

Second, the management of Mwashita SACCOS, where this study was conducted, for accepting me to do this study in their organization and their willingness to assist me in getting data from them as well as their customers.

Also I wish to express my appreciation to my family for their prayers and material support as well.

Lastly I offer my regards and blessings to all who contributed to me in one way or another, during the completion of this dissertation.

DEDICATION

I dedicate this dissertation to my lovely mother and father who have supported me morally ad materially. Also to my lovely son Samuel, my young sister Esther and my young brothers Richard, Hillary, Nelson and Derik for their encouragement in doing my research as well as their prayers.

LIST OF ABREVIATIONS AND ACRONYMS

AL- Amount of Loan

BRAC- Building Resources around the Community

CIDA - Canadian International Development Agency

EL- Education Level

FS- Financial Stability

IRDP- Institute of Rural Development Planning

LFS- Loan From other Sources

LRE- Loan Recovery Efficiency

MDGs- Millennium Development Goal

MFI - Micro financial Institution

MSEs- Micro and Small Enterprises

OE- Other Earning

PRUC- Poverty Reduction in Urban Community

SACCOS- Savings and Credit Cooperative Society

SPSS -Statistical Package for Social Science

TS- Training Services

ABSTRACT

The study of Microfinance Institutions on their Assessment, Performance and Contribution to the Poverty Reduction in Urban Communities" A case of MWASHITA SACCOS was tested among 95 members of Mwashita SACCOS in Dodoma municipality. Simple random sampling and purposeful sampling was employed to select the sample. Four research questions guided the study.

A well structured questionnaire that was tested for reliability and validated was used as the instrument for the study. The results obtained were analyzed using regression analysis.

The findings indicated that there is the positive relationship between MFI financial stability, loan recovery efficiency, amount of loan and training services to poverty reduction in urban communities. The impact of MFI training services to the poverty reduction in urban community was revealed that the correlation between TS and PRUC is 0.622, AL and PRUC is 0.243, LRE and PRUC is 0.043 also FS and PRUC is 0.042 which indicates that increase in TS, AL, LRE and FS are resulting into increase in PRUC.

The study concluded that microfinance institution is indeed a potential strategy to poverty reduction and a viable tool for purveying credit to the low income earner. However, microfinance can be a more viable tool for sustainable poverty alleviation if more is done on training on the uses of loan and how to recover it.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the background information, statement of the problem, objectives of the study, research questions and scope of the study as well as the significance of the study.

1.1 Background of the study

Globally, microfinance is a critical element for the poverty reduction, it is generally accepted that without permanent access to institutional microfinance, most poor households would continue to depend on self-finance or formal sources of microfinance, which limits their ability to actively participate and benefit from development opportunities.

According to Lindvert (2006) who argued that Microfinance's income poverty reduction is highly connected to services provided and client willingness to participate in loan repayment. Microfinance's were initiated with a policy of serving the poor people who face difficulty in accessing financial services from other financial institution, this is because financial institution like bank have difficulty condition on the process of giving loan for example in order to get loan you should have house or land. But most of low income earner people do not have house or land therefore microfinance to them is important instrument in access of loan.

Similarly, in developing countries majority of the People expected to be away from poverty through loan initiatives of microfinance institutions.

It is clearly that capitals provided to poor people seek to manage poverty (Khandker 2005, Irobi 2008). It is widely accepted that one major cause of poverty is lack of access to productive capital as formal financial institutions excluding the poor in lending activities (Hulme 2000, Shimelles and Zahidul 2009). This perpetuates the problem of income poverty due to lack of productive capital among the low income people. However, the micro credit provided in terms of small loan limiting the poor people to increase their income. It is only end to mouth for consumption and increases the burden of loan repayment. (Altenburg 2009) about 72.87 percent of the population in developing countries was living below the poverty line and income poverty is higher in urban areas which lead to increase in cost of living.

Similarly, in 1970s income poverty in Tanzania remained challenging even up to the new wave of microfinance institutions in 1990s. It was expected to be an important vehicle for poverty reduction. Some argue that microfinance is a key tool to achieve the Millennium Development Goals (MDGs) (World Savings Bank Institute 2010). It has been sought to increase employment opportunities, growth of the national income, better standard of living and hence manage income poverty by reducing. The reality of the income poverty management has never realized in Tanzania. Despite the existing of microfinance's institution yet the number of people living below the poverty line increases (Fraser H, 2004).

In 2006, the Government of Tanzania in recognition of the importance of microfinance's institution in income poverty reduction has come out strongly in supporting the revival and strengthening of SACCOS.

It was done through the National Economic Empowerment and Job Creation Programme that encourages the establishment of SACCOS at Ward level together with a support of Tanzania Shilling twenty one Billion. That is one Billion Tanzanian shillings per region. Apart from Government and Non governmental organization efforts to channel fund to SACCOS for increasing poor people accessibility of micro-credit from microfinance institution. Yet people living below the income poverty line increases.

It is clearly that, microfinance institution is the vehicle that eliminate formal procedure on accessing credit to low income people, through enhancement of social collateral on group lending system.

However, the impact of Microfinance Institution performance on income poverty management is confusing especially in urban areas where the wide range of microfinance institution exists and income poverty still is there. Therefore, this study is going to assess performance and contribution of Microfinance institutions to the poverty reduction specifically income poverty.

1.2 Statement of the problem

Microfinance institution in Tanzania is increasingly receiving attention and support from governments, donor's agencies and the public (Cheshire, 2005). People living below the poverty line are in wide spread, majority of them found to be poor particularly in income parameter (Aman, 2005).

Appropriate uses of Microfinance in achieving reduction of poverty need clearly understanding of both the strengths and limitations of it (Morduch and Haley, 2001).

However, many studies conducted in developing world in general as well as in Tanzania are keen to assess the relationship of microfinance and poverty. For example the study conducted by (Kessy and Urio, 2006) on the contribution of microfinance institution to poverty reduction, and (Katsushi et al, 2010) on microfinance and household poverty reduction.

Therefore this study is going to assess performance and contribution of Microfinance Institutions to the poverty reduction in urban communities.

1.3 Research Objectives

1.3.1 General objective

The general objective of this study is to assess performance and contribution of Microfinance to the poverty reduction in urban communities.

1.3.2 Specific objective

i. To determine relationship between MFI stability and poverty reduction in urban communities.

ii. To determine the relationship between loan recovery efficiency and poverty reduction in urban communities.

iii. To assess the impact of MFI training services to the poverty reduction in urban communities.

iv. To assess the relationship between amount of loan and poverty reduction in urban communities.

1.4 Research Questions

i. What is the relationship between MFI financial stability and poverty reduction in urban communities?

ii. What is the relationship between loan recovery efficiency and poverty reduction in urban communities?

iii. What is the impact of MFI training services to the poverty reduction in urban communities?

iv. What is the relationship between amount of loan and poverty reduction in urban communities?

1.5 Significance of the Study

The study will provides baseline information on how Microfinance Institutions is a useful tool on reducing income poverty in Dodoma Urban

The study will help the researcher in integrating her class theoretical knowledge into practical application so as to improve her future career goal.

This study will be as one of the useful requirements for completion of the researcher's academic award of Masters of Science in Accounting and Finance at Mzumbe University.

The study also will help people in generating information related to microfinance and income poverty as one of the literature review to those who are interesting to continue with similar study or other fields on microfinance and income poverty.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter attempts to review areas and various literatures which have been done by different scholars related to impact of Microfinance Institution performance on income poverty management.

2.1 Theoretical Review

2.1.1 Definition of terms

Microfinance

Microfinance is the provision of financial services to low-income clients, including consumers and the self employed, who traditionally lack access to banking and related services (en.wikipedia.org/wiki/microfinance). Again Microfinance is the provision of financial services to low-income household, small holder farmers and small micro-enterprises in rural areas as well as in urban areas that have poor access to services from formal financial institutions (United Republic of Tanzania-2000).

Microfinance Institutions

Microfinance institutions are financial intermediaries formed to serve the needs of special group of people who lack collateral and do not qualify for traditional bank loans. (Wilson &Clark 1993). Microfinance institution specializing in banking services for low-income groups or individuals.

A microfinance institution provides account services to small-balance accounts that would not normally be accepted by traditional banks, and offers transaction services for amounts that may be smaller than the average transaction fees charged by mainstream financial institutions.

Poverty

The World Bank Organization asserts that "The most commonly used way to measure poverty is based on incomes. A person is considered poor if his or her income level falls below some minimum level necessary to meet basic needs. This minimum level is usually called the poverty line. What is necessary to satisfy basic needs varies across time and societies. Therefore, poverty lines vary in time and place, and each country uses lines which are appropriate to its level of development, societal norms and values. Different people think about poverty in different ways. Some people think that poverty is about being able to buy and sell but other people think about getting a fair share of education and health care or about being given respect, and having some influence over what happens in their life Sicular et al (2007).

Income poverty

Income poverty happens when a household takes in less than one US dollar per day. This means that people will not have enough food or medicine and they will have poor clothes and houses. Income poverty is due to people not having access to money or other assets. If people do not have any other assets like land to grow their own food, then income poverty can result in stunted growth and early death.

The best way to reduce income poverty is to encourage and support the development of effective businesses (small, medium and large) which make good use of our natural resources and talents to create wealth and jobs.

Income poverty is the way in which microfinance has an effect on income poverty by enhances access to capital, housing, food and money. That is if a person has enough income is going to be easy for him or her to run his life due to the fact that having income is the way of acquiring basic needs such as enough food, medicine, clothes as well as houses Vidal (2007).

Poverty Reduction

According to Canadian International Development Agency (CIDA) Poverty reduction means a sustained decrease in the number of poor and the extent of their deprivation. This requires that the root causes and structural factors of poverty be addressed. Reducing poverty places a focus on people's capabilities to avoid, or limit their deprivation. Key aspects of this are: recognizing and developing the potential of the poor; increasing their productive capacity; and reducing barriers limiting their participation in society. Poverty reduction must focus on improving the social, economic and environmental conditions of the poor and their access to decision making. Poverty reduction is often used as a short hand for promoting economic growth that will permanently lift as many people as possible over a poverty line (Mathew Owen).

Performance

Performance can be defined as the action or process of performing a task or function. In other words Performance can be defined as an objective phenomenon, consisting of a set of attributes of a program and its measurable impacts on society.

Concept of Microfinance Institution Performance

Microfinance Institutions are the one which provide financial services most commonly loans, savings and insurance delivered in small denomination to low income earner who lack the collateral, credit history or other assets to enter the formal financial system (Strikant Datal et al 2008). General microfinance institution reduce income poverty by making sure that people who are poor and near-poor households have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers. Many of those who promote microfinance generally believe that such access will help poor people out of income poverty and will improve their standard of living. Again, microfinance is a way to promote economic development and employment growth through the support of micro-entrepreneurs and small businesses.

2.1.2 Theories/Models on Microfinance Institution

There are different theories about financial services to the Poor: The four main theories which consider rural financing are: Supply-leading Finance theory, the imperfect information paradigm, the informal credit markets and the savings of the poor.

The Supply-leading finance

This theory refers to the provision of credit for the purpose of inducing economic growth. The theory emerged in the 1940's and 1950's in the context of post-World war two developments of the emerging nations where agricultural growth was given high priority. It assumed that poor people need credit but they could not pay the full cost of commercial credits and finance, so they would have to be provided in advance of the demand for it. Many institutions providing credit subsidies suffer from political interference, poor management, and unwanted products, low repayments, high costs and high losses.

The subsidized credit programmers have limited the volume of financial services to the poor-helping for decades to suppress the development of larger scale microfinance (Marguerite, 2001). In that respect reduction of income poverty become very questionable, the urban poor need microfinance services for a more rapid income increase. The income was expected to increase through engaging in income generating activities, in micro and small enterprises.

The imperfect information paradigm

The theory typically assumes that banks cannot cost effectively differentiate between low risk and high risk loan applicants. Banks may raise interest rates to compensate for risks related to their inability to distinguish between high risk and low risk applicants.

The higher interest rates may drive low-risk borrowers out of the market, increasing the Average risk ness of the loan applicant's pool.

The model also concludes that the banks are unlikely to operate profitably in developing country credit markets or attaining extensive outreach. On the basis of the model, it would be difficult to muster much enthusiasm for advocating the entrance of commercial banks into microfinance markets (Marguerite, 2001). Similarly, commercial banks can merely achieve the ultimate goal of income poverty reduction. It is limited in outreach especially tend to service the higher income category. The Microfinance is the one and viable option from serving the poor in particular urban setting.

Informal credit markets

The theory explains that in developing countries urban microfinance markets are typically composed of informal lenders and deposit takers, of semi formal bodies and of formal financial institutions. Money lenders in many parts of the world typically charge much higher interest rates to poor borrowers than are required for microfinance institutions to operate profitably. In recognition of this microfinance remain the viable tools in income poverty reduction. Banks can cost effectively gain reliable information about borrowers than is far broader than the information to which informal lenders have access.

In that case money, lenders know the microfinance market well and commercial microfinance institutions have borrowed many of their methods (Marguerite, 2001).The microfinance been recognized as the viable tools for income poverty reduction in many developing countries, Tanzania in particular, creating favorable environment for enabling operating smoothly is paramount.

The vast majority of microfinance operating in urban setting, yet majority of the client still clings on income poverty problem. Recognizing this microfinance impact on income poverty reduction is critical issue in achieving millennium development goal and poverty reduction strategy.

The saving of the poor and the new Microfinance

Robert (1984) argued that "Savings are the forgotten half of the poor financing." Adams (1988) argued that "there is larger demand for financial savings in urban areas of developing countries and that savings are more crucial for microfinance clients than credit. Yet savings remain forgotten in much of institutional microfinance in urban settings. The theory recognizes that mobilizing voluntary savings both as a service and as a source of finance for loans is a basic tenet of the microfinance revolution (Marguerite, 2001).

The theories above on urban financing and their related critiques on access of financial services to the poor in developing countries gives a foundation for the study and indicates the needs for selection of appropriate model in facilitating urban financing in a developing country like Tanzania in order to reduce income poverty reduction.

Finance for the poor-Grameen Bank approach

Grameen Bank approach is the early micro credit model for poverty lending in Bangladesh founded by Muhammad Yunus. Muhammad Yunus, the founder of the micro-credit Grameen Bank made two observations fundamental to the mindset required for non-tokenistic approaches to community development and community engagement.
He noted (1997, p. 3): "First, our knowledge base about people and their interactions is still very inadequate; Second, each individual person is very important. Each person has tremendous potential. S/he alone can influence the lives of others within communities, nations, within and beyond his/her own time."

The Grameen Bank is a concept that has readily engaged many communities in the developing world for almost thirty years. The Grameen Bank website (2010) notes that the origin of the idea can be traced back to 1976 when Professor Muhammad Yunus, Head of the Rural Economics Programme at the University of Chittagong, Bangladesh decided to help a woman who was so poor that she was forced to borrow US$0.25.

He was shocked to discover that the lender then had the exclusive right to buy all she produced at the price the lender decided. Considering this no better than slave labour he compiled a list of other victims of this village money-lender. When the list was completed, it contained 42 names and recorded the total amount borrowed as US$27. He then repaid the outstanding debts with his own money. This acted as a catalyst generating an action research project which explored the practicality of a credit delivery system focused on providing banking services for the poor.

In a reversal of standard banking practices the Grameen Bank operates on a system of trust, responsibility, involvement and resourcefulness and does not demand collateral from its clients. Even the very poorest people in rural Bangladesh are provided credit without collateral.

Credit is used as a catalyst to improve the socio-economic conditions of those previously without access to standard banking actions and as a cost effective way to address income poverty. It has been suggested that credit can be accessed by the poor on reasonable terms and conditions, millions of small people following their millions of small quests can generate the “biggest development wonder” (Grameen Bank Website 2010).

The approach demonstrates that poor people can be good credit risks and it has enabled a wide outreach to poor borrowers. With the model poverty lending approach requires large amounts of continuing subsidies and has not proven a globally affordable model. Poverty lending does not meet people’s demand for saving services. Henceforth; a different solution is required to meet the massive global demand for small loans and savings (Marguerite, 2007). Compulsory savings as a condition for obtaining loans and the collection of voluntary savings reflect two complementing different philosophies:” The former assumes that the poor must be taught to save and they need to learn financial discipline.

The latter assumes that the economically active poor already saves in variety of forms; what is required for effective saving mobilization is that the institutions should learn how to provide instruments and services that are appropriate for poor people demand financial services demand (Marguerite,2007).

The models above indicate that there are different approaches which can facilitate rural financing.

The choice of the best financial delivery mechanism based on the circumstance can facilitate the economically active poor people to access financial services which can promote their involvement in the production through reduction of income poverty.

The financial system approach to micro enterprise

The financial systems approach to micro enterprises recognize that savings are as important a service for the poor as credit and that savings are crucial in building self-sufficient financial institutions. Well crafted saving services can encourage a move from non financial savings into savings with the advantage of safety and liquidity for entrepreneurs and the provision of funds for investment for society (Rhyne, 1994).

The most important benefits of institutional savings for micro enterprises is an indirect one which is credit worthy. Small and micro enterprises can benefit from the expanded volume of institutional lending made possible by deposits mobilization. Substantial growth in institutional deposits can both significantly increase the amount of credits available to small entrepreneurs and provide loans which are of much lower interest rates than are otherwise available in the informal market (Rhyne, 1994).

The role and strength of informal finance agents in small scale urban economies and their importance to low income holds should not be underestimated. The informal sector allows low income people access to services at relatively low costs. It can do so because the informal sector is the natural environment for the poor people (Bouman, 1989).

People centered development attributes in income poverty reduction is concentrated in misuse of power and resources especially ecological resources in a finite world. It calls for an equality led transformation of institutions and values to restore community development, redistribution of powers and relocate resources to sustainable improvement in human welfare (Kortem, 1995).

In view of the above observations, it can be judged that in microfinance there is a need of building sustainable institutions that ultimately focus on income poverty reduction especially to its client. The financial services need to be convenience and appropriateness to the economically active poor people.

2.2 Empirical Studies

The World Bank estimates that approximately one billion people around the world live on less than one dollar a day (World Bank, 2010). With the reaffirmation of reducing poverty as the primary goal in the development policy agenda, microfinance has become the much favored interventionist strategy amongst international development agencies not only in poor countries, but also in the poorer areas of the richest countries (*ibid*).

Microfinance can only make a significant impact in alleviating poverty if it establishes itself in these areas, which are typically characterized by a lack of basic infrastructure, such as telecommunications, roads, education and health care facilities, and primary services such as sanitation. This constitutes a major constraint to the establishment of vibrant, sustainable microfinance systems in the region (Churchill, (2007).

The study conducted in Nigeria by Oyeyomi (2003) on Poverty Reduction Strategies found that Income Poverty is a global phenomenon which affects continents, nations and people differently. It afflicts people in various depths and levels, at different times and phases of existence.

The most commonly way to measure income poverty is based on income or consumption line for example a person is considered poor if his or her consumption level falls below one US dollar per day, a level necessary to meet basic needs.

The study done in Nigeria by Charles, *et al* (2011) on the impact of micro finance on poverty alleviation in Nigeria, they found the empirical relationship between micro finance loan disbursement and poverty alleviation was tested in the study by employing chi-square test, F- test and T-test. The findings reviled that there is a significant difference between people who used microfinance institutions and those who don't use them. For those who used micro finance their income has increased as well as their economic status

The study conducted in northern Bangladesh by Amin et al (2003) The study found that while micro credit is successful in reaching the poor, it is less successful in reducing income poverty which mostly face the vulnerable poor, especially the group most prone to destitution (the vulnerable poor). Coleman (1999) also finds little evidence of an impact on the programme participants. The results, Coleman further explains, are consistent with Adams and von Pischke's assertion that "debt is not an effective tool for helping most poor people enhance their income" and that the poor are poor because of reasons other than lack of access to credit. According to Zaman (1999) in a survey of 1072 households of member and non-member borrowers from BRAC in Bangladesh finds that borrowing beyond a certain threshold increases income and reduces poverty.

The study conducted in Iran by Bakhshoodeh and Karami (2008) on the Determinants of poor accessibility to micro credits found that credits supplied by the Iranian agricultural bank is an effective source for poor especially the youth to create job opportunities in remote areas and therefore to improve their income and welfare.

However, there are many people who have not an easy access to the bank nearby their places of living resulting in weak access to consistent and sufficient discounted credits that can potentially affects household welfare outcomes through alleviating the capital constraints on agricultural households and increasing its risk-bearing ability and altering its risk-coping strategy Diagne et al (2000).

In other words, distance to bank is one of the key variables in determining poor access to credit for whom small loans could make huge differences and so, it may be primarily propounded that traditional agricultural banking sector should increase its number of branches in various rural areas to increase access of small and poor farmers to micro-credit. However, administrative cost of supplying loans to the poor population is extremely high. Another issue that makes it difficult to serve these customers through traditional banking is that the poor does not have any assets to use as collateral.

The study conducted in India Katsushi, Arun & Annim (2010) on Microfinance and Household Poverty Reduction, they found that loans for productive purposes were more important for poverty reduction in rural than in urban areas. However in urban areas, simple access to MFIs has larger average poverty-reducing effects than the access to loans from MFIs for productive purposes. This leads to exploring service delivery opportunities that provide an additional avenue to monitor the usage of loans to enhance the outreach.

The study conducted in Kenya by Kiiru Joy *et al* (2007) on “The impact of Microfinance on rural poor households’ income and vulnerability to poverty”. The study was an experimental case of Makueni district where participants in Microfinance programmes and non participants’ households were studied over time thus yielding a rich pooled data for analysis. On integrating time dynamics in the analysis, the results indicate a positive and significant impact of microfinance on household income. The thesis argues that there is a role of microfinance on the improvement of household incomes.

According to Kwami *et al* (2006) on the study which have been done in Ghana also it shows that Microfinance contributes to a greater economic stability and well being of poor families through increase in income, health, nutrition, education and empowerment.

That is proven to improve the standard of living of many families to such a degree that they are completely lifted out of their impoverished situation.

Another study was done by Alemu of Ethiopia who carried the research on “Microfinance and poverty reduction in Ethiopia” By taking a sample of five hundreds household from Amhra region. Using different statistical techniques such as Chi-square and paired T-test, the study has found out that the poor have smoothed their income in the study area. However, there was problem in the sense that clients were using the loan for unintended purposes. It was also observed that clients lack technical skills to engage in more profitable business activities. This may indicate that financial services alone could not be sufficient enough to raise the living conditions of the poor. Therefore he recommend on business training skills apart from loan provision only so as to help the low income people.

According to Mosley (2001), microfinance makes a considerable impact to the reduction of poverty through its impact on income and also has a positive impact on asset level. But the mechanism through which poverty reduction works varies between institutions. Generally, institutions that give, an average, smaller loans reduce poverty much more by lifting borrowers above the poverty line, whilst institutions giving larger loans reduce it much more by expanding the demand for labour amongst poor people.

In a study conducted by Kessy & Urio (2006) on the contribution of Microfinance Institutions to poverty reduction in Tanzania, the researchers covered four regions of Tanzania which are Dar es Salaam, Zanzibar, Arusha and Mwanza. Both primary and secondary data were collected; primary data were collected from 352 Micro and Small Enterprises (MSEs) through questionnaires, as well as on doing interview.

PRIDE which is a microfinance institutions were used as a case study so as to get the insight of MFI operations. The study findings pointed out that to large extent MFI operations in Tanzania has brought positive changes in the standard of living of people who access their services, clients of MFI complained about high interest rate charged, the weekly meeting was pointed out as barrier as the time spent in weekly meeting could be used to other productive activities. The study recommended MFI to lower its interest rate, increase grace period and provide proper training to MSEs.

Another study was done in India by Adel Varghese and Ranjula Swain (2010) on the Evaluating the impact of training for a National Microfinance program the case of Indian Self Help Groups, the study shows that provision of business training with microfinance leads to a positive impact on assets for the participating households.

To make businesses even more productive, some MFIs have targeted the health and happiness of the clients themselves, offering training in areas such as nutrition, health care, and domestic problem solving. These social services not only help clients profit from their loans, but also aid in the development of human capital an important contributor to the alleviation of income poverty (Srikant Datal *et al* 2008).

Also the study was done in Uganda by Kwizera Alex (2011) on Credit policy and loan recovery in Microfinance Institutions in B.Blue at Kisoro. The study revealed that credit policies exist in B.Blue but due to management laxity to effectively implement on them lead to negative impact of loan recovery between the periods “2008-2010”.

Besides this, there exists a strong positive relationship of 0.722 using Statistical Package for the Social Science between credit policy and loan recovery. Therefore this implies that the effectiveness of credit policy leads to higher loan recovery levels.

2.3 Conceptual Framework

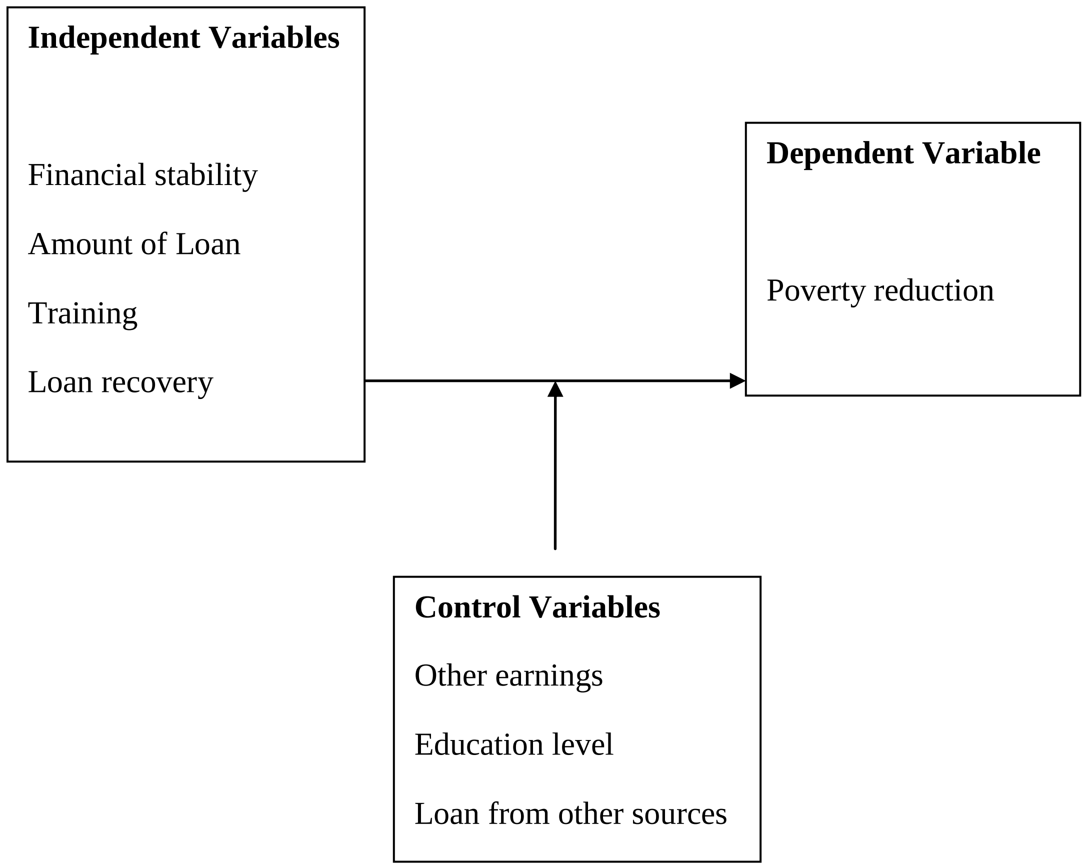
Under conceptual framework (See figure 2.1) that is we are going to discuss concerning the interdependence which is between independent variables as well as dependent variables. That is from our topic which is Microfinance Institutions: Assessment on their performance and contribution to the poverty reduction in urban communities.

Under Independent variable there are financial stability, amount of loan, training and loan recovery. While poverty reduction is dependent variable, that is if microfinance institution financial is stable that is it will have enough cash to give to its clients as loan, not only giving loan is going to reduce poverty but also giving training to the clients on how to use the loan so that they may get benefit on it as well as how to recover the loan and what amount of loan they are suppose to take this is because some people may take large amount of money and is going to be difficult for them on returning.

Poverty reduction will not only depend on independent variable which is financial stability, amount of loan which is giving to its clients as well on giving training on how to use the loan and on loan recovery.

But also will depend on control variables which are other earnings which are coming from other source that is you may find the client is also doing certain business or is employed to the certain company. Loan from other sources that is the client may also have loan from example at bank. Education level is also control variable this is because a person who has formal education will have added advantage on the use of loan that is he is going to use the loan properly due to the knowledge which he has. While the one who has no education, it will be difficult for him to use the acquired loan properly.

(a) Figure 2.1: Conceptual Framework



<u>**Key**</u> → Direct relationship

Source: Researcher's conceptualization

CHAPTER THREE

RESEARCH METHODOLOGY

3.0Introduction

This part of the study deals with the research design, area of the study, population and sample design. It was also provide information on data collection methods or techniques and the ways in which the research data was adequately presented and analyzed. Moreover, the validity and reliability of the study was addressed by using different tools and instruments in data collection.

3.1 Research Design

The study was descriptive in its approach according to (Besley et, al, 1995) where survey design was employed. The reason for choosing a survey design is due to accessibility of direct information from different clients of microfinance by going to their house and sees what they have done with the loan which they have been given, that is whether it has positive or negative impact to them. On the basis of the research question the methodological approach is going to be quantitative. Quantitative research technique was employed through questionnaires as tools to obtain the income poverty index at the study area. Cross-sectional design was also being employed in the study this is because the method allows the studying of different groups of respondents at one point on time (Bailey, 1994).

3.2 The Study Area

The study area of this study was Dodoma urban where survey was done to different beneficiary of microfinance .The reason for choosing Dodoma is due to the fact that, it is one of the fast growing municipality in Tanzania with number of microfinance institutions, It is the area where the problem has been cited with majority of people living under the poverty line, it indicates wide spread of income poverty (Eastman, R. and M. Lipton, 2004).

3.3 Study Population.

The population of this study was 1840 who accessed microfinance services from MWASHITA SACCOS. The sampling size was drawn so as to have manageable number of respondents in relation to financial and time required by the researcher to accomplish the exercise of data collection.

3.4 Sample Size and Sampling Techniques

The sample frame of this study was involved the microfinance institution clients and managing officials the sample unit of the study was individual microfinance institution client and managing official. A sample size of 95 people was drawn from 1840 respondents and 5 Officers from MWASHITA SACCOS, who was formed a total of 100 respondents. In order to minimize error the sample size was obtained as follows:

$$n = \frac{NC^2}{C^2 + (N-1)e^2}$$

Where:

n = Sample size

N= Population (1840)

C= Coefficient of variation (10 %)

e = Sampling error 1 %

Hence

$$n = \frac{(1840)(10\%)^2}{(10\%)^2 + (1840-1)1\%^2}$$

$$n = 94.8942$$

Therefore the study was included 95 ordinary respondents who accessed loan and 5 key informants from MWASHITA SACCOS, thus makes a sample size of 100 respondents

Both probability and non-probability sampling techniques was used to select the appropriate respondents depending on the required type of information. Probability sampling particularly simple random sampling was used select loan beneficiaries from MWASHITA SACCOS and non probability sampling was used to select key informant such as officials from MWASHITA SACCOS.

3.5 Types and Sources of Data

The study was used both primary and secondary data, where primary data were collected fresh from the field area through interview and observation to respondents, mainly from households and MWASHITA SACCOS. Secondary data were obtained from various documented sources such as journals, report books, official records and news papers that were available in the field and the whole process of the study as well as the internet sources that were accessible by the researcher.

3.6 Data Collection Methods

In this particular study data were collected by using different methods. These methods were observation, interview, focused group discussion and questionnaire survey as follows;

3.6.1 Observation

The study was use direct observation various income generating activities to people who access microfinance services in the study area. The study also was used participatory and non participatory designed observations where checklist was the main tools for data collection.

3.6.2 Interview

The method was used to gather information from MWASHITA SACCOS and households who accessed loans, the questions were designed on semi-structured and structured questionnaires by focusing the variables of the study.

The researcher was obtaining qualitative information on microfinance accessibility to the poor people and strategies used by microfinance on income poverty reduction.

3.6.3 Questionnaires

There was both close hand questions that encourage a short answer concerning the impact of microfinance performance on income poverty management as well as open hand questions, the respondents were asked question on microfinance accessibility to the poor people and strategies used by microfinance on income poverty reduction.

3.6.4 Documentary analysis method

The researcher was collected data from written or printed materials that have been produced in a form of annual reports, books, MWASHITA SACCOS's reports and Government circulars. These documents are expected to be published or unpublished intended for private or public consumption, being original works or copies. The researcher was also using MWASHITA SACCOS's client records to seek more information on the number of clients managing access microfinance services that was given insight of the study.

3.7 Reliability and Validity

Reliability and validity are the two most important quality control objects in research.

3.7.1 Reliability

Data reliability is a cornerstone of making a successful and meaningful study. In order to collect reliable data, the researcher was designed the interviews and questionnaires through an elaborate procedure which involved a series of revisions under the guidance of the study supervisor to ensure that fieldwork was conducted by use of high quality data collection. Also quotes from interview and statement from questionnaires were used as references to ensure reliability.

Also reliability was ensured by the use of appropriate sampling techniques including simple random sampling that was used to select MWASHITA SACCOS clients and purposeful sampling that was applied in selecting appropriate sample size of MWASHITA SACCOS key informants.

3.7.2 Validity

Validity refers to the degree to which study accurately reflect or assesses the specific concepts the researcher is attempting to measure (Fidel, 1993). To ensure validity study was applied the triangulation technique by using interviews, questionnaires, focus group discussion and documentary analysis for secondary data. This was conducted through piloting of the data collection instruments used to collect data.

Issues developed from conceptual framework was compared with issues obtained during interview and answers obtained from questionnaires so as to ensure construct validity, statistical analysis such as descriptive analysis was used.

3.8 Data analysis Methods

The data have been analyzed by Statistical Package for Social Science (SPSS) programs through correlation analysis, multiple regression analysis, descriptive statistics Where frequencies, descriptive and cross tabulation have been selected so as to make data more accurate and consistence for presentation. The quantitative data findings were analyzed through several steps which were used to perform data analysis, these included Data handling and preliminary analysis.

In regression analysis four regression models below were used;

$PRUC = \beta_o + \beta_1 LFS + \beta_2 EL + \beta_3 OE + \beta_4 FS$

$PRUC = \beta_o + \beta_1 LFS + \beta_2 EL + \beta_3 OE + \beta_4 LRE$

$PRUC = \beta_o + \beta_1 LFS + \beta_2 EL + \beta_3 OE + \beta_4 TS$

$PRUC = \beta_o + \beta_1 LFS + \beta_2 EL + \beta_3 OE + \beta_4 AL$

3.9 Data Presentation

The data was presented in form of tables. The rationally of choosing these methods in presenting is because they are simple and easy to be understood by any person who will understand the language used.

CHAPTER FOUR

PRESENTATION OF FINDINGS

4.0 Introduction

This chapter presents the findings and discussion of the research results which is organized into four main sections based on the main objectives of the study

4.1 Profile of the respondents

The profile of the respondents includes sex, age and education level of the respondents in terms of frequencies and percentages.

4.1.1 Sex of the Respondents

Under sex of respondents includes both male and female respondents as under.

Table 4.1: Sex of the Respondents

Category	Frequency	Percent
Male	38	38.0
Female	62	62.0
Total	100	100.0

Source: Field Findings Survey, 2013

Table 4.1 shows that 62 (62%) of the respondents were female while male respondents accounted for 38 (38%). It is the majority of the female respondents found to participate more in SACCOS as far as MWASHITA SACCOS is concern.

The microfinance initiated for poverty reduction and mostly women are poorer and have more burdens on providing social responsibility that is they have to make sure their family got food, shelter, clothes, and education and health services as well.

Thus being more vulnerable to poverty taking female in large number as respondents are highly essential for assessing the performance and contribution of Microfinance to the poverty reduction in urban communities, this proves that microfinance performance and contribution to poverty reduction in urban communities can be traced from the involvement of more female clients who are highly vulnerable to poverty than male.

4.1.2 Age of the Respondents

Table 4.2 shows age of respondents as follows.

Table 4.2: Age of the Respondents

Category	Frequency	Percent
18-30	48	48.0
31-43	42	42.0
44 and above	10	10.0
Total	100	100.0

Source: Field Survey Findings, 2013

Table 4.2 shows that majority 48(48%) of the respondents were from age group of 18-30 years, this is the active age involved in MWASHITA SACCOS, it is the age group paramount for contribution on poverty reduction from household level and national level as well.

Followed by 42 (42%) of the respondents from the age group of 31-43 years which is the adult age required for poverty reduction through microfinance institution MWASHITA SACCOS is concern. The study involve only 10 (10%) of the respondents from the age group of 44 and above years. It requires drawing enough experience of MWASHITA SACCOS in poverty reduction at urban community.

4.1.3 Education Level of the Respondents

Table 4.3 shows education level of respondents as follows

Table 4.3: Education Level of the Respondents

Category	Frequency	Percent
Primary drop-out	1	1.0
Std seven leaver	55	55.0
O-level drop-out	21	21.0
Form four leaver	14	14.0
Form six leaver	2	2.0
Higher education	7	7.0
Total	100	100.0

Source: Field Survey Findings, 2013

Using descriptive statistical analysis table 4.3 shows that 55 (55%) of the respondents are standard seven leaver. It is the level attainable by the majority of the Tanzania additionally, primary education in Tanzania is compulsory that every one required at least to have primary education. About 21 (21%) of the respondents were O-level drop-out, Form four leaver 14 (14%), form six leaver 2(2%) and 7 (7%) higher education respectively.

Respondents with education can provide argument that is sufficient for judging the contribution and performance of microfinance institution to poverty reduction.

4.2 Correlation between dependent and independent variables

An attempt is made here to find the relationship between independent variable and dependent variables used in the model given in the methodology chapter so as to know the direction of Microfinance Institutions on performance and contribution to the poverty reduction in urban communities.

For the purpose, Pearson's Coefficient of correlation analysis is applied to find the relationship between microfinance institution and poverty reduction. The study analysis and results are presented hereunder objective wise that is the relationship between MFI FS and PRUC; LRE and PRUC; MFI TS and PRUC; AL and PRUC

4.2.1 Relationship between FS and PRUC

The relationship between PRUC and control variables as well as FS and control variables is also calculated. This is because change in FS impacts control variables like OE, EL and LFS. The calculated relationship between these two variables along with control variables is presented in the following table.

Table 4.4: Correlation between FS, control variables and PRUC

Category	PRUC	OE	EL	LFS	FS
PRUC	1.000	.387	-.384	.227	.042
OE		1.000	-.318	.386	.001
EL			1.000	-.065	.112
LFS				1.000	-.536
FS					1.000

Source: Field Survey Findings, 2013

From the analysis of the above table the following observations can be made:

The correlation between FS and PRUC is 0.042 which indicates that increase in FS is resulting into increase in PRUC and vice versa. This is as per the expected relationship. The correlation between FS and OE is 0.001, which indicates that decrease in FS is resulting into decrease in OE and vice versa. This it is as per the expected relationship. The correlation between FS and EL is 0.112, which indicates that decrease in FS is resulting into decrease in EL and vice versa. This is as per the expected relationship. The correlation between FS and LFS is -0.536, which indicates that decrease in FS is resulting into increase in LFS and vice versa. This it is as per the expected relationship.

4.2.2 Relationship between LRE and PRUC

The relationship between PRUC and control variables as well as LRE and control variables is also calculated. This is because change in LRE impacts control variables like OE, EL and LFS. The calculated relationship between these two variables along with control variables is presented in the following table.

Table 4.5: Correlation between LRE, control variables and PRUC

Category	**PRUC**	**OE**	**EL**	**LFS**	**LRE**
PRUC	1.000	.073	-.172	.098	.043
OE		1.000	.038	-.261	-.126
EL			1.000	.122	-.096
LFS				1.000	-.198
LRE					1.000

Source: Field Survey Findings, 2013

From the analysis of the above table the following observations can be made:

The correlation between LRE and PRUC is 0.043 which indicates that increase in LRE is resulting into increase in PRUC and vice versa. This it is as per the expected relationship. The correlation between LRE and OE is -0.126, which indicates that decrease in LRE is resulting into increase in OE and vice versa. This it is as per the expected relationship. The correlation between LRE and EL is -0.096, which indicates that decrease in LRE is resulting into increase in EL and vice versa. This it is as per the expected relationship. The correlation between LRE and LFS is -0.198, which indicates that decrease in LRE is resulting into increase in LFS and vice versa. This it is as per the expected relationship.

4.2.3 Relationship between TS and PRUC

The relationship between PRUC and control variables as well as TS and control variables is also calculated. This is because change in TS impacts control variables like OE, EL and LFS. The calculated relationship between these two variables along with control variables is presented in the following table

Table 4.6: Correlation between TS control variables and PRUC

Category	**PRUC**	**OE**	**EL**	**LFS**	**TS**
PRUC	1.000	.390	-.128	.353	.622
OE		1.000	-.062	.186	.291
EL			1.000	-.014	-.445
LFS				1.000	.357
TS					1.000

Source: Field Survey Findings, 2013

The correlation between TS and PRUC is 0.622 which indicates that increase in TS is resulting into increase in PRUC and vice versa. This it is as per the expected relationship. The correlation between TS and OE is 0.291, which indicates that increase in TS is resulting into increase in OE and vice versa. This it is as per the expected relationship. The correlation between TS and EL is -0.445, which indicates that decrease in TS is resulting into increase in EL and vice versa. This it is as per the expected relationship. The correlation between TS and LFS is 0.357, which indicates that increase in TS is resulting into increase in LFS and vice versa. This it is as per the expected relationship.

4.2.4 Relationship between AL and PRUC

The relationship between PRUC and control variables as well as AL and control variables is also calculated. This is because change in AL impacts control variables like OE, EL and LFS. The calculated relationship between these two variables along with control variables is presented in the following table.

Table 4.7: Correlation between AL, control variables and PRUC

Category	PRUC	OE	EL	LFS	AL
PRUC	1.000	-.168	.068	.006	.243
OE		1.000	-.491	-.218	-.182
EL			1.000	.576	.187
LFS				1.000	-.222
AL					1.000

Source: Field Survey Findings, 2013

From the analysis of the above table the following observations can be made:

The correlation between AL and PRUC is 0.243 which indicates that increase in AL is resulting into increase in PRUC and vice versa. This it is as per the expected relationship. The correlation between AL and OE is -0.182, which indicates that decrease in AL is resulting into increase in OE and vice versa. This it is as per the expected relationship. The correlation between AL and EL is 0.187, which indicates that increase in AL is resulting into increase in EL and vice versa. This it is as per the expected relationship. The correlation between AL and LFS is -0.222, which indicates that decrease in AL is resulting into increase in LFS and vice versa. This it is as per the expected relationship.

4.3 Multiple regressions

This section shows the empirical findings on the performance and contribution of Microfinance to the poverty reduction in urban communities. In this study each component of objectives were treated independently along with the control variables. There presentation based on the four regression models as follows:

4.3.1 Impact of FS on PRUC

The relationship between PRUC and control variables as well as FS and control variables was calculated using multiple regressions. The calculated relationship between these two variables along with control variables is presented in the following table.

Table 4.8: Regression estimates on impact of FS on PRUC

R^2 test =0.149, F-test =16.346

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	2.530	.629		4.024	.000		
OE	.173	.109	.172	1.583	.117	.682	1.467
EL	-.701	.199	-.342	-3.518	.001	.854	1.171
LFS	.296	.135	.266	2.188	.031	.545	1.834
FS	.257	.120	.242	2.137	.035	.631	1.584

Source: Field Survey Findings, 2013

The following observations can be made from the table:

The coefficient of FS in the regression was 0.257 which implies that an increase in the Financial stability of microfinance associated with increase in poverty reduction in urban community at the rate of 25.7% . In other way round, when financial stability of microfinance decrease will result to decrease of poverty reduction in urban community at the rate of 25.7%

The regression coefficient of OE was 0.173, which implies that an increase in OE by 1 is associated with increase in FS by 17.3% and vice versa. However the influence of FS on PRUC is high. The coefficient of EL in the regression was -0.701 which implies that an increase in EL by 1 is associated with decrease in FS by 70.1% the poverty reduction in urban community by microfinance will decrease.

The regression coefficient of LFS was 0.296 which implies that an increase in LFS by 1 is associated with an increase in FS by 29.6% of microfinance which influence poverty reduction of microfinance in urban community and vice versa.

The VIF ranged from 1.834 to 1.467, starting from LFS = 1.834, FS= 1.584

EL = 1.171 and OE = 1.467. This implied that each variable had some correlations with other independent variables. The tolerance range from 0.545 to 0.854

Where OE = 0.682, EL = 0.854, FS = 0.631 and LFS = 0.545. This implies that there was no problem of Multicollinearity. It should be kept in mind that Multicollinearity problem is observed when the tolerance is less than 0.1

The ascertained regression equation is:

PRUC = 2.530 + 0.296 LFS -0.701 EL + 0.173 OE +0.257 FS

In this multiple regressions other tests were used; the R square test (R^2) and the F-test. The R^2 found to be = 0.149, which implies that impact of the independent and control variables included in the model on PRUC was weak. The impact of FS and the control variables included in the model was only 14.9%, the rest 85.1% of the impact on PRUC was due to other factors out of the model.

The F – test was 16.346 which indicate that the significance of the model was low. The F – test shows the existence of linear relationship between the independent and dependent variable.

4.3.2 Impact of LRE on PRUC

The relationship between PRUC and control variables as well as LRE and control variables was calculated using multiple regressions. The calculated relationship between these two variables along with control variables is presented in the following table.

Table4.9: Regression estimates on impact of LRE on PRUC

R^2 test =0.174, F-test =9.7

Source: Field Survey Findings, 2013

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 Constant	3.048	.681		4.479	.000		
OE	.190	.152	.135	1.248	.215	.895	1.117
EL	-.125	.068	-.191	-1.850	.068	.976	1.025
LFS	.181	.116	.171	1.562	.122	.865	1.156
LRE	.081	.115	.075	.704	.483	.923	1.083

The following observations can be made from the table:

The coefficient of LRE in the regression was 0.081 which implies that an increase in the loan recovery efficiency associated with increase in poverty reduction in urban community at the rate of 8.1%.

In other way around, when loan recovery efficiency of microfinance decrease will result to decrease of poverty reduction in urban community at the rate of 8.1%

The regression coefficient of OE was 0.190, which implies that an increase in OE by 1 is associated with increase in FS by 19% and vice versa. However the influence of LRE on PRUC is high. The coefficient of EL in the regression was -0.125 which implies that an increase in EL by 1 is associated with decrease in LRE by 12.5 % the poverty reduction in urban community by microfinance will decrease.

The regression coefficient of LFS was 0.181 which implies that an increase in LFS by 1 is associated with an increase in LRE by 18.1% of microfinance which influence poverty reduction of microfinance in urban community and vice versa.

The VIF ranged from 1.083 to 1.156, starting from LFS = 1.156, LRE= 1.083

EL = 1.025 and OE = 1.117. This implied that each variable had some correlations with other independent variables. The tolerance range from 0.865 to 0.976 Where OE = 0.895, EL = 0.976, LRE = 0.923 and LFS = 0.865. This implies that there was no problem of Multicollinearity. It should be kept in mind that Multicollinearity problem is observed when the tolerance is less than 0.1

[The ascertained regression equation is:

PRUC = 3.048 + 0.181 LFS -.125 EL +.190 OE+ 0 .081 LRE

In this multiple regressions other tests were used; the R square test (R^2) and the F-test.

The R^2 found to be = 0.174, which implies that impact of the independent and control variables included in the model on PRUC was weak. The impact of LRE and the control variables included in the model was only 8.1% the rest 91.9% of the impact on PRUC was due to other factors out of the model.

The F – test was 9.700 which indicate that the significance of the model was low. The F – test shows the existence of linear relationship between the independent and dependent variable.

4.3.3 The Impact of TS on PRUC

The relationship between PRUC and control variables as well as TS and control variables was calculated using multiple regressions. The calculated relationship between these two variables along with control variables is presented in the following table.

Table 4.10: Regression estimates on impact of TS on PRUC

R^2 test =0.127, F-test =13.549

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.429	.384		1.118	.267		
OE	.018	.131	.016	.140	.889	.751	1.332
EL	.024	.059	.042	.399	.691	.828	1.207
LFS	.051	.091	.080	.554	.581	.452	2.211
TS	.166	.065	.327	2.560	.012	.573	1.745

Source: Field Survey Findings, 2013

The following observations can be made from the table:

The coefficient of TS in the regression was 0.166 which implies that an increase in the training services to client associated with increase in poverty reduction in urban community at the rate of 16.6%. In other way around, when training services to client of microfinance decrease will result to decrease on poverty reduction in urban community at the rate of 16.6%.

The regression coefficient of OE was 0.018, which implies that an increase in OE by 1 is associated with increase in training services by 1.8% and vice versa. However the influence of TS on PRUC is high.

The coefficient of EL in the regression was 0.024 which implies that an increase in EL by 1 is associated with increase in TS by 2.4% the poverty reduction in urban community by microfinance will increase.

The regression coefficient of LFS was 0.051 which implies that an increase in TS by 1 is associated with an increase in TS by 5.1% of microfinance which influence poverty reduction of microfinance in urban community and vice versa.

The VIF ranged from 1.207 to 2.211, starting from TS= 1.745, OE= 1.332, LFS = 2.211 and EL= 1.207. This implied that each variable had some correlations with other independent variables. The tolerance range from 0.452 to 0.828, Where EL= 0.828, OE= 0.751, TS = 0.573 and LFS = 0.452. This implies that there was no problem of Multicollinearity. Due to the fact that multicollinearity problem is observed when the tolerance is less than 0.1

The ascertained regression equation is:

PRUC = 0.429 + 0.051LFS + 0.024 EL + 0.018OE+ 0.166 TS

In this multiple regressions other tests were used; the R square test (R^2) and the F-test. The R^2 found to be = 0.127, which implies that impact of the independent and control variables included in the model on PRUC was weak.

The impact of TS and the control variables included in the model was only 12.7% the rest 87.3% of the impact on PRUC was due to other factors out of the model.

The F – test was 13.549 which indicate that the significance of the model was low. The F – test shows the existence of linear relationship between the independent and dependent variable.

4.3.4 The impact of AL on PRUC

The relationship between PRUC and control variables as well as AL and control variables was calculated using multiple regressions. The calculated relationship between these two variables along with control variables is presented in the following table.

Table 4.11: Regression estimates on impact of AL on PRUC

R^2 test =0.332, F test = 46.137

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
(Constant)	1.526	.491		3.110	.003		
OE	-.170	.140	-.143	-1.215	.227	.742	1.348
EL	-.001	.113	-.001	-.009	.993	.528	1.893
LFS	-.048	.078	-.077	-.610	.543	.647	1.545
AL	.152	.068	.235	2.241	.027	.932	1.073

Source: Field Survey Findings, 2013

Note: OE – Other Earning, EL – Education Level, LFS – Loan from another Sources
AL – Amount of Loan

The following observations can be made from the table:

The coefficient of AL in the regression was 0.152 which implies that an increase in the amount of loan associated with increase in poverty reduction in urban community at the rate of 15.2%. In other way around, when amount of loan to client of microfinance decrease will result to decrease of poverty reduction in urban community at the rate of 15.2%

The regression coefficient of OE was -0.170, which implies that an increase in OE by 1 is associated with decrease in the amount of loan by 1.7% and vice versa. However the influence of AL on PRUC is low.

The coefficient of EL in the regression was -0.001 which implies that an increase in EL by 1 is associated with a decrease in amount of loan by 0.1% there will be poverty reduction in urban community by microfinance.

The regression coefficient of LFS was -0.048 which implies that an increase in LFS by 1 is associated with decrease in AL by 4.8% of microfinance client.

The VIF ranged from 1.073 to 1.893, starting from EL= 1.893, LFS = 1.545, OE = 1.348 and AL = 1.073. This implied that each variable had some correlations with other independent variables. The tolerance range from 0.528 to 0.932, Where AL= 0.932, OE= 0.742, LFS = 0.647 and EL = 0.528. This implies that there was no problem of Multicollinearity. Due to the fact that Multicollinearity problem is observed when the tolerance is less than 0.1

The ascertained regression equation is:

PRUC = 1.526 - 0.048 LFS - 0.001 EL - 0.170 OE + 0.152 AL.

In this multiple regressions other tests were used; the R square test ($R^{2)}$ and the F-test. The R^2 found to be = 0.332, which implies that impact of the independent and control variables included in the model on PRUC was weak.

The impact of AL and the control variables included in the model was only 15.2% the rest 84.8% of the impact on PRUC was due to other factors out of the model.

The F – test was 46.137 which indicate that the significance of the model was low. The F – test shows the existence of linear relationship between the independent and dependent variable.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

Previous studies predicted that there is the relationship between micro finance and poverty reduction in urban communities in different aspects of micro finance such as:

On the relationship between MFI financial stability and poverty reduction in urban communities the results found that the correlation between FS and PRUC is positive which indicates that increase in FS is resulting into increase in PRUC and vice versa. These findings resulted from the previous study which have been done with Kwami et al (2006) found that there is positive relationship between financial stability and poverty reduction.

On the relationship between loan recovery efficiency and poverty reduction in urban communities findings indicated that the correlation between LRE and PRUC is positive which indicates that increase in LRE is resulting into increase in PRUC and vice versa. These finding related to the previous study which have been done with Kwizera Alex (2011) of Uganda on credit policy and loan recovery in Microfinance Institution.

On the impact of MFI training services to the poverty reduction in urban communities the finding indicated that there is a positive relationship between training service and poverty reduction in urban communities.

This implies that an increase in the training services to client associated with increase in poverty reduction in urban community. It relate to the studies which have been done with Adel Varghese and Ranjula Swam (2010), Alemu of Ethiopia and Kessy and Urio of Tanzania which they found that there are positive relationship between training services and poverty reduction.

On the relationship between amount of loan and poverty reduction in urban communities the findings reported the correlation between AL and PRUC is positive which indicates that increase in AL is resulting into increase in PRUC and vice versa. The studies conducted by Mosley (2001) and Zaman also found that, there is positive relationship between amount of loan and poverty reduction.

CHAPTER SIX

SUMMARY, CONCLUSION AND POLICY IMPLICATIONS

5.0 Introduction

This chapter focused mainly on the summary of findings, conclusion and policy implications based on the research findings discussed in chapter four, also present area for further studies. This chapter is divided into three areas; the first is summary of findings, second are conclusion and policy implications and then proposed areas for further studies:

5.1 Summary of findings

The study aimed at assessing the performance and contribution of Microfinance to the poverty reduction in urban communities.

From the study findings the relationship between MFI financial stability and poverty reduction in urban communities is indicated by the correlation between FS and PRUC is 0.042 which indicates that increase in FS is resulting into increase in PRUC and vice versa.

The results also indicated the relationship between financial stability and control variables such as the correlation between FS and OE is 0.01, which indicates that decrease in FS is resulting into decrease in OE and vice versa.

The correlation between FS and EL is 0.112, which indicates that decrease in FS is resulting into decrease in EL and vice versa. The correlation between FS and LFS is -0.536, which indicates that decrease in FS is resulting into increase in LFS and vice versa, these results as per expected relationship of the financial stability and control variables or financial stability and poverty reduction in urban communities.

The relationship between loan recovery efficiency and poverty reduction in urban communities revealed that the correlation between LRE and PRUC is 0.043 which indicates that increase in LRE is resulting into increase in PRUC and vice versa. Moreover loan recovery efficiency and other control variables presented as The correlation between LRE and OE is -0.126, which indicates that decrease in LRE is resulting into increase in OE and vice versa. The correlation between LRE and EL is -0.096, which indicates that decrease in LRE is resulting into increase in EL and vice versa. The correlation between LRE and LFS is -0.536, which indicates that decrease in LRE is resulting into increase in LFS and vice versa. All these findings reported as per the expected relationship.

The impact of MFI training services to the poverty reduction in urban community was revealed that the correlation between TS and PRUC is 0.622 which indicates that increase in TS is resulting into increase in PRUC and vice versa. Training services of microfinance reported to have relationship with other control variables such as the correlation between TS and OE is 0.291, which indicates that decrease in TS is resulting into decrease in OE and vice versa. The correlation between TS and EL is -0.445, which indicates that decrease in TS is resulting into increase in EL and vice versa. The correlation between TS and LFS is 0.357, which indicates that decrease in TS is resulting into decrease in LFS and vice versa. It should be kept in mind that this it is as per the expected relationship.

The amount of loan and poverty reduction in urban communities the findings reported that the correlation between AL and PRUC is 0.243 which indicates that increase in AL is resulting into increase in PRUC and vice versa. The correlation between AL and OE is -0.182, which indicates that decrease in AL is resulting into increase in OE and vice versa. This it is as per the expected relationship. The correlation between AL and EL is 0.187, which indicates that decrease in AL is resulting into decrease in EL and vice versa. The correlation between AL and LFS is -0.222, which indicates that decrease in

AL is resulting into increase in LFS and vice versa. These are as per the expected relationship.

5.2 Conclusion

Millennium Development Goal (MDG) set by the United Nations that aims to reduce the rate of poverty by 50 percent between 1990 and 2015 were income poverty is within, the household survey conducted by Institute of Rural Development Planning (IRDP)-Dodoma in 2011 demonstrated that, approximately 28 percent of Dodoma urban households are living below basic needs while we are approaching near to 2015 which is contrast with the Millennium Development Goal and The National Microfinance Policy as well as the National Economic Empowerment for Job Creation Programme regardless the increasing of microfinance services. In addition, majority of people who access microfinance services their income is below the poverty line and their income poverty is increasing more after borrowing.

Therefore microfinance institutions should play its roles according to MDGs and National Microfinance Policy by making sure that it helping low income earner to acquire basic needs such as enough food, clothes, medicine, houses and raising their income and not just earning profit by doing business like the way commercial banks are doing that is giving difficult conditions to their clients during the process of taking loan, that is in order for the clients to have ability to take loan of certain amount he or she should have land or building and you may find that for most low income people to have land or building is very hard for them.

There is relationship between loan recovery efficiency and poverty reduction in urban communities revealed that the correlation between LRE and PRUC is 0.043, which is increase in loan recovery efficiency resulting into poverty reduction. Therefore the aim of MFIs should be that of only helping low income earner how to recover the loans which they have take properly by making sure that they conduct different kind of training services on how to use and recover the loan.

In order to avoid the problem of clients not be able to recover the loan as a result many microfinance have the behavior of taking different furniture which belong to their clients for those who were not able to recover the loan hence you may find that low income earner instead of increasing his income he just end up with increasing more problems that is economical, socially and physiological. Therefore more training is required on how to take a loan, use it as well as how to recover so that to help low income earner to raise their income hence it will be easy for them to recover the loan accordingly, and support the deprived people and not just lending.

By making sure that it follows rules and regulation which guide them according to National Micro-finance policy.

Generally for Microfinance Institutions to be effectively and efficiency in performance and contribution of it in poverty reduction in urban communities it should be stable that is financially by not relay on only return of loan from its clients therefore should have another source of income. Again they should advice their clients that their income should not relay on loan from Mwashita SACCOS only but also they should have other source of income which may come from doing certain kind of business for those who are not employed. And for the employed clients may also conduct certain business so as to increase their income.

5.0 Policy Implications

Based on the findings of this study the following Policy implications are made possible.

(a) Microfinance can be a more viable strategy for sustainable poverty alleviation if it will provide more training and enough education to its client’s especial women because from the findings it shows large number of people who take loan are women and are more poor compared to men. Therefore they should be trained on how to obtain, which amount to take as loan and how to use the obtain loan hence will enable them to increase their standard of living because women have superior repayment record than men, and lending to women has greater effect on household welfare than credit directed toward male borrowers.

(b) The government should provide enabling environment for the microfinance programme by ensuring political stability, a stable macro-economic environment and low inflation rates that is for small base loans, MFIs should be flexible by raising the minimum base to reflect changes in the value of money over time.

(c) Mwashita SACCOS should make sure that financial is stable by expand its services and its product should not relay on returns from customer only that is it should have another means of getting money for example it may have a farm which will be using irrigation method this is because Dodoma region has problem of rain or they may cultivate crops which does not require more rain if they think irrigation system will be hard for them to manage. And if they see farming is difficult for them they may do certain kind of business so that they won't be affected with clients who will not be able to recover the loan. This is because they will have another source of income.

(d) Microfinance staff required to provide training on the amount of loan and the repayment capacity of the clients before issue of loan to respective client in order to reduce the problem of increasing in income poverty after borrowing. This sought to increase loan recovery among the client and making the MFI a viable tool for poverty reduction and not a tool of increasing income poverty, due to the fact that people will have knowledge on how to use their loan by making sure that which amount they save and which amount they invest hence it will be easy for them to recover the amount of loan which they borrow.

(e) Mwashita SACCOS should lower the amount of interest to its clients so as to help many people who are in need of loans to get it specifically low income earner so as to increase their income as a result poverty will be reduced.

5.4 Limitations of the Study

Lack of cooperation, this problem was experienced in this research due to the fact that response of the respondents to the distributed questionnaires was not positive. This is because some of the respondents failed to return the questionnaires over occupation by works or negligence.

Time constraint, time provided for this research was too limited, hence the researcher failed to access a good number of respondents as well as some of the required resources was not contacted as a result research quality have been affected.

This study is limited to the sample of MWASHITA SACCOS.

5. 5 Suggestion for Further Studies

This study aimed at assessing the performance and contribution of Microfinance to the poverty reduction in urban communities. In this study there were factors that were taken into consideration but were not studied fully.

Consequently, the same study should be conducted beyond MWASHITA SACCOS to other municipalities as to investigate the same findings and researcher should deal with variables which were not studied intensively in order to come up with clear explanation on performance and contribution of microfinance to the poverty reduction in urban communities.

I. The investigation of loan training among clients and repayment of loan to poverty reduction

II. Examination of amount of loan and poverty reduction

III. Assessment of the uses of loan and poverty reduction in urban communities

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