

**ASSESSMENT OF FACTORS DETERMINING ACCESS TO
MICROFINANCE SERVICES IN RURAL TANZANIA: A CASE
OF MVOMERO DISTRICT**

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MICROFINANCE SERVICES IN RURAL TANZANIA: A CASE
OF MVOMERO DISTRICT**

By

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Requirements for Award of the Degree of Master of Business Management –
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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled: Assessment of Factors Determining Access to Microfinance Services in Rural Tanzania: Case of Mvomero District, in partial fulfillment of the requirements for award of the degree of Masters of Business Administration at Mzumbe University.

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ABBREVIATIONS AND ACRONYMS

BRAC	Bangladesh Rural Advancement Committee
CGAP	Consultative Group to Assist the Poor
EEA	Empowerment Enterprises of Africa
FINCA	Foundation for international Community Assistance
KWFT	Kenya Women Finance Trust
MFI's	Microfinance institutions
NMB Ltd	National Microfinance Bank Limited
PRIDE	Promotion of Rural Initiative and Development Enterprises
PRIDE	Promotion of Rural Initiative and Development Enterprises
PTF	Presidential Trust Fund
SEDA	Small Enterprise Development Agency
NGO	Non-Governmental Organization
PTF	Presidential Trust Fund, a Tanzanian NGO
SACA	Savings and Credit Association
SACCO	Savings and Credit Cooperative Society
SELFINA	Sero Leasing and Finance Corporation
SIDO	Small Industrial Development Organization
TAMFI	Tanzania Association of Micro Finance Institutions
YOSEFO	Youth Self-Employment Foundation, a Tanzanian NGO

ABSTRACT

This study aimed to examine factors that determine the access of Microfinance services in rural Tanzania, using Mvomero district as a study case. The study addressed the following research questions: What are micro-financial service providers that operate in Mvomero District? What are the limitations to access to microfinance services in rural areas? How acceptable are the financing mechanisms employed by different providers? And what are the impacts of microfinance institutions in rural Tanzania? The study was largely qualitative supplemented in some aspects by the quantitative research methodology that based on descriptive design. This facilitates facts findings and generalization on wide population.

The methods used in the field were mainly the in-depth interviews (IDIs), semi-structured interviews and survey questionnaire. For secondary data reports, books and records were also used to supplement the primary data. The major findings show that there was inaccessible of MFI's services in rural areas due to various factors such as poor infrastructure, negative perceptions toward microfinance institutions, high cost and risk of operating and acquiring services scattered low population in rural areas, low population that resulted in little profit and others like negative perception of community about microfinance services, as well as low collateral values.

On the basis of the findings of the study, the following were recommended: There should be emphasis on the preferred financing mechanism as the best arrangement for securing loans in the rural areas; linkage in microfinance arrangement should be introduced to enhance effectiveness in financing services; the government has to use Credit Cooperative Societies to channel their agricultural credit and members of these societies should contribute on mutual consent; the credit provided should be revolving in such a way that every member will benefit; and the government and other development partners should take a necessary measure to provide important infrastructural facilities in rural areas so as to make these places conducive for microfinance services

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CHAPTER ONE

PROBLEM SETTING

1.1 Background of the Problem

There are many types of microfinance institutions depending on structure, function or philosophy. In many instances, the microfinance market is segmented according to the clients involved i.e. micro-enterprises, women, agriculturalists and so on. The main goal of many micro finance institutions is to provide sustainable micro finance facilities to the poor to facilitate income generation and reduce poverty (Baumann, 2001). The genesis of this is that the poor lack access to financial services, credit and savings facilities.

The goal of microfinance institutions as development organizations is also to service the financial needs of unserved markets as means of meeting development objectives Ledgerwood, (1999). The development objectives generally include reduction of poverty, empowerment of the poor and other disadvantaged groups, employment creation, development of new businesses and helping existing businesses to grow by diversifying their activities. In a world bank study of lending for small and micro enterprise projects, three objectives of microfinance institutions that were most frequently cited were, to create employment and income opportunities through the creation and expansion of micro enterprises, to increase the productivity and incomes of vulnerable groups especially the poor and women, as well as to reduce rural families dependence on drought prone crops through the diversification of their income generating activities Webster *et al.*(1996).

The microfinance revolution was introduced into the development economics arena slightly more than two decades ago. However, the widespread adoption of the microfinance model did not occur until the early 1990s. Since the mid-1990s, microfinance programmes and institutions have become an increasingly, important component of strategies to promote micro-enterprise development in developing countries and specifically to reduce poverty Colin, (2006). The early development of the sector was supported by such entities as USAID and PRESETO/Center for

Microfinance, which provided training and workshops to the microfinance institutions in the industry. The Association of Microfinance Institutions of Tanzania (AMFIT) now operates to support a sustainable network of microfinance institutions and publishes a directory containing information about the most reputable microfinance institutions.

1.2 Problem Statement

The option of making microfinance services available beyond city limits is so important to both customers and microfinance providers. The rural poor constitute both the greatest unmet need and largest unserved market for microfinance services (Borimnejad, 2010). For example, Tilman (2006) highlighted that although microfinance activity has increased considerably in recent years, significant growth was lacking and microfinance institutions are still far from reaching a significant portion of the population that lacks access to formal financial services. Providing financial services to the rural poor can address problems associated with high levels of poverty, low levels of production, and rural-urban migration. According to Tanzania microfinance policy (2000), Government objectives in rural microfinance is to extend the frontier of sustainable microfinance beyond urban areas by overcoming cost barriers, mitigating risk, and exploring technological and methodological innovations.

Mosley (1996) states that besides, business development/expansion is among the advantages for having microfinance services in rural area whereby loans shall be used as an expansion of capital as a result more income shall be earned hence life standardization and other economic developments like agriculture can be achieved. Moreover, loans can be used as a tool to eradicate poverty of the rural residents from the household to the community as whole; through loans one can pay school fees and respond to other basic needs like building houses.

Most studies on microfinance have concentrated on looking at the impact of Micro finance services on poverty alleviation. Hospes (2002) for example concludes that the impact of the financial service provision by Kenya Women Finance Trust (KWFT) at the enterprise level is positive in many respects: Enterprise size and

employment generation, both the quantitative and qualitative assessment show that the provision of loans by KWFT has helped women to keep them going even in the most difficult times, as well as contribute to providing continued employment to the women and their families, and to increase the number of employees in their business, either on temporary or permanent basis.

Despite this current state of affairs, literature on positive impact and goals of most MFI's in reductions of poverty and community development still on access to microfinance services in rural areas remains scant and community in rural suffering from poverty. Also those studies were not done in Mvomero district. This study therefore sought to assess factors determining access to micro-financial services in rural areas. The study was conducted in Mvomero district, Morogoro region, Tanzania.

1.3 General Objective

The main objective of this study was to assess factors determining access to micro-financial services in rural areas.

1.3.1 Specific Objectives

- (i) To identify microfinance service providers operating in Mvomero district.
- (ii) To investigate whether financing mechanisms employed by different micro-financial service providers among rural customers are acceptable or not.
- (iii) To find out limitations of access to micro-financial services in rural areas.
- (iv) To examine impact of microfinance to the community development.

1.4 Research Questions

- (i) What are micro-financial service providers that operate in Mvomero District?
- (ii) How acceptable are the financing mechanisms employed by different micro-financial service providers operating in Mvomero District to

community members?

- (iii) What are the limitations of accessing microfinance services in rural areas?
- (iv) What are the effects of microfinance services to the community development?

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of various literature related to the study. It extensively looks at the factors that determine access to microfinance services within the framework of the specific objectives mentioned earlier. This review also highlights past literature that relates to this study, previous research findings, various papers and government publications on the subject.

2.1.1 Definition of Micro Finance Services

Microfinance is often defined as financial services for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as microfinance institutions (MFIs). These institutions commonly tend to use new methods developed over the last 30 years to deliver very small loans to no salaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly (CGAP, 2010:1).

Azevedo (2007) adds further another dimension: the rationale for the provision of microfinance services. The term microfinance refers to the provision of financial services for low-income households and micro entrepreneurs (both urban and rural) for productive purposes' (ibid: 301).

There are various services provided by MFI's including loans. Saving is at least as important, if not more so, than loans in the effort to help households to accumulate resources Shreiner and Morduch (2001). Savings are financial assets that the poor can accumulate against emergencies and long term needs. According to Kyeyune (2003) MFI's provide Insurance, and Income Protection services are also offered such that people protect themselves from income fluctuations and become financially protected from life misfortunes (illnesses, death, accidents).

Also MFI's provide social services or non-financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training. These social services are like to require ongoing subsidies and are always provided by donor supporting NGOs or the state (Bennett, 1997; Legerwwo, 1999).

Not only that payment services is another product of MFI's that includes cheque cashing and cheque writing opportunities for clients who retain deposits (Caskey, 1994). In addition to cheque cashing and cheque writing privileges, payment services comprise the transfer and remittance of funds from one area to another

2.1.2 Microfinance Institution

MFI as "an organization or association of individuals is established for the purpose of carrying on the business of extending microfinance services, differs in scale, experience, legal statute based on the country, strategy and budget. (Mathieu, 2010) Most of microfinance institutions are categorized as nongovernmental organizations (NGOs); Cooperative based institutions, namely SACCOS and SACCAs; while the third category is Banks. The major players in the NGOs categories in Tanzania include PRIDE Tanzania, FINCA (Tanzania), Small Enterprise Development Agency (SEDA) and Presidential Trust for Self-Reliance (PTF). Others, which are relatively smaller in size, include Small Industries Development Organization (SIDO), YOSEFO, SELFINA, Tanzania Gatsby Trust, Poverty Africa and the Zanzibar based Women Development Trust Fund (Urio, 2006).

2.1.3 Regulatory Policies of establishing MFI's in Tanzania

The financial laws, namely the Banking and Financial Institutions Act, 1991 (BAFIA, 1991), Bank of Tanzania Act, 1995 (BOT Act 1995), Cooperative Societies Act, 1991 and the Public Finance Act were reviewed. An analysis of the financial laws and related legislation revealed that there was no need for a special legislation for microfinance as the existing legal framework did not contain serious impediments to microfinance operations.

Furthermore, it was felt that incorporating microfinance into the existing legal framework for the banking system would facilitate integration of microfinance into

the broader financial sector, encourage innovation and competition, enable proper harmonization of the regulatory changes with the existing regulatory framework, as well as minimize possibilities of regulatory arbitrage. Nevertheless, it was found necessary to introduce amendments to selected aspects of the legal framework, including introduction of client identification and credit reference, contractual transparency, creation of specialized microfinance institutions, minimum capital and diversification of risk in order to foster the safe growth of credit and other financial services to households and micro enterprises in rural and urban areas. The following paragraphs address these amendments Rubambey (2005).

Regulatory policies play an important part in shaping EEA's institutional environment: National Policies that is The National Microfinance Policy (NMP), enacted by the government in May 2000 and incorporated in the Banking and Financial Institutions Act 2006, aims to enable the increasing microfinance industry to become more sustainable and reliable. With this policy, the government was relieved of its responsibility as the key player in delivering financial solutions to the poor. Since then the formal private sector has been the main provider of microfinance services.

It is legal for any micro finance institution to start with capita amounting 800,000,000THS in Tanzania (National policy, 2000). Based on the Microfinance Companies and Microcredit Activities Regulations (2005), that regulates microfinance activities under the supervision of the Bank of Tanzania, with special respect to financial reporting, product design, risk management, controlling, and pricing. However, the nature of microfinance institutions in most of less developed countries does not correspond to their policies and regulations or policy and regulation are not amended for long according to the changes in business environment as per different literature as follows:

2.1.4 Performance of MFIs in Rural Areas

Microfinance institutions rely on loan portfolio as the most important asset, which is the total amount of money given out as loans in different loan products, to the different types of borrowers. These loan products may comprise: Salary loans, Group guaranteed loans, Individual loans and corporate loans (Puxty *et al.*, 1991). It looks at the number of clients with loans and the total amount in loans. (Wester Paul, 1993). Hence, portfolio quality reflects the risk of loan delinquency and determines future revenues and an institution's ability to increase outreach and serve existing customers. Portfolio quality is measured as portfolio at risk over 30 days. How best a loan portfolio is performing is looked at in terms of profitability and /or rate of return on the different loan products, this is a function of the number of the loans and the cost of administering these loans (Indjeikein, 1997).

Also, microfinance performance concept is based on the unique foundational principles; these are: financial sustainability, outreach, and impact, which form the basis for microfinance performance evaluation. Each principle should have performance criteria which would then form a basis for evaluation of micro-finance effectiveness (Kereta, 2007:8 citing from Meyer, 2002).

2.1.5. Nature of the rural MFI's Services

The financial markets in most of the developing countries are said to be underdeveloped. The debates on the underdevelopment of the rural financial markets in developing countries are well documented (Hoff and Stiglitz, 1990; Besley, 1994b; Yaron, 1997; Thillairajah, 1994; Seibel, 1986). Most Rural Households (RH) have none or few assets that can be collateralized to secure loan default-risks. In a way, this is also a reflection of the underdevelopment of property ownership rights as understood in modern world. However, property ownership rights and inheritance in most African culture is based on an elaborate family-hood systems and norms, which are unfortunately not acceptable to the standard banking practices as understood in the business.

Rural Financial Markets are characterized by certain unique features that reflect their underdevelopment. These characteristics, according to some literature, can be summed up into three groups: limited collateral security; insufficient complementary institutions; and covariant risks Besley, (1940:31); Hoff, and Stiglitz, (1990:237-245).

As directed credit failed to deliver the expected results in terms of poverty alleviation and development, a new type of development finance has emerged during the 1990s, both in theory and in practice. Rural and urban areas differ in terms of population density, diversity and social cohesion. This may impose limitations on what kinds of institutions, financial products and risk management are suitable and profitable; but whether much is unique about finance for rural areas remains to be seen (Accions International, 2012). From a systems perspective, differences between rural and urban finance, or commercial banks and rural banks, are more likely to be found at lower operational levels. The fate of an institution in terms of sustainability, growth and outreach depends to a large extent on the intentions of the founders. The test question is whether an institution was established, through local initiative and local capital for mutual self-help or profit-making, standing on its own feet from the beginning; through outside initiative and a one-off capital injection, but then put on its own feet, either immediately or within a defined period of time; with the expectation of continual government and donor dependency.

2.1.6 Financing Mechanism Employed by MFI's

Review of Studies Done Outside of Tanzania

- *The Grameen Bank in Bangladesh*

Bangladesh has been acknowledged as a pioneer in the field of micro-finance. Dr.Mehmud Yunus, Professor of Economics in Chitgaon University of Bangladesh, was an initiator of an action research project 'Grameen Bank'. The project started in 1976 and it was formally recognized as a bank through an ordinance, issued by the government in 1983. Even then it does not have a scheduled status from the Central bank of the country, the Bangladesh Bank. The Grameen Bank provides loans to the landless poor, particularly women, to promote self-employment.

The Grameen Bank lending system was simple but effective. To obtain loans, potential borrowers must form a group of five, gather once a week for loan repayment meetings, and to start with, learn the bond rules and "16 Decisions" which they chant at the start of their weekly session. Numbers of groups in the same village are federated into a Centre. The organization of members in groups and centers serves a number of purposes, it gives individuals a measure of personal security and confidence to take risks and launch new initiatives.

The formation of the groups - the key unit in the credit programme - is the first necessary step to receive credit. Loans are initially made to two individuals in the group, who are then under pressure from the rest of the members to repay in good time. If the borrowers default, the other members of the group may forfeit their chance of a loan. Factors behind success of the Grameen Bank are: participatory process in every aspect of lending mechanism, peer pressure of group members on each other, lending for activities which generate regular income, weekly collection of loans in small amount, intense interaction with borrowers through weekly meetings, strong central management, dedicated field staff, extensive staff training willingness to innovate, committed pragmatic leadership and decentralized as well as participatory style of working. This mechanism experience indicates the vital importance of credit as an entry point for uplifting programme for rural poor.

- *Bolivian Banking System*

Solidario1984 (BancoSol) of Bolivia also lends to groups but differs in many ways from Grameen. First, its focus was sharply on banking, not on social service. Second, loans are made to all group members simultaneously, and the "solidarity groups" can be formed of three to seven members. The bank, though, is constantly evolving, and it has started lending to individuals as well which reduce risk of repaying for defaulters when members are in groups. Thus, while BancoSol serves poor clients, a recent study find that typical clients are among the "richest of the poor" and are clustered just above the poverty line (where poverty is based on access to a set of basic needs like shelter and education; (Sergio, 1998).

- *The Bank Rakyat Indonesia (BRI)*

This is another mechanism used by microfinance in Indonesia March 1998 (Paul McGuire, 1998). It does not use a group lending mechanism. And, unlike nearly all other programmes, the bank requires individual borrowers to put up collateral, so the very poorest borrowers are excluded, but operations remain small scale and “collateral” is often defined loosely, allowing staff some discretion to increase loan size for reliable borrowers who may not be able to fully back loans with assets.

- *Village Banking*

In this mechanism, village-based structure is provided by the network of village banks that started in the mid-1980s in Latin America by John Hatch and his associates at the Foundation for International Community Assistance (FINCA). The village-banking model has now been replicated in over 3000 sites in 25 countries by NGOs like CARE, Catholic Relief Services, Freedom from Hunger, and Save the Children. The NGOs help set up village financial institutions in partnership with local groups, allowing substantial local autonomy over loan decisions and management. Freedom from Hunger, for example, facilitates a relationship between the village banks and local commercial banks with the aim of creating sustainable institutional structures. The initial loan from the sponsoring agency is kept in an “external account,” and interest income is used to cover costs. The deposits of members are held in an “internal account” that can be drawn down as depositors need.

Review of Studies Done in Tanzania

MFIs in Tanzania adopt different lending methodologies. These methodologies can be divided between solidarity group lending and direct lending to individuals who are the owners of MSEs (Kessy and Urio, 2006). However, the solidarity group lending model which was originally used by the Grameen Bank in Bangladesh which is a common lending methodology adopted by many MF’Is (Hassan and Renteria-Guerrero, 1997). Under this model, loan applicants are required to form a self-selected group of specified number (mostly five people or more) in order to qualify for a loan. This requirement is a prerequisite for loan consideration because they

guarantee each other in their respective groups. In case of default, it is even easier to make a follow up, since group members know each other better than the MFIs' officials. The groups act as a means to monitor the loan repayments, which is conceived as an approach to enhance social cohesion, group guarantor-ship and improve the clients' financial management skills. Manroth (2001) argues that MFIs in Tanzania offer loan to individual base whereby clients are required to secure their loan by collateral; this was business oriented methodology that was not conducive to agriculturist.

Clients are also required to contribute some amounts before receiving the loan (Fraser and Kazi, 2004). The amounts include membership fees, insurance cover for the loans, funds for saving associations, etc. After fulfilling all basic requirements such as attending training, paying of membership fees, insurance and deposit for saving associations, the new client becomes eligible to receive the first loan. Most MFIs start offering small amounts of loans and the clients may apply for a bigger loan after a successful repayment of the previous loan (Ahmed, 2009). Therefore, from the above programmes we can highlight the following financing mechanisms.

2.1.6.1 Peer Selection

Ghatak (1999) argues that peer selection done by formulation of group lending contracts, which entail joint liability for the borrowers helps to mitigate the incentive to default. Because clients that form a group have better information about each other, joint liability will lead to the grouping of similar types. Morduch shows that by appropriately setting the interest rate and joint liability payment, a group-lending contract can provide a way for the bank to price discriminate and improve repayment rates

2.1.6.2 Peer Monitoring

Another aspect of group lending contracts is that borrowers have an incentive to monitor the investment of their peers, leading all borrowers in a group to choose the less risky investments and thus reduce the probability of default. As a result of peer monitoring, there is an attendant reduction in moral hazard and monitoring costs for the bank. Kashkine (1993).

2.1.6.3 Collateral Based

A client may use his or her assets as a substitute for loans. The emergency fund provides insurance in cases of default, death, disability, etc, in amounts proportional to the length of membership McGuire (1998).

2.1.6.4 Dynamic incentives

Basley (1997), that is MFI's lending small amount and then increasing loan size upon satisfactory repayments. This mechanism reduces the borrowers' incentives to default. Although the power of this mechanism can be reduced by competition among microfinance institutions and the availability of alternative sources of credit for the borrowers, it has the advantage of testing borrowers with smaller loans before they can access larger ones, thus limiting potential losses due to moral hazard. Naveen,(2002).

2.1.6.5 Regular Repayment Schedules

That is settings of term of repayment either repayment of principal and interest at the end of terms or short term repayment interval such as weekly or monthly repayments, enable the lender to detect defaulting borrowers early and take corrective actions before the situation worsens. For microfinance institutions focused on lending for seasonal agricultural production, however, this mechanism cannot usually be employed due to the nature of the income streams from these projects. Morduch(1999).

2.1.6.6 Savings mobilization

Savings mobilization has recently been recognized as a major force in microfinance. In the past, microfinance focused almost exclusively on credit; savings were the "forgotten half" of financial intermediation (Vogel, 1984). The importance of savings mobilization has been highlighted in several papers in the context of microfinance. Few analyses have been shaped in order to take an in-depth look at the savings mobilization strategies, which are employed by various institutions and are then compared to the results.

Deficiency of savings facilities creates problems at three levels:

- (i) At the individual level,
- (ii) At the level of the financial institution; and

(iii) At the level of the national economy.

At the individual level, the lack of appropriate institutional savings facilities force the individual to rely upon in-kind savings, such as the savings in the form of gold, animals or raw materials, or upon informal financial intermediaries. Hence, different founder applied different mechanisms to their microfinance institution trying to harmonize best performances of their loan portfolio.

2.1.7: Limitations of access to micro-financial services in rural areas.

However, accessibility with respect to the concentration of microfinance sectors activities in Tanzania is skewed in favor of the urban areas leaving rural areas grossly under served. Huang (2005), in his overview, distinguishes three groups of factors: policy, geographical, and institutional factors that may cause unavailability of microfinance services in the area. Most MFIs with an exception of tiny rural based SACCOS are reluctant to extend their services to the rural areas due to poor infrastructure, high risk and high cost of operation. The latter is brought about by the fact that rural areas in Tanzania by nature are sparsely populated (Consultative Group to Assist the Poor-CGAP, 2010).

Following discrepancies on aspects of distribution and accessibility of microfinance services as outreach measures in order reach the poorest of the poor in rural areas,

Yaron (1992) suggests alternative sets of measures that would be far more revealing not only in terms of actual cost of continued institutional operations, but the extent to which formal microfinance services are accessible to the low-income earners. These include: (i) the value of outstanding loan portfolio and the average value of loans extended, (ii) the amount of savings and average value of savings accounts, (iii) the variety of financial services offered, (iv) the number of branches and village posts/units, (v) percentage of the total rural population served, (vi) the annual growth of microfinance institution assets over recent years in real terms, and (vii) women's participation.

These measures have either been broadened, refined or categorized. Lidgerwood (1999) broadened outreach measures and classified them under three groups: (i)

clients and staff outreach, (ii) loans outreach, and (iii) savings outreach. Under each of these groups, a number of specific measures were proposed to capture the extent to which the microfinance institution is reaching out to clients with its services, and whether or not the clients reached could be described as poor. One example of these measures used by Valenzuela (2002) is the number of active loans.

Anyanwu (2004) argued that commercial banks traditionally lend to medium and large enterprises which are judged to be creditworthy and tend to avoid doing business with the poor who most of them live in rural and the micro enterprises because the associated costs and risks are considered to be relatively high.

Furthermore, Zeller and Meyer (2002: 5) asserted that the excitement about the use of microfinance for poverty alleviation is not backed up with sound facts derived from rigorous research. Many governments, institutions, and project managers are sometimes reluctant to carry out impact evaluations because they are regarded as expensive, time consuming, technically complex, and because the findings can be politically sensitive, especially if negative (Baker, 2000). However, a rigorous evaluation can help to assess the appropriateness and effectiveness of programmes. Evaluation of impact is very important in a developing country where resources are relatively scarce and every dollar spent should aim at maximizing its impact on poverty reduction (Baker 2000). Impact analysis can guide improvements in MFI management and customer service. There is therefore a strong case for attempting to assess both the depth of outreach of MFIs and the impact of MFI services on the welfare of clients.

Also, Schreiner and Colombet (2001) argued that absence of good infrastructure and the higher wages that people earn, plays hindering role for the development of microfinance in Argentina has not developed is due to the higher wages people earn. Moreover, Yaron and McDonald (1997) see the absence of good infrastructure and sparse populated areas as one of the main reasons why financial sectors in rural areas are so underdeveloped. Hulme and Moore (2006) also support the hypothesis that microfinance tend to develop much faster in dense populated areas. That is most of rural areas are less populated.

Westley (2005), states that regions with higher levels of income have less developed micro finance sectors. He proffers two reasons; firstly, micro-entrepreneurs with higher incomes have more opportunities to self-finance through savings. Secondly, they may benefit more easily from informal finance through family and friends, as well as from formal finance. Traditionally, microfinance also focuses on the poor excluded clients. So, micro finance should be reaching more clients in regions that are poor.

Not only that, transaction and information costs influence MFI's development. In some cases, they lead to market failures (Stiglitz and Weiss, 1981). According to Sriram and Kumar (2005), good interconnectivity between regions, the availability of electricity, communications and sanitation networks lower these costs. A high population density also helps to lower these cost.

In addition to this Adam (2011) in his article with a title challenges of rural finance in Tanzania argue that While MFI's (Micro-finance Institutions) should be aware of the challenges rural areas pose in terms of costs and risks, MFIs around the world are finding that reaching out to this underserved market can be a viable and profitable opportunity. Moving into rural areas comes with considerable advantages for MFIs in rural areas are usually less competitive than urban ones; the repayment willingness of rural clients tends to be higher than that of urban clients; expanding into rural areas helps to deepen the MFI's overall retail strategy; and engaging in rural finance strengthens an institution's image in the community. On the other hand, establishment of microfinance service is very crucial to the residents by encouraging savings required to save a minimum amount as a security for their loans which eventually they might use for the new investment at the end of the loan term.

Perceptions and Attitudes towards MFIs

Micro-credit through MFIs is perceived by many development scholars as a financially sustainable instrument meant to reach significant number of poor people who most are not able to access financial services from commercial banks. Small loans are believed to bring significant improvement in the lives of the active poor by increasing their productive capacity. Credit enables the poor to boost their

businesses, agriculture production and able to meet the household daily needs. In developing world like Uganda, millions of people are suffering from poverty and its crippling effects (Lotter, 1998). One of the major barriers to escaping poverty is the lack of sufficient access to credit by the poor (Ledgerwood *et al.*, 2002). As a result, the poor especially in rural areas adopt mitigation and survival strategies as a way of coping with the hemorrhage of poverty (Songsore, 1992). He further argues that generally credit plays a crucial role in the expansion and development of productive forces. It provides adequate savings and credit facilities to individual households. In this case, efficient financial system is consequently assumed to have a considerable positive effect; on increasing welfare and stimulating household economic activities. Credit enables peasants to expand and develop income generating activities, and supporting payment of other necessities like food security, education, and water and health charges. In addition, Johnson and Rogaly (1997) have demonstrated that availability of credit for micro enterprises can have positive effects on the individual income and that of the household. Thus, access to financial services plays an important role in the fight against poverty. Worth noting is that, although micro-credit is useful in poverty alleviation, it is only useful in certain situations. Some poor people since they are voiceless and property less exclude themselves from borrowing small loans, as they do not have stable income, and view access to credit as further pushing them into debts and poverty since they cannot sufficiently service the loan.

This presents a paradox where the poor are in dire need for credit to exit poverty, but at the same time have a fear of not being able to repay in time, and this draws the poor in more poverty as they have to sell off some few assets they possess (if any) to service the loan. For example, a study of the impact of microfinance on rural household in the Philippines indicated that the impact is regressive, that it is negative or insignificant for the poorer households and positive for the richer households (Kondo *et al.*, 1992). This indicates that among the poorer borrowers, the cost of and availability of programme loans appear to be insufficient to stimulate the poor to select more productive activities, which will not only cover the cost of borrowing but also earn them some profit.

Therefore, people have varied perceptions and attitudes towards access to and utilization of micro-credit as a driver to the enhancement of households' well-being. Thus, this study addressed explicitly the people's perception and attitudes toward distribution of MFIs in Mvomero District.

Another scholar argued on perceptions and attitudes can influence microfinance services distribution. Corporate culture and attitudes toward the poor can be heavily influenced by government policy. Schemes that the rural banks have been required to implement in India have "conditioned" MFI's to believe that poorer people are not potentially valuable customers (Harper, 2000).

2.1.8 Impact of Micro financial services to the Community.

Most of communities in rural areas are facing problem of poverty financially as a result it is difficult to expand their economic activities. The issue of enabling the people to have access to loans is based on the virtuous cycle principle: low income, investment, more income, more credit, more investment, more income (Hulme and Mosley, 1996:122). It is assumed that credit will be used for productive purposes and would generate additional income for borrowers. Thus, the provision of credit came to be perceived as an important mechanism for reducing poverty and has even been described as a crucial element in the achievement of the millennium development goals (MDGs). Loans invested in income-generating activities should reduce income poverty if businesses are profitable. Loans used for consumption prevent the poor from falling further into poverty and thus make them less vulnerable (Hulme and Mosley, 1996). Being less vulnerable implies that the poor people have increased capability to invest in more risky but potentially profitable investments.

Hospes (1996) argued that it is of vital importance to study the kind of strategies or coping mechanisms the rural poor employ to deal with their situation, particularly in areas with marginal natural and economic resource bases ("disadvantaged areas"). Rather than labeling the rural poor as passive victims, we should take as the starting point for analysis their livelihood strategies. Only with such detailed information are sustainable and equitable development interventions possible, since they should not substitute but rather complement existing (or "indigenous") coping mechanisms.

Strategies with regard to saving, borrowing and insurance deserve special attention, because these mechanisms are crucial elements of survival and the key to economic growth, through investment.

As Schmidt and Kropp (1987) put it: successful rural finance stimulates all rural development, rural finance, then, is broadly defined as "the complex of decisions of individuals and groups regarding savings, financing and insurance; institutionalization of financial services; and changing conditions that affect the decisions and institutional arrangements of people related to savings, financing and insurance"

Hospes (1996) states that a useful approach is an actor perspective, which emphasizes the central role of savers, borrowers and lenders in shaping the financial landscape. Strategies of actors themselves may be of great importance in explaining the variations in financial landscapes, and pointing us to the different ways that people save, lend and borrow; an actor-oriented approach goes beyond generalizations about peoples' motives (e.g. with regard to liquidity or illiquidity preferences) and responses (e.g. to interest rates) and thus avoids the easy generalizations that see the rural poor as an homogenous group.

Structural models of development are abandoned as they fail to explain different responses to the same structural circumstances (Long, 1984). Rather than viewing people as passive victims of linear pre-determined processes leading to increasing embedded-ness in frames (markets, institutions etc.) that people cannot influence, people are viewed as "social actors". Social actors are "active participants who process information and strategies in their dealings with various local actors as well as with outside institutions and personnel" (Long and Van der Ploeg, 1994). Consequently, "the different patterns of social organization that emerge result from the interactions, negotiations and social struggles that take place between the several kind of actors" (ibid.). Actors "devise ways of solving problematic situations they face, but are constrained by scarcity of resources, social commitments, differential power relations and cultural values and standards" (Long, 1988). This capacity for coming to grips with the surrounding world can be called "human agency."

Shoo (2001), in her study on the role of small-scale enterprises on poverty alleviation found that the majority of low-income earners agreed that the income generated from their participation in micro-financing lending schemes was spent on educating their children, and sometimes themselves. Some of the income was used to get access to health services.

Although the loan has improved the living standards of its clients through increased income generating activities, improved job opportunities and enhanced income (Kironde, 2002, the need to have savings first, the high interest rates, the short grace and repayment periods and the rudimentary repayment schedules may have negative impact on the borrowers. A number of borrowers have been known to use other sources of income to service their loans. There have been observations for example that PRIDE is "harsh" with its borrowers some of whom opt out of the scheme (Chijoriga, 2000).

Zohir and Matin (2004) state that many MFI loans are used for agricultural production, trading, processing and transport, resulting in an increase in the use of agricultural inputs and increased output 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 (ibid.).

MFIs and Millenniums Development Goals

Also, MFI's accessibility have contribution to Millennium Development Goals (MDGs) which are globally adopted targets for reducing extreme poverty by 2015 and they address income poverty, hunger and disease, lack of education, infrastructure and shelter, gender exclusion and environmental degradation (United Nations, 2005c:3). It has been stated that while the MDGs do not formally set targets for financial sector access, low income countries need microfinance sectors to

achieve the MDGs (United Nations, 2005c:3). This is because microfinance underpins the achievement of many MDGs and plays a key role in many MDG strategies. Microfinance fosters financially self-sufficient domestic private sectors and creates wealth for low income people (United Nations, 2005). As though to counter the negative arguments against the impact of microfinance on poverty reduction, other studies have found that microfinance is relevant to poverty reduction not just for the beneficiaries but also there are positive spillover effects to the rest of the community (Khandker, 2006). In his study Khandker (2006) uses a panel household survey from Bangladesh and observes that access to microfinance contributes to poverty reduction, especially for female participants, and to the overall poverty at the village level. Pitt and Khandker (1998) find, using data from three programmes in rural Bangladesh, of which borrowing from group-lending schemes increased consumption of poor households. However, Morduch (1998b) has argued that Pitt and Khandker's (1998) result reflect programme selection effects rather than the impact of borrowing per se.

This school of thought considers credit as one of the major constraints to the growth of microenterprise and believes that credit has a positive role to play in larger goal of social and economic benefit (Jain, 1996; Hashemi, Schuler, and Riley, 1996; Otero and Rhyne, 1994; Schuler, Hashemi, and Riley, 1997). International Finance Corporation reported that more than 500 million poor people across the world run profitable microenterprises and often cite credit as the primary constraint to business growth (IFC, 2002). Amartya Sen (1999) also find availability of finance as one of the important factors for development and mentioned that being financially more secure can help an entrepreneur become more successful, as it limits or reduces unfreedom situation which comes with poverty.

2.2 Theoretical Framework

Theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge, within the limits of the critical bounding assumptions. The theoretical framework is the structure that can hold or support a theory of a research study. The theoretical framework introduces and

describes the theory, which explains why the research problem under study exists. (Torraco,1997). From the theory of the business environment PEST analysis model gives us a framework to analyze the factors that determine access to micro financial services in rural areas. From literature review researcher found different theories can be used to explain research problems as follows

2.2.1 PEST Analysis Model

PEST by Porter (1985) ensures that company's performance is aligned positively with the powerful forces of change that are affecting business environment *PEST factors* – These are external forces which the organization does not have direct control over these factors. PEST is an acronym and each letter represents a type of factor (Political, Economic Social and Technological).

Political/Legislature.

These factors are explained on how and to what degree a government intervenes in the business specifically, political factors include areas such as and political stability may enable the organization to outreach their branches. In addition Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bad) to the business government as a policy and rules maker of all business may have impact to its operations.

Economic factors

These factors, which have their impact on the working of the business, are known as economic environment. It includes system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth etc. Economic environment is very dynamic and complex in nature. It does not remain the same. It keeps on changing from time to time with the changes in an economy like change in Govt. policies, political situation.

Social Cultural factors

That is the way of leaving of a certain population in the areas and they affect the business performance such as religion, Beliefs and superstitions, norms and values,

habits/life style and population in a given community.

Technological

Technological macro environment factors can influence how an organization does business. A new type of machinery, computer chip, network or product created through research and development can help a company stay modernized and spread all over the area. Owners must be able to accurately identify which new developments will be truly useful, and which are just fads.

2.2.2 Resource Based Theory

Barney (1993), Interest in the resource-based view of the firm continues to grow in the field of business policy and strategy. Recently, most of this interest seems to have been focused on understanding the empirical implications of this theory and especially on how firm's resources and capabilities can affect its performance. Evaluating the empirical implications of the resource based view is, of course, a worthwhile endeavor. We present an overview of contributions in this issue MFI's accessibility in rural.

Besides that, there are many factors that determine accessibility of MFI's services in rural areas. These are contributed mainly by Human and Financial Resources, policy, strategies and competitive market. As highlighted, one of the key roles microfinance has to play in development is in bringing access to financial services to the poor, to those who are neglected by the formal banking sector. This is their social mission. Mainstream banks target clients that have collateral. The poor do not have assets to act as collateral, therefore they are ignored by the formal financial sector.

These MFI's tend to be found in urban areas while the majority of the poor in the developing world live in rural areas, where financial services are not provided.

However, according to most studies, microfinance is only reaching a small fraction of the estimated demand of the poor for financial services (Littlefield and Rosenberg, 2004). Few numbers of people living in rural area are able to perform business and thus can have access on financial issues such as banking and borrowing making the

MFI's financial sustainability.

At the same time there are a number of challenges which could be facing the industry like of microfinance a case study in according to these modes:

- Most of MFI's managements are interested in area of competitive advantage - is generally conceptualized as the implementation of a strategy not currently being implemented by other firms that facilitates the (1) reduction of costs, (2) the exploitation of market opportunities, and/or (3) the neutralization of competitive threats (Barney, 1991). As a result rural area will not be conducive environment for location of MFI's because of high cost of operation and difficulties in access to market due to poor infrastructure.
- Lack of pool of experts in Microfinance industry. Human resource development is major constraint to the industry due to limited number of business development services providers that can produce training to staff and board of directors.
- Microfinance regulations (policies) 2005 which is expected to guide the industry is not friendly to microfinance services providers. Area of concern includes provisioning of current loans; loan size of individual borrower is too small; and stringent provisioning.
- Capabilities - are a firm's capacity to deploy *resources* (Amit and Schoemaker, 1993, p 35). They argue that if there is the little access to the appropriate capabilities to effectively use, or exploit, a resource will end up with less performances.

Despite the fact that the above models have been applied in contexts different from that of Mvomero, it is an expectation of this research that they may help to inform the whole process of examining the distribution of MFI. Experience has shown that in the mushrooming of MFI in rural Tanzania has been shaped by political, economic, social and technological factors, competition, lack expert in microfinance industry, unammended policy, poor strategies and among others. Given this milieu therefore it facilitates the role of examining the operationalization of the relevant

models in microfinance's business and how this affects the performance and access of financial services in the context of rural areas in Tanzania, Mvomero district being the case.

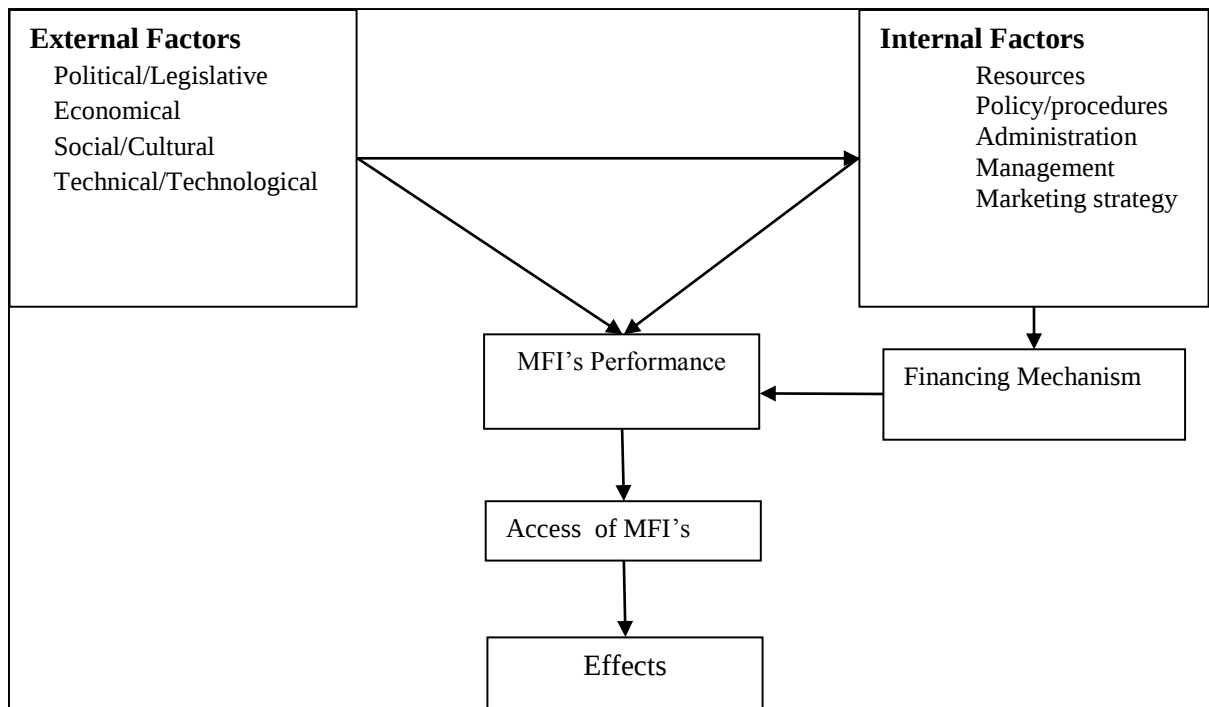
2.3 Conceptual Framework

The conceptual framework in this study is based mainly on models developed as argued by Zeller (1995), Scoones (1998), and AIMS (2001). The study employed different factors which determine the access to microfinance institutions in rural areas. The factors are divided into mainly two categories; internal and external factors.

Internal factors which contribute to inaccessibility of microfinance's institutions in Mvomero are Resources, Policy/procedures, Administration, Management, and Marketing strategy.

However, external factors includes; Political/Legislative, Economic, Social/Cultural and Technical/Technology.

Figure 2.1 External and internal factors that determine the access to microfinance services



Source: Researcher, 2013

The Figure 2.1 drawn from literature review reflects the external and internal factors that determine the access to microfinance services in rural areas and eventually its effects (impacts) to the community development. This study considers that some (if not all) external and internal factors presented above have an influence on MFI's performance (given the financing mechanisms) and therefore this shapes the MFI's accessibility.

The study therefore focused on the pertinent components reflected in this conceptual framework given the nature and context of MFIs in Mvomero district in order to address the study's objectives particularly on the extent to which these factors affect the performance based on issues such as the ability to open branches (accessibility) in rural areas and its adverse impact on community development. Description of these pertinent components is also reflected in theoretical framework presented above.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to a systematic way applied to solve the research problem (Kothari, 1990). It covers procedures employed in collecting relevant data. It closely examines the research design, study area, target population, sample and sample techniques, data collection instrumentation, validation and analysis. The most common instrument is questionnaire which is used in collecting qualitative and quantitative information.

3.2 Research Design

Research design and strategy are used interchangeably showing the logical plan of how to conduct a research. Research design stands for advance planning of the methods adopted for collecting relevant data and techniques used in the analysis, keeping in view the objective of the research and availability of staff, time and money (Kothari, 1992). Besides, research design facilitates smooth sailing of various research operations in an effective way. Explicitly the research will strive to inquire what the study is about, where the study will be carried out, what type of data will be appropriate, where data can be found, why the study is made, what technique for data collection is practical, what instrument to use, what will be the sample design, how will the data be organized.

The study employs descriptive, analytical, qualitative and quantitative case study research, which gives the researcher an opportunity to explore one entity deeply and allows generalizations on the wide population to which the entity belongs (Creswell, 2003; Cohen and Manion, 1994).

Minor field survey was conducted with the clients of PRIDE Tanzania Ltd, FINCA, NMB and VICOBA. This study considered it worthwhile to supplement qualitative data drawn from these clients so as to measure financing mechanisms by the MFIs as a way towards understanding the factors influencing their distributions.

3.3. Selection of Case study Area

It is realistic that this study was not able to cover the entire Morogoro region because of the limited time frame and amount of funds for this research. For this reason among others, the research covered Mvomero district. The choice of that district was due to the fact that selection was randomly because every rural area in Morogoro has the same chance to be used as a study area. The factors determining access of microfinance in this area were analyzed, looking at attitudes of community members, particularly on financing mechanisms employed by different micro-financial service providers among rural customers. Mvomero District has a population of 312,109 people (population census 2012). With such population there is a number of business activities performed. The district is among the six districts in Morogoro region other districts include Kilosa, Kilombero, Morogoro Rural, Morogoro Urban and Ulanga. The district is located in the northeast of Morogoro region between latitudes $5^{\circ} 58'$ and $10^{\circ} 00'$ and between longitudes $35^{\circ}25'$ and $38^{\circ}30'$ East of Greenwich (Ngasongwa, 2007) south of the equator as divided into wards including Mgeta, Mlali, Mzumbe with Dakawa Mvomero (Tanzania Population Census, 2012).

Figure 3. 1 Maps of Morogoro Region showing Mvomero Districts



Source: <http://www.tanzania.go.tz/census/Morogoro.htm>

3.4 Sampling Techniques

The sampling method adopted in data collection process was random and purposive sampling. This was aimed at obtaining respondents who have general knowledge and experience in microfinance's institutions, on operation, loans repayment procedures, eligibility criteria for loan paid to microfinance customers.

The purposive sampling was applied to respondents who are directly involved in loan sections in all visited Microfinance institutions. The second place respondents were identified randomly in a random cluster which involved customers with account in the institutions such as FINCA, and PRIDE. Purposive sampling was very useful since it helped to reach targeted samples quickly and it helped to get easily the opinions of the targeted population.

Also, the study used random sampling in choosing households which do not access and use microfinance services including workers of microfinance and living in close proximity to households accessing and using microfinance services.

3.5 Sample Size

In order to meet time and resources, a sample size of 100 respondents were selected and questionnaires were distributed and the total questionnaires collected was 100 which constituted 100% of the response rate, which was sufficient to represent the entire population. Specifically, the coverage included 50 households who had access and used micro financing services and 50 households who did not use micro financing services (Control Group). This sample size was enough for the study since the study had population members with similar characteristics (homogenous respondents). As Adam and Kamuzora (2008) observed, the nature and characteristics of the population from which a sample is to be drawn need to be considered when deciding the sample size to be used in the study. If the population members have similar characteristics a small sample size can be employed.

Members obtained in consultation with the MFIs' loans officers and non-recipients consulted in target community through consultation with local leaders. Details of the sample as follows among 100 respondents interviewed.

- Accountants and loan processing officers of PRIDE, FINCA AND NMB AND VICOBA TANZANIA LTD staff responsible for policy operations were 35 respondents.
- Clients of PRIDE, FINCA, NMB, and VICOBA were 40 households.
- Other stakeholders of PRIDE who were not a member but have knowledge on microfinance sectors like district planning officers were 25 households.

Table 3.1: Categories of respondents

Household from	STAFF OF MFI's	CLIENTS OF MFI's	OTHER STAKEHOLDERS
numbers	35	40	25

Source: analyze data 2013

3.6.1 Reliability

Reliability refers to the extent to which a scale produces consistent results if repeated measurements are made (Malhotra, 2005). Questions were designed to probe sense and reliability from raw data. If a measurement device or procedure consistently assigns the same score to individuals or objects with equal values, the instrument was considered reliable. Reliability involves the consistency, or reproducibility, of test scores i.e., the degree to which one can expect relatively constant deviation scores of individuals across testing situations on the same, or parallel, testing instruments.

All threats related to reliability have been observed by considering subject or participant error, subject or participant bias (Saunders *et al.*, 2005). The data collected from both branch managers and loan officers to avoid inconsistency of the information derived. However, an instrument must be reliable in order to be valid and it must also measure what it is intended to measure.

The questionnaire was piloted to Microfinance's Institutions staff before being administered to respondents. This aimed at finding out to whether the questions asked were clear or had to be fine-tuned to enable respondents answer the questions. The pilot testing was also checking the validity and reliability of data collected prior

to distribution of questionnaires to selected population sample.

3.6.2 Validity

Validity refers to whether the findings are really about what they appear to be about (Saunders *et al.*, 2005). A great care made to ensure that findings are the reflection of the reality at Microfinance institutions at Mvomero, Morogoro.

Validity has been defined by “the extent to which [a test] measures what it claims to measure” (Gregory, 1992). A measure is valid if it measures what it is supposed to measure, and does so cleanly – without accidentally including other factors. The focus here is not necessarily on scores or items, but rather inferences made from the instrument i.e. the behavioral inferences that one can extrapolate from test scores is of immediate focus. In order to be valid, the inferences made from scores need to be “appropriate, meaningful, and useful” (Gregory, 1992). The validity focuses on whether the means of measurement were accurate and whether they are actually measuring what they are intended to measure.

Validity and reliability of data collected as well as response rate achieved depend to a large extent, on the design of the question, the structure and rigour of the pilot testing (Saunders *et al.*, 2007). In testing the reliability and validity of research instruments, the researcher conducted the pilot study involving some twenty individuals in Morogoro Town to establish whether the responses that were consistent and could gather the intended data. After collecting the questionnaires and interview responses the researcher found no much variation in the responses that were given and the information provided was the one that was intended for this study. The questions that were unclear were improved for more clarity before starting the process of collecting data from the study area.

3.7 Data Collection Techniques

Data for this study was collected through the following ways:

- i. Documentation:* Although the result of the research is highly dependent on the primary sources that we have gathered from the structured interview, but it also requires some secondary sources to understand the concepts,

definitions, theories and empirical results. I used several books, research literatures, articles, journals and thesis, as secondary sources for our study. Internet sources were also used as a secondary source for our thesis. Most of the sources, we tried to use, are reliable and are acceptable almost everywhere. Further, we also used the handbooks and annual reports of some of the MFIs in Bangladesh. However, it is not always easy to find out the appropriate research materials for the thesis.

- ii *Structured Questionnaires:* This method has not been chosen because it is inflexible in that it does not allow the use of probing questions which are useful in this study to get clarification for unclear responses from the respondents as is argued, “the disadvantage of structured interview is that it does not allow the probing of interesting responses” (Jackson, 2006:1). Since the structured interview used closed questions that bind respondents to choose answers determined in advance like ‘yes and no questions’ in quantitative studies. This was used to collect information from households. Questionnaires were developed to obtain survey data that allows an understanding of the factors that determine the access of microfinance services.
- iii *Semi-Structured Questionnaires:* This was used to guide dialogue with a range of stakeholders from microfinance institutions and officials who are involved in outreach missions of spreading microfinance services especially in rural areas and informed people in the areas of study.
- iv. *Observation:* Observation during the fieldwork was used mainly to probe issues beyond those covered in the structured questionnaires and semi-structured questionnaires.

3.8 Data Analysis Plan

Qualitative data was coded first before being analysed thematically. By coding each incident into as many categories as possible and as the research continued the data were then placed in existing categories or existing categories were modified. The

analysis of the qualitative data followed three steps (Miles & Huberman, 1994). The first step involved the reduction of the data. Data was selected in order to identify the most important elements. The coding of these elements involved coding x-for female and y-for male respondents and coding by number of each factor which limit accessibility of microfinance services in rural areas, impacts of microfinance services and others, for easy analysis in the SPSS programme.

The second step involved the organization and display of data in order to facilitate understanding. The important elements were organized into tables, figures, key quotations and summaries. The third and final step involved the elaboration and verification of conclusions. Relationships in the data were identified and validated systematically. The study understood that without continuous analysis, the data can be unforced, repetitious and overwhelming.

All of the quantitative data was analyzed with the help of a programme known as Statistical Package for the Social Sciences (SPSS). The programme was used in aiding the analysis and presentation of the findings of the research in the aspect of cross tabulation of the different variables and in the presentation of the data in the graphical form. SPSS provides much more clear charts and graphs hence facilitated easier understanding of the research findings. In the process, the results and findings of the study, frequency, percentage and weighted means were calculated.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

Microfinance institutions target the poor, with the aim of socially and economically empowering them. Donors make the funds available, while the MFIs facilitate their distribution and recovery. The donors, MFI staff and national and regional governments need and want to know how well the programme is performing. Programme evaluation by means of impact assessment studies provides the requisite information that provides vital feedback to make critical future decisions. Social impact assessment, in contrast to economic assessment, is still in its infancy. This chapter deals with data presentation, data analysis and discussion in line with the specific objectives and research questions. The details of the chapter are as follows:

4.2 Respondents' Profile

Table 4.1 : Sex of Respondents

Respondents gender	Respondents	Percentage (%)
Male	20	20
Female	80	80
Total	100	100

Source: Field Research Data, 2013

According to the interviewed respondents, 80% were female and 20% were male; most of the respondents were female because in Mvomero most of women are dealing with agricultural activities to sustain their life. In this context, Carter (2000) identified that in most countries, regions and sectors, the majority of business owner/managers are male (from 65% to 75%). However, there is increasing evidence that more and more women are becoming interested in small business ownership and/or actually starting up in business. Although there are no official statistics relating businesses to the gender of their owner/manager, there is a good deal of evidence to suggest a significant increase in female entrepreneurship. One

consequence of this is that women are a relatively new group of entrepreneurs compared with men, which means that they are more likely to run younger businesses.

4.3 Micro-finance Service Providers operating in Mvomero District

The Microfinance industry is still at the emerging stage and constitutes a diverse range of practitioners and practices. The pioneers of Microfinance in Tanzania are NGOS which started to emerge in the mid-1990s. However, informal microfinance services providers have been in Tanzania for years, these include ROSCAs, ASCAs, Burial associations, clan savings groups, etc. Savings and Credit Societies (SACCOS) is another type of Microfinance services providers, which have been active in both rural and urban areas. Banks have joined the Microfinance industry during the last 10 years.

Based on the background of the history of Microfinance in Tanzania, it is generally accepted to categorize microfinance institutions by the group under which the provider belongs. The groups include NGOs, government organizations/Donor like (presidential fund, SIDO), Banks and Non-Bank Financial institutions, Savings and Credit Societies and informal financial services providers. These organizations specialize in provision of financial services to micro entrepreneurs in Mvomero from data collected in dialogue with economist of Mvomero district include;

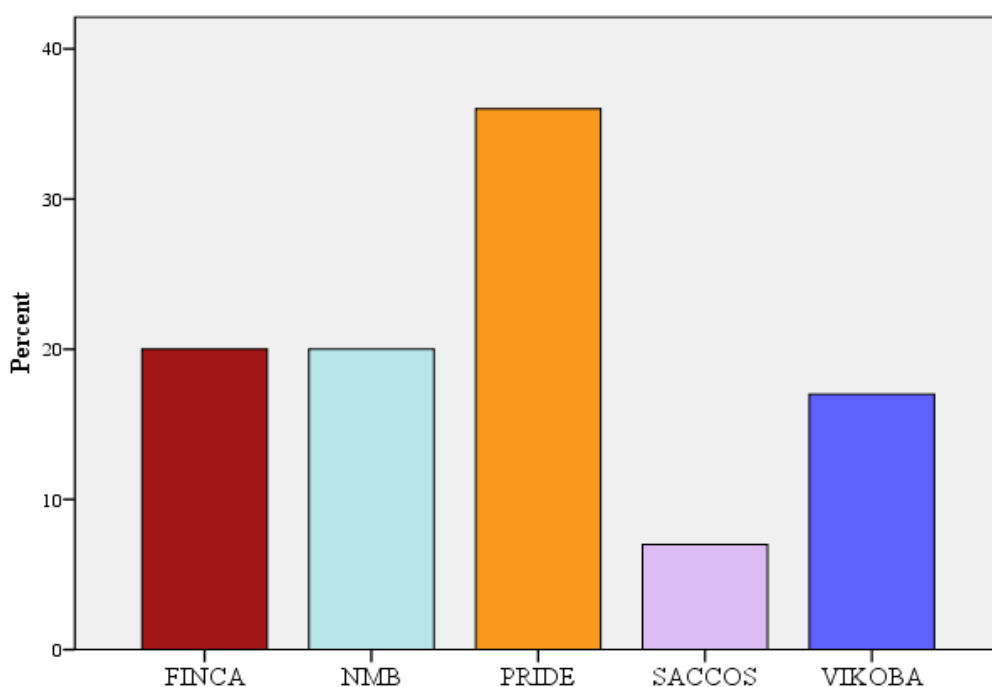
- a. PRIDE Tanzania
- b. NMB BANK
- c. FINCA Tanzania
- d. VICOBA
- e. SACCOS

Findings show that among 10 villages interviewed establishment of Microfinance in different areas depends very much on geographical area and number of customers in the area for example at Mlali ward there were three MFI's than in Homboza-visalawe (Mgeta) where there were no MFIs located due to small number of people. The nature of roads and other infrastructure and availability of utility is the other

reason that motivated some microfinance institutions to operate.

Figure 4.1 shows respondents on basis of memberships to Micro-Financial institutions available at Mvomero namely: FINCA, PRIDE, VICOBA, and SACCOS respectively.

Figure 4.1: Microfinance Service Providers operating in Mvomero



Source: Field Research Data, 2013

The results indicate that among 40 respondents who are members of MFI's 36% of respondents reported that they are members of Pride, whereas FINCA and NMB were 20% of the respondents each and 7% reported that they are registered with SACCOS, whereby 17% are registered with VICOBA as indicated in the Figure 4.1. The results indicated that PRIDE is dominating in Mvomero district than other financial institutions; this is because Pride was established earlier than other microfinance institutions.

4.4 Acceptability of Financing Mechanisms employed by different Micro-financial Service Providers among Rural Customers

The researcher was interested in understanding whether the customers accept the financial mechanism employed by micro-financial services providers in rural areas. The study found that each institution employed different mechanisms in loan repayment.

In PRIDE TANZANIA, findings show that portfolio amount is greater in groups' product than in SACCOS and individual products. Groups' product is based on the solidarity group lending model adopted from the Grameen Bank model operating in Bangladesh. Under this model, loan applicants have to form a self-selected group of five people in order to qualify for a loan. PRIDE Tz adopted this model due to its success in Bangladesh in reaching the poor and covering its operational costs. Some modifications were made to this model so that it could suit the context of Tanzania (PRIDE 2004).

Table 4.2: Mechanisms used by PRIDE

Peer group	Dynamic incentive (loan size TSH)	Regular repayment schedule (terms)	Collateral based
50 members (MEC)	300,000	20-25 weeks	solidarity
	600,000	40-50 weeks	solidarity
	1200,000	40-50 weeks	solidarity
	2000,000	40-50 weeks	solidarity
	3000,000	40-50 weeks	solidarity
3-5 members (PEG)	4000,000	12-24 monthly	Assets solidarity
	7000,000	12-24 monthly	Asset solidarity
	15000,000	12-24 monthly	Asset solidarity
	25,000,000	24 monthly	A+S
	50,000,000	24 months	A+S

Source: PRIDE products manual, 2011

Above are mechanisms used by PRIDE, however most of community members at Mgeta are agriculturists in tomatoes, rice and beans that are harvested after three to six months. They did not prefer regular repayments of weekly or monthly terms of repayments because it is not friendly to the harvesting period as a result made them

easily defaulting.

Moreover FINCA used village banking mechanism which is a microcredit mechanisms used by financial services are administered locally rather than centralized in a formal bank. It is based on solidarity lending approach that relies on a system of cross-guarantees, where each member of a village bank ensures the loan of every other member, whereby repayment is weekly for 16th weeks. One of the managers of FINCA argued;

By providing very poor families with small loans to invest in their micro-enterprises, Village Banking empowers them to create their own jobs, raise their incomes, build assets, and increase their families' well-being. Here's how it works. Neighbors come together in financial support groups called "Village Banks." Individuals borrow working capital for their micro-enterprises, and because they have little to offer for collateral, the group guarantees those loans. As businesses grow, families earn more, purchase more nutritious foods, and parents are better able to send their children to school. After a year or more, many Village Bankers make significant improvements to their businesses, their homes, and their lives. Because neighbours support each other while growing their businesses, Village Banking helps invigorate entire communities (Male aged 45years at FINCA staff)

Also, findings show that FINCA provides individual loans whereby individual clients secure their loans by their own assets, that is, collateral based mechanism that entails repayment on monthly bases per annum. However, most of FINCA's officers argue that this mechanism has high risk in rural areas due to less value of collateral caused by lack of title deed of their land. Therefore, they decide to use only solidarity lending methodology.

Figure: 4.2: One of the houses used as Collateral in Mvomero



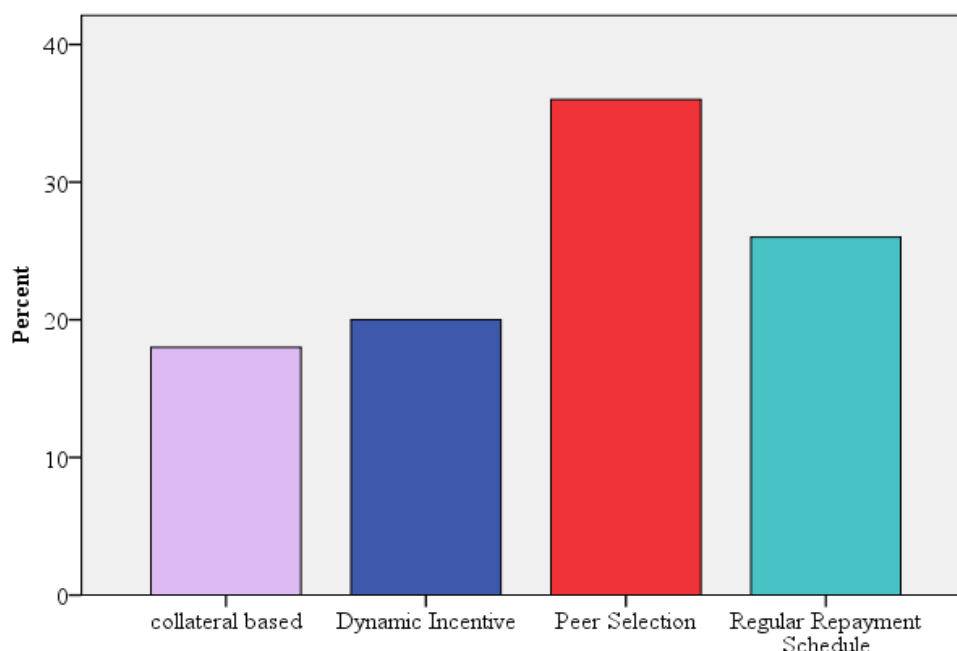
Source: Field Research Data, 2013

Besides that 80% of responded clients argue that 16 weeks is not friendly to their economic activities that take long period to be harvested and agree with solidarity lending methods. This is because they don't have valuable assets to secure for the loan needed as per table shown below. On interviewing financial institutions the results were as follows: eighteen respondents 18% of the respondent accepted collateral based, whereby 20% accepted dynamic incentives and 36% accepted peer selection whereas those for regular repayment were 26% as indicated on and Figure 4.3 respectively.

Table 4.3: Showing financial mechanism used by Mfi's

Financing Mechanisms	Frequency	Percent
Collateral base	18	18.0
Dynamic incentives	20	20.0
Peer selection	36	36.0
Regular repayment	26	26.0
Total	100	100.0

Figure 4.3: Financing mechanisms employed by different micro-financial service providers



Source: Field Research Data, 2013

Despite the fact that there are respondents who agree on above financing mechanisms, they disagree on how those mechanisms operate; for example, in regular repayments terms are too short(weekly and monthly bases) with no grace period. As a result clients default because no ample time is given to use their loan for profit generation. That is due to the fact that most of Mvomero inhabitants are agriculturists getting yields after three to six months. Also, clients disagree on dynamic incentives; in case initial loan size is too small it does not correspond to the inflation rate of agricultural inputs. Besides that most of staff disagree with collateral based in rural areas because of less value of its assets.

4.5 Factors that contribute to inaccessibility of micro-financial services in rural areas

This research found that in Mvomero there was inaccessibility of financial services which resulted from few MFI's located in the area. The following are the factors that revealed from findings that lead to inaccessibility of financial services in the area.

4.5.1 Infrastructure and access to basic services

The study found that in Mvomero are typically characterized by poor infrastructure like roads, water supply, electricity services and poor access to basic services like security by rural households that is not conducive for establishment of micro finances sectors. In Tanzania given its size and population dispersion, road transportation is the most dominant mode of transport and plays a significant role in the integration of the rural sector with the rest of the economy and impacts significantly the availability and accessibility to financial services because it simplify financial services transfer from one area to another for example through electricity that enable telecommunication activities. Not only has that study revealed that transfer of cash in laugh roads was very dangerous. Besides that, more than 90% of feeder roads remain unpaved at Mzumbe, Mgeta and Mlali. The problem is of course severe during the rainy season when some road networks become practically impassable for example bridge that connects Kinyenze and Stima destroyed in each rainy season.

Also, observation shows that electricity is available only near to Mzumbe University but in other areas like at Mlali, Turiani and Mgeta there is no electricity, hence hindering internetworking of the MFI's systems like bankers realm and siem system.

Furthermore, water supply is still a problem in Mvomero district. For example, during this study I met with five women at Mzumbe ward who broke water system so as to get water for their home. One of them said;

We can answer your question if it will solve this problem of water we are facing. You will not see even a tape without water around this ward; water is still a big problem to us more than anything. (Female citizen at Homboza)

In addition to that, there is only one police station at Mlali for Mzumbe and Mlali wards; this shows that there is less security which is very important for MFI's operations. Also, observation shows that most buildings are not strong for the formation of MFI's branches layout.

Figure 4.4: The main road weak bridge connecting Kinyenze and Stima village



Source: Field Research Data, 2013

4.5.2 Transaction costs and credit risks

According to the staff of MFI's interviewed, transaction costs were those connected with the provision of microfinance services, such as the collection of savings, disbursement of loans, collection of repayments and provision of other services such as insurance and transfers other than the cost of funding.

One of workers argued as follows;

Provision of microfinance services to small-scale enterprises is likely to entail greater transaction costs than the already costly provision of traditional microfinance, because the population density is generally low and households generally live in remote access areas. The higher transaction costs of microfinance institutions are largely a result of the need to travel long distances to reach a dispersed rural clientele, the poorly developed rural transport and communication infrastructure, and poor knowledge of heterogeneous rural households, their economic activities and their financial

needs. Normally, labour and transportation costs represent more than 60 percent of the total administrative costs of the microfinance institutions. It should be noted that for the clients, in addition to the costs of borrowing, there are other high additional costs: opportunity costs (working time), transport costs, fees and unofficial payments, delays, excessive paperwork and collateral documentation problems. (FINCA staff)

The delivery mechanism for microfinance services also has important consequences on transaction costs; in order to achieve greater outreach, some microfinance institutions provide doorstep services to the client, whereby their staff visit households instead of requiring clients to come to the branch. This reduces the costs for the clients and facilitates access to services, but entails greater transaction costs for the microfinance institution.

Also, findings show that providing microfinance services to poor individuals in rural is deemed to involve high risks. The management of these risks contributes to the transaction costs, both in acquiring information on the borrowers and their economic activities, and in making the necessary provisions against possible non-repayment. Credit risks relate to moral hazard, which is the possibility that borrowers may skip the repayment, while external economic risks relate to the future economic and financial viability of the investment financed. Credit risks are normally assessed by creating a client profile including track records, range of experience, existing assets and labour force. Credit risk is normally higher for a client that the microfinance institution has no previous experience of, so usually new borrowers receive smaller loans with shorter repayment periods, while borrowers with good loan repayment can gradually receive larger amounts for longer terms. All this may hinder establishment of branches in rural areas.

4.5.3 Attitude and Perception of the Community towards the MFI's

Most of rural people interviewed have a negative perception towards MFI's due to cultural belief/religion, for example the issue of sharia for Muslims. Findings shows 75% of people in Mvomero are Muslims who disagree on interest rates on loans, and

the way they have received the information about certain MFI's (informal information). About rules and procedures of taking loans and mode repaying for example confiscation of defaulters and guarantors properties/assets result in having few people who respond to micro-finance services. As one respondent argue that

She will never ever join any MFI's her sister in law was confiscated all properties by FINCA due to failure of repayments of only two installments. Not only was that she refused by her husband because most of this MFI's are against Islamic religion (non member of MFI's)

But in those areas where people have got formal information about certain financial institutions are likely to receive those services positively. On the other hand, findings on the MFI's management perceptions toward rural market to their services were negatives. Most of staff from MFI's argued that possibility of getting clients in scattered population was very scant, also there is little security compared to urban area. In addition to that most of staff argued;

It is easy to have high portfolio at risk in rural areas due to dependence on one economic activity that is agriculture that have crude technology. This may result to failure of repayment of loan because of little harvests (Female 40years PRIDE staff).

Reasons for not Joining Microfinance

The researcher aimed to get more information on perception of the community toward MFI's operation in term of financing mechanisms whereby most of community disagrees with terms and size of initial loans provided. Also study revealed that people in rural have negative attitude towards Mfi's due to imperfect information the study reveal that community most of community got their capital from friend and relatives. The study found the reasons for not joining Microfinance institutions in the study area. Twenty per cent of 30 respondents interviewed responded that they were not interested in MFIs. During In-depth interviews, one of the respondents for example noted that:

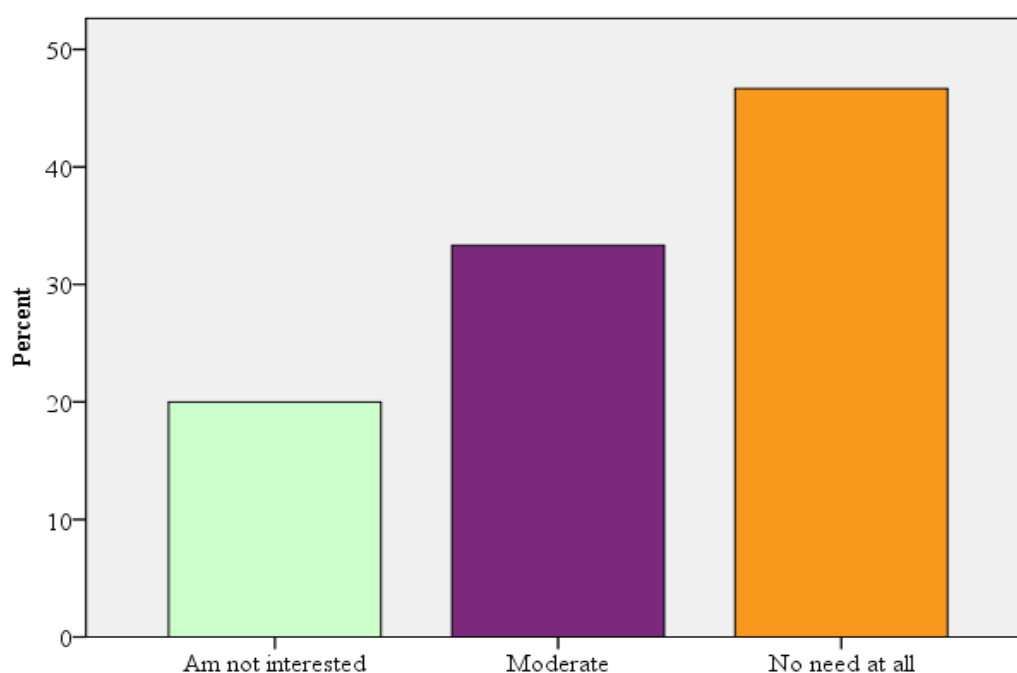
During dry seasons no farm products are available for sale then there are disturbances from fellow debtors who force others to pay the debt and if you fail then they may sell your household belongs to recover the debt. This is embarrassing behavior as it is not someone's fault and no one to blame...

[Respondent aged 35 Mvomero, Date21/05/2013]

Forty seven percent (47%) of respondents reported that there is no need at all to join the microfinance institutions because they can use other means such UPATU to keep their money and after some months they receive the amount without any problem. Time set for each one to get the money is designed in such that each individual selects when to receive the amount. There are various time schedules; daily, weekly and monthly.

However, 35% could not give the reasons to why they are not joining the microfinance services in the area. They reported that there is no problem to join.

Figure 4.5: Response on whether one wishes to join with MFI



Source: Field Research Data, 2013

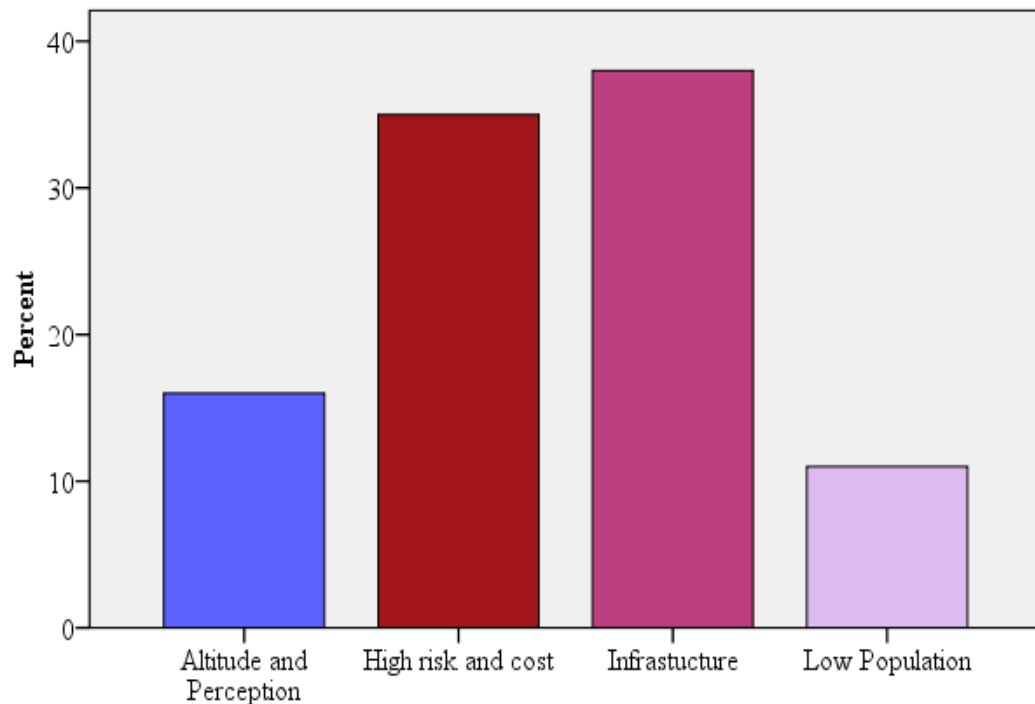
4.5.4 Low density Populations

As study reported, in Mvomero District has a population of 312,109 people only (population census 2012) that are scattered. Finding shows that MFIs reach more clients in densely populated areas than in less densely. This strengthens the idea that high population density lowers the operational costs of serving microfinance clients. Moreover, it helps explaining why microfinance is still relatively underdeveloped in rural areas.

Figure 4.5 below shows that more than half of the respondents 38% agreed that infrastructure contributes to inaccessibility of micro-financial services; similarly, 35% of the micro-financial officers agreed that high risk and cost in operating the institutions which include theft, drought and running cost include fuel cost for generator in case of no electricity. Around 16% of the respondents reported that attitude and perception contributed to unavailability of microfinance services in rural area. Majority of religious believes affect them. Around 11% strongly agreed that low population is a factor, which contributes to uneven distribution of services. This is supported by various authors who highlights on the factors that cause uneven distribution of MFIs in other countries in the world.

MFIs are not the exceptional in this case, the access of Microfinance institutions differs unevenly across continents, countries, region and district (Hardly and Prokopenko, 2002; Marulanda and Otero, 2005). There are several factors that may account for this including income levels, inflation, economic activities, population distribution and poverty levels are prominent

Figure 4.6: Factors that contributes to the inaccessibility of micro-financial service



Source: Field Research Data, 2013

4. 6 Factor attracting financial institutions to establish a branch Area

In answering research objective number 3 we interviewed staff and managers of MFI's. Regarding on factors influencing them to establish branches in the area, the study leveled the following factors that most of them seem to be unavailable in Mvomero as a result microfinance services remain scant

Is there any competitor in the area? This will enable the institution to come up with different strategy to attract customers.

One of the managers in PRIDE TANZANIA argued on the factors that attract them to establish branch in the area as follows:

In the area of low competition is very conducive because it will enable Mfi's to avoid the problems of multi-loans to the client in different MFI's that can lead to the defaulting. Also, in the area of high level of income,

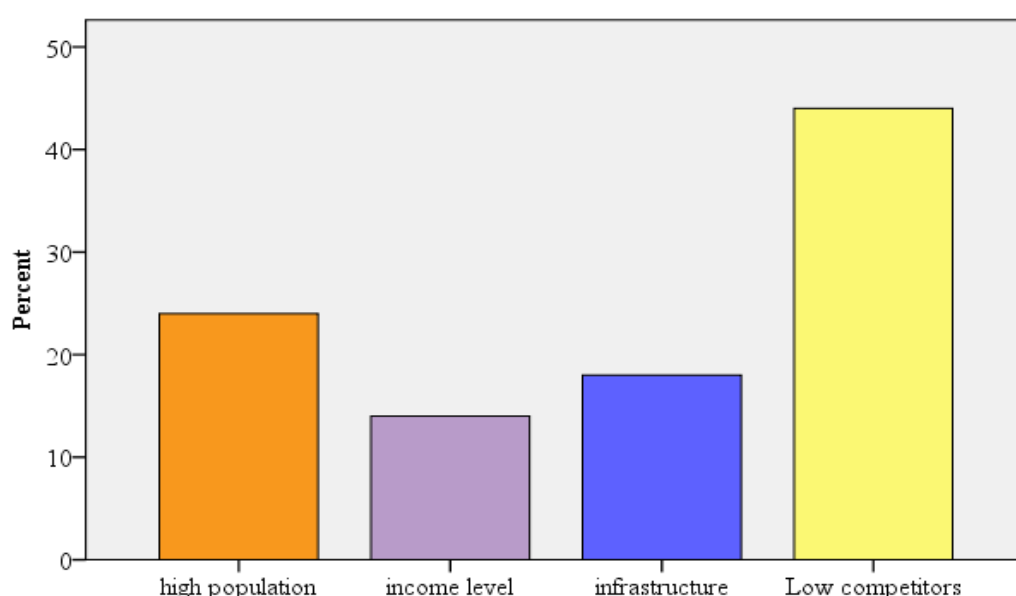
people have no need to seek for loan to invest because they have savings already to satisfy on their needs unlike in low income people who are highly populated in Tanzania. In areas where there are no savings enough for investments automatically people would seek for income to expand their investment as a result the area will have a lot of clients seeking for loans in MFI's. (PRIDE STAFF)

- a) Is the number of customers higher enough to join the institution? Findings shows that due to the scattered population in rural due to migration of most of productive youth and high death rate due to poor health care and cultural belief, there was high possibility of having fewer client than in urban where population is always high. As a result most of MFI's managements are not attracted to rural areas.
- b) What are the income levels of the people in the area? The findings shows that most MFI's managers are interested to those clients who have business already that mean the richest of the poor (middle income) lather than the poor who did not have income to start business. This shows that poverty continued to be a problem especially in rural areas
- c) Is there any easily accessible to the area; water, electricity, and infrastructure. Research revealed that the areas of availability of water supply, electricity, nice roads and security appear to have more branches of Microfinance institutions than in the area of poor infrastructure which most of them are in rural locations.

The researcher interviewed managers of selected financial institutions and they reported as follows: 25% respondents reported that higher population determined the establishing of financial institution, where 18% reported that low competitors will be the factor to consider during establishing the micro-financial institutions in rural area. Also, 48% reported that accessibility of area in-terms of road, water and electricity contributed to establishing the microfinance institutions.

However, 15% reported that income level of the people in respective areas attract establishment of microfinance institutions as indicated on Figure 4.6

Figure 4.7: Factor Attracting Financial Institutions to Establish Branch



Source: Field Research Data, 2013

4.7 Impact of Microfinance to the Community Development

Microfinance sectors hold a big promise to generate income and employment and alleviate poverty in developing countries. This, in turn, can have positive social effects at different levels of society, from the personal, to the community, to the regional level.

The research reveals that most of customers joined these institutions for the sake of their day-to-day activities.

4.7.1 Personal/Household level

At this level the following effects can take place:

- Empowerment of women, who are often, preferred clients of MFIs. This can lead to a higher social status, better education and more independence of women, all factors that have been shown to contribute positively to a more sustainable development of whole regions.

- Better education and further development of MFI clients, as MFIs often support them in acquiring basic skills and financial knowledge. As the most of appointed committee members (Group Chairpersons, Secretary and treasury) have got treasure ideas and record keeping which would be used in their business.
- Ability to cope with economic shocks (e.g. loss of an important family member, natural catastrophes etc.), by means of savings, credit, micro-insurance products. The research revealed that MFI's built the habitat of keeping savings that help in making investments in alternative activities other than agriculture. For example, in PRIDE a client had to deposit 3000Tsh, FINCA 4000THS and SACCOS members are required to deposits one third of loan applied. Besides that clients of MFI's are allowed to withdraw as they need to solve social, economic and physiological problems.
- Higher income in general leads to better access to education, healthcare, sanitary infrastructure, food supply etc. Findings shows that client of Microfinance institutions used their loans for payment of school fees for their children and other dependants, payments of different charges from hospitals, building of houses even if most of them are not valuable, settings of electrical(buying of generators) and water system in their houses.

4.7.2 Local community level

- Creation of jobs

This study has revealed that 350 clients at Pride Tanzania and 330 clients at FINCA benefited in Mvomero. The activities financed include farming, carpentry, shops, poultry farms, vendors, retailers and traditional clubs. All these clients are either self-employed or have employed relatives or other people to work for them ranging from two to ten people. Also, these enable them to substitute activities during drought and flood calamities

Pride Tanzania has employed 11 staff; FINCA has employed 9 staff who operates in Mvomero's wards. Others were employed in different SACCOSS like Tumaini Sacoss in Mvomero; however I failed to get the actual figure. Assuming every staff has four Dependants, welfare and standard of living of all these households have

improved from the income they received from these institutions. These findings evidence existence of positive impact on job creation by these institutions. Regarding higher quality of jobs (i.e. labour conditions, productivity, skills base, and empowerment) findings show that most of clients exchange new ideas and skills within groups. This helps them to improve their economic activities

MSE's supported by MFI's in Mvomero

Further discussions were conducted with MFI's clients to get more information on how MFI's assisted their MSEs. The respondents had MSEs which operated in different types of businesses (Table 4.5.2). Of these interviewed respondents, 44.4% were male and 55.6% were female. In addition, to the individual interview, a focus group discussion was conducted to obtain views of clients as a group. This subsection presents the findings of the interview and focus group discussion of MSEs supported by MFI's.

Also findings shows people of Mvomero participate in different activities whereby among the respondents 46.7% were agriculturalists in rice, tomatoes and maize, 27.8% were dealing with animal husbandry especially Goat Sheep and Cows mostly at Luhindo and Sokoine (Dakawa), also 15.5% participate in Traditional clubs and food vendors "mamalishe", others 10% were dealing with motorcyclists 'border border'. See table 4.3 below

Table 4.4: Types of Business of MFI's Clients

Type of Business	Percent
Agriculturalist	46.7
Traditions clubs & food vendors	15.5
Animal Husbandry	27.8
Motorcycles drivers	10.0
Total	100.0

Source: Field Research Data, 2013

Figure 4.8: Economic activities at Mvomero

Below: One of the traditional clubs & food vendors and tomatoes formers



Above: Tomatoes' Agriculturalist at the market place

Higher and more stable income of the community as a whole makes it more resilient to external shocks. In the context of savings/credit groups, members start educating and helping each other. This can support the cohesiveness of a community. At the same time, access to financial services can trigger entrepreneurship and a healthy competition among community members.

Entrepreneurship usually leads to increased trade with neighbouring communities and regions, in turn improves the economic base and resilience of the community.

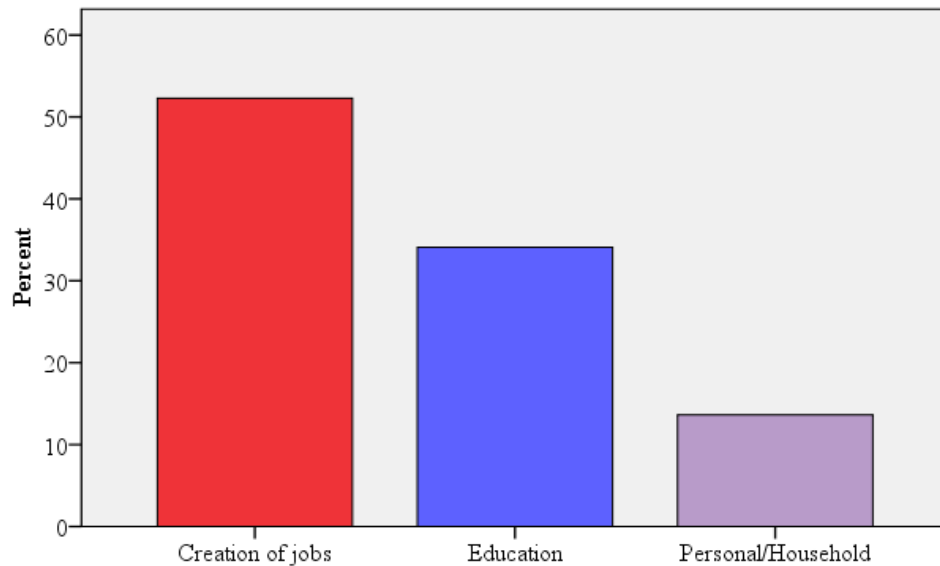
Lending programmes in the rural areas are not involved purely in the borrowing and lending of money, but also help build communities and social assimilation. While some NGOs and MFIs might introduce certain programmes to promote social cohesion, some of the lending models and their administration have this aspect built as an integral part of their design.

The ‘peer group lending method’, for instance consists of lending not to individual borrowers, but to a group of five to seven members who are responsible not only for the payment of their own installments, but also of all the rest of the group members.

Getting MSEs together during regular meetings helps them exchange business ideas, techniques and experience from each other. PRIDE Tz clients meet weekly for repayment purposes. During the meetings, borrowers interact with each other and discuss various business ideas, challenges ahead and various business techniques necessary to capture customers.

From the study among members of microfinance provider interviewed 52.3% reported that microfinance loans help to establish business which in turn helps to create job to community members thus improving livelihood of the community. However, 34.1% reported that the loan was used to pay school fees and 13.6% reported to use micro financial institutions for household activities such as house building, repair of house and health care.

Figure 4.9: Impacts of Microfinance Institutions to the Community Development



Source: Field Research Data, 2013

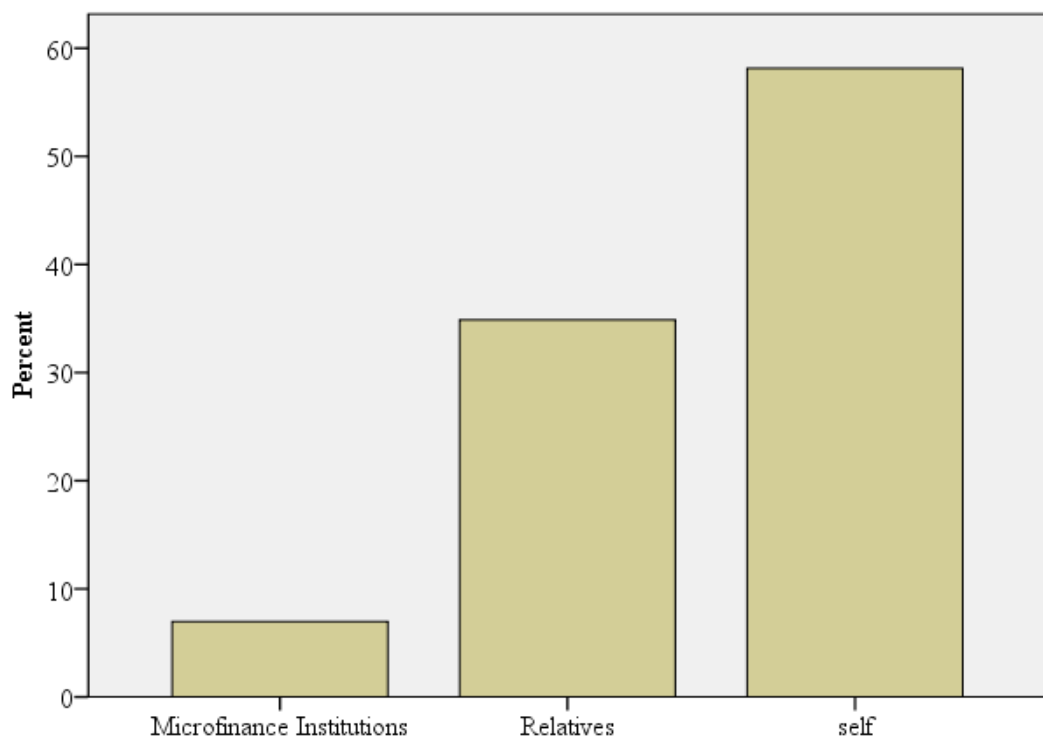
Source of Capital to run Business in Mvomero

The researcher aimed to get more information on impact of the microfinance services to the economic activities of Mvomero in term of sources of capital. The study reveal that community most of community got their capital from friend and relatives. As starting a business, one of the aspects that entrepreneurs find most daunting is raising start-up capital. Today, entrepreneurs are much more likely to dive into their own pockets and hunker down for a battle to start up and stay alive. But if you don't have the cash in your wallet, what do you do?

On establishing whether the customers in the study area obtained their capital to run business from financial institutions or obtain from other sources. 58% reported that they acquired the funds from own sources because they are either worked as waged labor in plantations for the middleman or crystals 'kokoto' making, whereby 37% obtained their capital to run business from friends/relatives As they arguing that most of Microfinance providers are far away from their homes, negative perceptions due to imperfect information about MFI's whereas 5% reported that their source of

capital was from micro-financial institutions and others; the number is still low in the study area due to many reasons.

Figure 4.10: Source of Capital to Run Business at Mvomero



Source: Field Research Data, 2013

To summarize this study shows inaccessibility of microfinance services are caused by microfinance institutions like negative perceptions of managements toward rural areas market. Most of managers perceive operation has high risk, high cost providing services including transport cost, labor cost (perdiems). Also most of Mfi's like SEDA, BRAC are not located in rural areas due to the perception of little market of their product due to low population that led to few clients to serve. Moreover employment of mechanisms which doesn't suit to the economic activities likes agriculture in rural areas.

In addition to that government also contributes to inaccessibility of financial services in rural due to poor infrastructure constructed/located in rural area. That is

government of Tanzania concentrating in improving of electricity, road ,security and water services in urban than in rural areas as a result people especially youth migrate to urban and investors of microfinance institutions would not be attracted in rural as will concentrate more in urban than in rural.

On the other hand community could be a reason for in access to Microfinance services in rural areas due to cultural attitude based on religious belief (sharia) that does not accept interest charges and most of men refuse their wives to join in MFI's. Also imperfect information about microfinance institutions like microfinance is confiscation and delaying disbursement for seminars on rules and procedures of MFI's.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter sums up the results of the findings, interpretation and discussion chapter as well as providing overview of the whole research project report. The chapter starts by giving out a brief highlight of the research questions, objectives and reviews the key ideas raised in the literature review and general discussion of the key findings pursuant to the study's motive. Then, the conclusion is derived from the study findings followed by the recommendations and lastly the area for further research is suggested.

5.2 Overview of the Study

Access to rural financial services has a potential to make a difference in agricultural productivity, food security, and poverty reduction. However, an efficient, sustainable and widely accessible rural financial system remains as stumbling block as a major development challenge in most of the developing countries.

The main objective of the study was to assess factors determining distribution of micro-financial services in rural areas and specifically the study intended to:

- i. To identify microfinance service providers operating in Mvomero district;
- ii. To assess acceptability of financing mechanisms employed by different micro-financial service providers among rural customers;
- iii. To analyze factors that contribute to the uneven distribution of micro-financial services in rural areas;
- iv. To examine impact of microfinance to the community development;

5.3 Distribution of MFIs in Mvomero District

The result of this study reveals that there is a limited number of MFIs in Mvomero District. The distribution of the Microfinance Institutions in the area of study depends on so many factors including; income levels, inflation, economic activities, population distribution and poverty levels. Financial Institutions available in Mvomero are FINCA and PRIDE respectively.

5.4 Factor Attracting Financial Institutions to establish a Branch

The factors accounting for the concentrations of banks normally vary. Some banks may want to establish a branch close to parent companies while some may want to establish near one another to leverage on security arrangements and inter-bank activities. Improvement of infrastructure in-terms of availability of electricity, road and telecommunication, warehouse contributes to demand of financial services in the rural areas.

Microfinance institutions aim at reducing poverty among the people in the society. Taking this primary objective of MFIs into consideration, one expects MFIs to be more concentrated in areas where population is higher and there is a chance for entrepreneurs to start up business.

In Mvomero district, it has been reported that good rural infrastructure is one of the factors that motivate the financial institutions to operate. The road network, which is accessible as well as power, water supply and communications, which are grossly adequate, motivate the financial institutions to set up offices in Mvomero. The absence of these factors tends to increase the cost of doing business and also results in low-quality and uncompetitive products. It stands to argue that better infrastructure development influences the development of financial institutions including MFIs’.

Generally, in Tanzania there is an east-north-west divide with most MFIs concentrated in eastern and northern locations such as Arusha and Dar es Salaam. Geographical factors such as proximity between communities, high population densities, and availability of infrastructural facilities (electricity and water supply,

communication and sanitation networks) attract financial institutions including MFIs (Stira and Kumar, 2005).

5.5 Financing Mechanism Employed by MFI's

Micro-financial institutions employed different mechanisms to recover loans from their customers. The methods used were: collateral based dynamic incentives, peer selection and regular repayment.

Results also indicate that the number of economic activities is very significant in determining the number of MFIs in Mvomero district. It is not surprising because MFIs like any other financial institutions aim at making profit. Peer selection is the mechanism most used by MFIs in Tanzania. With the help of peer member pressure to each other the member groups are able to pay the debt in time as they fear that their valuable items may be sold. Weekly collection of loans in small amount, intense interaction with borrowers through weekly meetings, strong central management, dedicated field staff, extensive staff training, willingness to innovate, committed pragmatic leadership and decentralized as well as participatory style of working can lead to effective financing services..

5.6 Impact of Microfinance to the Community Development

There is a positive impact on community development following establishment of MFIs in the study area, hence a relationship between economic activity and poverty reduction. With an increase in number of economic activities, poverty levels are likely to be reduced. This, in turn, will have positive social effects at different levels of society, from the personal, to the community and to the regional levels. Most importantly, introducing MFIs at a rural area such as Mvomero stimulates employment to the young generation and subsequently contribute into reduction of poverty.

MFIs are generally recognized to be important tools for community development and both the proponents of the credit and community development approaches have highlighted the significant roles of micro-financial institutions in improving the living standards of the rural communities. General experience has also shown that the

majority of low income earners who participate in MFI lending schemes have been able to use what they accrue in essential social services such as education and health, which ultimately brings impact into community development.

5.7 Conclusion

The findings of this research confirm inaccessibility of micro financial institutions in rural area because of many factors that hinder their performance. In other words, it is not surprising to see the MFIs concentrating in urban due to sustainability principle. It has also been established by the findings of this study that MFIs need to sustain their resources including financial and human and therefore they have to extend outreach in a measured manner. This follows their critical contribution to the welfare of individuals in the grassroots and communities at large.

On arguing about inaccessibility of micro-financial services in rural areas, this study has used Mvomero district to show how broad access to micro financial services is related to the economic and community development initiatives, which are all linked to poverty alleviation and improvement of the living standards of the majority poor rural dwellers. The situation in rural areas like Mvomero exposes the fact that MFIs need to concentrate their activities in the sense that access to micro-financial services are seen as a public good that is essential to enable participation in the benefits of rural people in a context of a market based economy, in a corresponding way, as is access to education, clean and safe water, basic health service, to mention just a few.

Based on the aforementioned findings from the study, the following major conclusions could be drawn;

Micro-finance service providers operating in Mvomero district are unevenly distributed based on geographical area and number of customers in such areas, with wards, for example Homboza-visalawe (Mgeta) having no single MFI due to less number of people and poor infrastructures as compared to other wards such as Mlali. Availability of infrastructure appears to be a major reason for distribution of MFIs in Mvomero, where poor infrastructure influences decisions to establish MFIs activities in some areas.

There are varied views on acceptance of financing mechanisms employed by different micro-financial service providers among rural customers, with peer selection being preferred by a bit more respondents as a better financing mechanism, followed by regular repayment, dynamic incentives and collateral based. It can therefore be deduced that the prevailing microfinance institutions' financing arrangement of peer selection in the area grant more opportunity of reaching the rural dwellers as compared to other arrangements such as collaterals, which given the nature of rural welfare, many rural dwellers may find it difficult to access finance from the MFIs.

MFIs are noted to contribute to improving the livelihood of rural dwellers in Mvomero, where a good number of respondents have been able to establish IGAs and therefore offer a guarantee for job opportunities to the community members. It is also important to note that MFIs services have also been enabling people in Mvomero to access education (through paying school fees etc.) and to cater for other household needs such as house building and renovations and meeting costs for health care.

5.8 Recommendations

Based on the findings of this study and the conclusions drawn, the following recommendations were offered with a view to improving access to micro-finance services and distribution of MFIs in rural areas:

- Since a good number of respondents preferred peer selection as the better way of financing mechanism in Mvomero, MFIs should intensively use and expand this while discouraging other mechanisms such as collateral, which is one of the major obstacles to the rural peoples' access to micro-finance. The study hereby recommends more emphasis for the preferred financing mechanism as the best arrangement for securing loans in the rural areas, such as that of Mvomero district. This is expected to give rural dwellers in Mvomero more opportunity to access microfinance services.

Following the fact that one of the obstacles to accessing micro-finance services in the rural areas is high transaction cost because in some areas with poor infrastructure there are no MFI branches, the study recommends that a linkage in microfinance arrangement should be introduced. This is where Credit Cooperative Societies as informal micro-financial units, or any similar formation, will be used as a conduit for extending microfinance services to their members. The government can also use these associations to channel their agricultural credit and members of these societies should also be making contributions on weekly or monthly basis depending on their mutual consent. The credit should be revolving in such a way that every member will benefit.

- The government and other development partners should take a necessary measure to provide important infrastructural facilities in rural areas so as to make these places conducive for microfinance service. This follows the fact that MFIs cannot operate in areas with poor infrastructure due to higher cost of operations. Analysis shows that micro-finance services are inadequate and do not solve all the agricultural sector problems. It is certainly an illusion to think that micro-finance alone will lead to the sectors' development. Agricultural sector development requires complementary services (e.g. infrastructure, marketing services, and extension). If a clear orientation is taken towards agricultural development, the public sector must invest in these operations, since even sustainable micro-finance institutions will not be able to fulfill their role in the absence of essential complementary services.

5.9 Areas for Further Research

It is not easy for this study to exhaust all issues pertaining access to micro-finance services and distribution of MFIs in rural areas. Being limited to determinants of access and distribution of MFI services in rural areas (Mvomero as the case), the study suggests the following areas for further research:

- A thorough study of the factors and determinants of supply of finance in rural areas is important. This will bring about a general picture of the nature of micro-finance services in rural areas and therefore help in a critical analysis

of the problem of uneven distribution of MFIs in rural areas.

- Longitudinal studies are required in order to understand the dynamic nature of financing mechanisms in rural areas. Since different needs arise every day, it is important to conduct time series studies that capture the changing nature of the needs, distributions and financing mechanisms of MFIs in rural areas.

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APPENDICES

Appendix I: Questionnaire

I am Debora Sigalla, a Master's student from Mzumbe University in Morogoro. I am conducting a research study titled 'Assessment of Factors Determining Access to Microfinance Services in Rural Tanzania: A Case of Mvomero District.' The study is in partial fulfillment of the requirements for the award of a master's degree. The recommendations that will be produced in this study will also be used for improving the financial policies and enhancing financial services in rural areas. Therefore, I request you to answer the questions provided in this questionnaire. I assure you that the responses provide in this questionnaire will be treated with utmost confidentiality and will be used for academic purposes only. Do not write your name anywhere in this questionnaire.

Section A: To be answered by members of the community

1. Sex female () male ()
2. How many microfinance are they in this ward?(choose appropriate letter below and fill in the box
A) 1-5 B) 6-10 C) above 10
3. Are you a member of any of the available microfinance institution? YES / NO
(Tick the acceptable one)
4. If answer is NO in Q3, Then Why has your household never used microfinance services? (Multiple answers)
 1. Too poor
 2. Don't need
 3. Too expensive
 4. Save in the house
 5. Unavailable in this area
 6. Get it for free
 7. Did not have a guarantee
 8. Terms and repayment period difficult
 9. Did not trust them
 10. Was not eligible

5. If answer is Yes in Q3 would you mention it.....
6. Based upon what I have told you about the microfinance service, how interested would you be in using the service: Tick one
- Definitely interested ()
- Probably interested ()
- Probably not interested ()
- Definitely not interested ()
7. What are the MFIs Branch office approximate distances (in kilometers) to nearest client(s) _____kms?
8. Is there regular land transportation (indicated by public transport such as jeepneys, tricycles, other means of road transport) yes.....1 no.....2
9. Please rank the importance of these services for the day to day running of your household and economic activities.(for perception measure)
- 1=extremely important
- 2=Quite important
- 3= A little important
- 4=Not important 0=don't know
10. What is the source of your initial capital? Tick the appropriate
- Personal Savings () Friends and relatives () Loan from MFIs Others ()
11. Mechanisms used by microfinance that you have registered (tick the mechanisms used)
- a) *Peer selection* ()
- b) *Peer monitoring* ()
- c) *Dynamic Incentives* ()
- d) *Regular repayment schedules* ()

12. What are economic activities are you dealing with?

13. Payment Mode, Indicate if:

1...Daily

2...Weekly

3...Monthly

4...Quarterly

5... Others

If others, please specify _____

14. Which one of the above term are friendly to the economic activities you are dealing in your estimate,

15. What do you think ware the factors that determine the accessibility to microfinance services?

16. To what extent is your business improves from the time you get loans from micro finance?

a) very great improvement

b) normal improvement

c) little improvement

17. Compared to your expectations, how satisfied were you the last time you used the financial service?

.....
.....

SECTION B

Questions for staff of microfinance institutions

1. Which organization are you working? tick the appropriate

FINCA () SEDA () PRIDE () BLACK others ()

2. What percent of your clients walk to your office or meeting location?
_____ %

3. How would you assess the operation process terms of its effectiveness for outreach in rural?

- a) Very effective
b) Somewhat effective
c) Somewhat ineffective
d) Very ineffective

☐

Others (SPECIFY)

4. What are the factors that attract your organization to establish branch in area?

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5. Is there any risk and cost do you get by establishing microfinance in rural areas? Mention it please

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