

SUPERVISOR CERTIFICATION

The undersigned certify that he read and hereby recommends for acceptance by the Open University of Tanzania Dissertation titled. **‘The impact of Microfinance Loans Institutions in alleviation of poverty in Tanzania Rural Areas: A Case Study of Rungwe District, Mbeya Region’.**

.....

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.....

Date

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DECLARATION

I, Michael E. Kanyela declare that this thesis is my own original work and that it has not been presented and will not be presented to any other University for a similar or other degree award.

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.....

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ABSTRACT

The study aimed to investigate the impact of microfinance institutions' loans in alleviation of poverty in Tanzania rural areas by taking PRIDE Tanzania LTD in Rungwe district as the case of the study. The study specifically assessed how clients of PRIDE in Rungwe district have improved their livelihood through loans. In determining the degree improvements, the researcher investigated the extent of business growth and ability to meet personal basic needs. In the analysis both primary and secondary data were used. Quantitative methods were also employed in the performance assessment. Primary data was collected using self-administered open and closed ended questionnaires. The study also investigated the challenges encountered by most of the borrowers during and after receiving their loans and suggests possible solutions. However the findings from the study shows that individuals who got loans and invest in SMEs, have improved their life style significantly by being able to build or renovate houses, buying land, buying modern households, afford to pay school fees for their children, medical expenses, and winning social recognition. It is therefore recommended that the Micro-finance institutions and SME sector have to be given much emphasis by the government as it plays a major role in improving the life of the people as well as contributing much to the Gross Domestic Product (GDP) of the country. The challenges facing the sector especially difficult condition put by financial institutions as requirements for accessing loans have to be re-assessed to attract even the lower income earners.

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LIST OF ABBREVIATIONS AND ACRONYMS

BOT	Bank of Tanzania
ILO	International Labour Organization
MFI	Micro Finance Institution
MSME	Micro, Small and Medium Enterprises
PRIDE	Promotion Rural Initiative and Development Enterprises
SMEs	Small Mediums Enterprises
SIDO	Small Scale Industries Organisation
UDEC	University of Dar Es Salaam Entrepreneurship Centre
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
URT	United Republic of Tanzania

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Problem

Tanzania is among the developing countries categorized as the poorest country in the world with a per capita income of US \$ 321 (URT, 2006). Since independence (1961) the Government of Tanzania has been pre-occupied with three development problems: namely ignorance, disease and poverty. National wide efforts to tackle these problems were initially channeled through centrally directed, medium-term and long-term development plans. These plans resulted in a significant improvement of per capita income and access to education, health and other social services until the 1970s. Thereafter, these gains could not be sustained because of various domestic and external shocks, and policy weaknesses. Indeed, despite sustained efforts since the mid – 1980s, to address the country's economic and social problems, one half of all Tanzanians today are considered to be basically poor, and approximately one-third live in abject poverty (URT, 2000).

Like in most other developing countries, the degree of rural households' access to financial services in Tanzania is significantly low. According to a study commissioned by the Bank of Tanzania (1997, pp 2 – 10) the unmet demands for rural financial services by formal financial institutions was significantly high, thus forcing rural households to rely on informal financial services by 82%. Of those operating bank accounts, they only saved 12% of their total savings. The introduction of MFLs is seen as the best alternative source of microfinance service for lower income earners in rural areas as a means to raise their income, hence reducing their

poverty level. However evidence has shown that these MFLs have limited coverage, poor organization structure and some are door driven. These findings stimulated research to investigate if the coverage of MFLs is as stipulated in National Microfinance policy (NMFP) that is, covering small business owners and the poor rural population.

1.2 Statement of the Research Problem

Various studies such as Kessy and Urrio (2006), Kwayu (2006) and Kisonga (2004) have been carried out in Tanzania to see how government look at the SME Sector help Tanzanians to get out of poverty. Also, studies outlined some problems facing the sector on getting loan capital. Financial Institutions and the government use various methods and policies to ensure that Tanzanian people benefits from the financial institutions. Literature shows that only 586 people in Rungwe district had managed to get loans in 2012 year (www.pride). Although, Tanzania had liberalized all financial sector and introduced the microfinance sector in operation so as to have tax for small and medium entrepreneurs so that to make simple to access loans for capital. Despite the significant contribution of sector towards socio-economic development, evidence from literature show that less attention about the impact of microfinance institutions loan in poverty reduction and to small borrowers in rural Tanzania has been paid. It was from this problem this study aimed to examine the impact of microfinance institutions loan what extent helped Tanzania living in rural areas to alleviate from poverty.

1.3 Research Objectives

1.3.1 General Objective

This study aims at finding out the extent to which Microfinance loans contribute to alleviation of poverty in Tanzania rural areas and whether they meet the objectives of the policies that led to their establishment at Rungwe district.

1.3.2 Specific Objectives

The specific objectives of this study are to:

- 1) Examine the improvements of life settings of small and medium scale entrepreneurs who got loans from micro finance institutions in rural areas.
- 2) Examine the creation of employment to other people who are employed by SMEs loaners in rural areas
- 3) Determine the relationship between microfinance institutions and small business enterprises in improving social services in rural areas.
- 4) Examine ways used with microfinance institutions in advancing soft loans to small business enterprises.

1.4 Research Questions

1.4.1 General Research Questions

Has the establishment/existence of microfinance loan institution in Rungwe district contributed to alleviation of poverty?

1.4.2 Specific Research Questions

1. Has advancement of loan changed the life setting of beneficiaries?

2. Do the loan beneficiaries create employment opportunities to other people?
3. Is there any relationship between presence of MFIs, small business enterprises and state of social services?
4. How do MFIs advance loans to small business enterprises applicant?

1.5 Significance of the Study

This study will be of benefit to microfinance institutions, policy makers, SMEs and community at large. The study explores and recommends potentials areas that microfinance institutions need to put more efforts when delivering their services. The findings from the study will help in improvement of social well being at the grass root levels. Access to credit and financial services provides an entry point to improve rural productivity as well as stimulating small scale trading and manufacturing. With soft loans, rural farmers will be able to acquire agricultural inputs that increase their productivity and income. Increased credit helps to expand markets to rural areas, thus promoting rural development.

The government is currently encouraging to support the development of the private sector in the economy. This sector absorb majority of women and young labour force mostly fresh graduates those who fails to be accommodated by the formal sector. This research will help the government to improve policies in favour of small scale enterprises for rapid economic growth. Small business enterprises are expected to contribute much in creation of employment in the informal sector if they are empowered with easy access to get loans to establish or expand their business. The expansion and employment opportunity created by SME's contribute to the

development of financial institutions due to the reasons that people can be able to use the banking services.

Findings and recommendation from this study will help both foreign and local donors who are interested in supporting strategies which guarantee sustainability of the large groups of small business entrepreneurs through institutions such as Savings and Credit Cooperative Societies (SACCOS).

Basically, this study is an academic undertaking. It will expose the researcher to more advanced and exploratory skills. The study will also open venues for other researchers to conduct further studies on the areas which have not been researched.

Finally, not much research has been done on the impacts of microfinance institutions in alleviation of poverty in the rural areas. The recommendations put forward in this study will contribute substantial information to the existing body of knowledge as it will add much to the body of knowledge in the field of microfinance service delivery and benefits derived from the industry. The literature will be of benefits to the society as it will add much to their insight about microfinance institutions.

1.6 Scope of the Study

The study confined itself to the group of small and medium entrepreneurs who obtained loans from micro finance institution (PRIDE) in Rungwe district found in Mbeya region.

1.7 Organization of the Study

The study is organized into five chapters, Chapter one provides the background information, statement of the problem, objectives of the study, significance of the

study and scope of the study. In addition it delineates the study limitations and describes the layout of the study. The second Chapter concentrates on theoretical issue, it deals with literature review of concepts relevant to the study which includes conceptual definitions, research gap, conceptual framework and theoretical framework, and it provides conceptual framework for analysis of rural financial system.

On the other hand, the third chapter presents a profile of area of study and describes the methodology used. It also deals with research design, instrument and data collection tools and work plan. Chapter four deal with data presentation, discussion and data analysis. Final chapter five discusses the research findings, conclusions and provides the recommendation.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter attempts to review the relevant literature on rural financial system. In addition, it also discusses issues from related literature that focus on the impact of loan given by micro financial institution to small and medium enterprises on changing the life hood of borrowers. There have been many studies on micro financing and their impact on SMEs in the world. These studies have not explored everything concerning the impact of micro financing on SMEs and the subsequent change of life hood for the beneficiaries. In this chapter we shall see how different studies have been done on micro financing to the SME sector and different views on how important the sector is as far as life improvement is concerned. Furthermore the chapter discusses comparative studies within and outside Tanzania.

2.2 Conceptual Definitions

2.2.1 Poverty

Poverty is complex concept which has no universal definition. According to the World Summit for Development held in Copenhagen in 1995 'poverty has various infestation including lack of income and productive resources sufficient to ensure sustainable liver hoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic service; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion, It also characterized by lack of participation in decision making and in civil, social and cultural life.

2.2.2 Entrepreneur

The term entrepreneur has evolved over the years. The word entrepreneur is derived from a French root 'entreprendre', meaning to undertake (Filion 1997). It was used to mean an individual (group of individuals) who has the ability to see and evaluate the business opportunity existing in the environment and take advantage of it. An entrepreneur is considered to be a person with ability to take risk of organizing resources into business venture and manage it with the aim of being successful (Chinyoka 1997).

An entrepreneur is considered to be a person with ability to take risk of organizing resources into business venture and manage it with the aim of being successful. The entrepreneur should as far as possible identify strengths, weaknesses, opportunity and threats of his venture before and after he has started the enterprise. The question of success here becomes the prime goal and vision of every entrepreneur.

2.2.3 Entrepreneurship

The generation of ideas that results in improved efficiency or effectiveness of the system which is associated with risk, uncertainty and insecurity (Matherly and Goldsmith -1985). Entrepreneurship can also operationally be defined as the ability or attempt to create and manage a new venture linked with the qualities and abilities to identify and see an opportunity and being able to benefit from it. Thomas Zimmer and Norman (1996:p.52) describe entrepreneurship as a result of being disciplined and systematic in the process of applying creativity and innovation to needs and opportunities in the market place. It involves not only applying focused strategies to

new ideas and new insights but also creating a product or a service that satisfies customers' needs or their problems.

2.2.4 Microfinance

The definitions of microfinance institutions proposed by some scholars and organizations are seemingly different from one another. However, the essence of the definitions is usually the same. Microfinance is the provision of small scale financial services to low income or unbanked people (Hartarska, 2005). It is about provision of “a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low income households and their farm or non-farm micro-enterprises” (Mwenda and Muuka, 2004, p.145). Similarly, the Asian Development Bank (ADB) defines microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro-enterprises (ADB, 2000).

Microfinance institutions are considered as a tool for poverty alleviation through improving access to finance and financial services. According to Basu et al. (2004) MFIs complement effectively the formal banking sector in providing financial services to the poor. The rationale of improving finance comes from the premise that empowerment of the poor through creating income generating capacity enables the poor to access all development requirements to get out of multifaceted dimensions of poverty and reduce their vulnerability to unexpected events (Davis et al. 2004).

2.3 Theoretical Literature Review

In this section, we provide a summary of the theoretical issues on the relationship between microfinance and poverty. The section provides a basis upon which research project was designed and aims at answering the question about the significant of microfinance institutions to small business entrepreneurs. Micro credit is simply the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans.

2.3.1 Category of SMEs in Tanzania

There is no one single definition of small and medium enterprises (SMEs) that is used internationally. Different countries use different criteria to classify their enterprises depending on the level of development in those countries.

According to the small and medium enterprises development policy of 2002 issued by the ministry of industry and trade of the United Republic of Tanzania, SMEs have been categorized into four. The yardsticks that have been used to categorize these SMEs are such as total number of employees, total investment and sales turnover. In fact those yardsticks are commonly used in different countries. In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to TSh. 5.0 million. The majority of the enterprises fall under the informal sector. Small enterprise are mostly formalized undertaking engaging between 5 and 49 employees or with capital investment from TSh. 5 million to TSh. 200 million. Medium enterprises employ between 50 and 99 people or use capital investment from TSh. 200 million to TSh. 800 million. This is illustrated in table 2.1 below.

Table 2.1: Category of SMEs in Tanzania

Category of enterprise	Number of employees	Capital investment in machinery (TShs).
Micro enterprises	1-4	Up to 5 million
Small enterprises	5-49	Above 5 million to 200 million
Medium enterprises	50-99	Above 200 million to 800 mill
Large enterprises	100+	Above 800 million

Sources: SME development Policy, (2002)

2.3.2 Micro Financing and its Importance

Development analysts and practitioners have all along been interested in the contribution of finance to the development process. Among the early contributors to this debate is Arthur Lewis (1955) who came up with an idea of a two-way relationship between financial development and economic growth. According to Kirkpatrick and Green (2002:207) this theory postulates that financial markets develop as a result of economic growth, which in turn stimulates the growth of real economy. This thinking attracted many researchers and analysis in order to (i) test empirically the causal relationship between finance and development, and (ii) understand the functions of the financial system in the development process (Levine, 1997; Levine, Loayza, & Beck, 2000, 2000; World Bank, 2001a).

Traditionally, poverty was perceived as a problem of people earning low income, which lead them to consume too little to attain the minimum socially determined standard of living, and owning too few assets to protect themselves against future uncertainties.

Following this line of argument, most poverty reduction strategies focused on employment creation, skills development, and redistribution of assets from rich to poor (Meyer, 2001). Consequently, government sponsored poverty reduction programmes included packages that involved the widely discredited targeted credit, and technological packages. However, poverty is a complex and multi-dimensional phenomenon, which requires a holistic analytical approach. Poverty is about material deprivation reflected through low food consumption, and poor housing condition; low human development resulting from inadequate education, poor health and nutritional status; lack of voice and ability to influence decisions; and acute state of vulnerability to adverse shocks such as illness, economic crises, and natural disasters.(MUCCoBS-HITAL, 2003)

Since majority of population in developing countries live in rural areas and depend mainly on agriculture, poverty reduction in these countries depends on agricultural revolution. Consequently, the literature on supply-led approach to agricultural credit dominated development debates during the Green Revolution era of the 1960s through 1970s (Adams and Graham, 1984; Meyer and Larson, 1997; Meyer and Nagarajan, 2000). During this period the emphasis was on agricultural credit rather than rural finance. Agricultural credit was envisaged to lead to an increased production and raise income, allowing for improved consumption and savings, hence facilitating more investment. It is, however, important to note that access to financial services cannot on its own be a panacea to all poor peoples' problems. It is because of this fact that the debate on rural poverty has now shifted towards markets paradigm, where the cause of poverty is attributed to failure of markets. Stiglitz

(1994) for instance contends that the imperfect financial markets in developing countries inhibit poor people's access to financial services.

The relationship between poverty and access to financial services is best explained by the theory of Sustainable Livelihoods Framework championed by many authors (Ashley and Carney, 1999; Scoones, 1998; DFID, 2001). Building on the preceding theoretical context, the use of sustainable livelihoods framework (SLF), as applied by a number of research and development organizations, helps in addressing some of the weaknesses inherent in the agricultural credit paradigm. The framework relates the causes of poverty to households' access to resources and their diverse livelihoods strategies. The framework evolved over years as perceptions on poverty reduction, how poor people live, and inclusion of structural and institutional issues were changing (Ashley and Carney, 1999:1-7). Today, the concept of household livelihoods has become popular in the development literature. For the poor, micro credit can expand opportunities for enhancing income, improve capabilities in terms of human capital improve the coping mechanism against vulnerability in its various features as well as empower the disadvantaged, and the impact can occur at the enterprise, individual household and even community level, much of it being a result of enterprise profitability (Gobezie; 2004).

Increasing women's access to finance through micro and SMEs lending plays an important part of sustainable profit. Pay back rates are high and it helps people move from subsistence loans to enterprise loans and eventually into the formal Banking system. (Sands; 2006) Microfinance is the provision of savings and credit services to

the poor (Graham, 1999). It has grown to become a much favored intervention amongst international development agencies. Microfinance is increasingly recognized as an important vehicle for helping poor people to manage their resources and in some cases at least to move out of poverty (Benelt, 1996 and Lidgerwood, 1999).

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Micro credit views each person as a potential entrepreneur and turns on the tiny economic engines of a rejected portion of a society (Yunus, 1999). The strategy to improve livelihood by providing credit to the poor has a recent generated scholarly interest and enthusiasms (Mosley & Hulme, 1998). The idea of micro finance has existed for hundreds of years. This can be traced back in villages where family members and friends get together in money sharing groups. From region to region, this group developed their own names. In Tanzania they are popularly known as “Upatu or Mchezo”, in West Africa they were known as “tontines” in Bolivia “Pasanaku”,. These work on the premise that of the members of the group contribute to the pool of money, which shifts to a single member that has the most need. This study therefore will help to evaluate the effectiveness of micro financing to the improvement of the quality of life of individuals and the community at large. As SMEs are said to play an important role in the growth of the economy, it is important

also to determine on the other hand the support and push that comes from the financial sources especially the micro finance sector which plays closely to the SME sector in the country.

2.3.3 Challenges Facing Small Business Entrepreneurs

2.23.3.1 Poor Infrastructure

For any business centre to prosper, environment and facilities conducive for operating business need to exist. This is supported by Olomi (2006) who found out that, small businesses face unfriendly and variable administrative impediments to business licensing thus needing a credible, enabling policy environment to enable the informal businesses to formalize. Olomi further argues that this requires a change in attitudes of the bureaucracy toward private sector development. When interviewed, businessmen were able to point out problems of congestion, poor placement of huts and lack of permanent structures in the market, which renders the place a temporary site and insecure for reasonable investment. Small businessmen also complained over inaccessibility from other directions of the market place.

Poor infrastructure hinders positive development in any facet. With the current situation where the market centre is densely congested and hygienically poor, lack storage facilities it is unlikely that potential investment could be expected in this market centre. Access from all corners of the market need to be established and the current outlets need to be improved. With the current situation where the place is disorganized and unmanageable it is difficult to easily establish on the exact number of businessmen operating at a particular time. Establishment of permanent structures

will enable easy management and administration even for taxes and levies authority especially on identification of potential partners.

2.3.3.2 Work Environment

The behaviors and practices of the undertakers to set their business anywhere in the market place makes entrepreneurship and small business are much worrying to public health. Food vending is conducted in very poor hygienically. Toilets are not enough to accommodate businessmen and buyers comfortably, garbage are scattered everywhere which makes the place stink especially during the rains. In the places visited the small business merchandizes were everywhere along the road sidewalk, at bus stop, waiting stalls and at major road junctions.

As part of this research specific objective, the researcher wanted to get insights from entrepreneurs and small business undertakers themselves of their most preferred areas to conduct their business and reason(s). Many of the small traders interviewed (49%) indicated that they preferred to conduct business along the major roadsides because customers will be able to reach them first instead of wondering around in a populated number of vendor's merchandizing similar products. (36%) complained of the inadequate spaces to station their merchandize at formal places and 15% had nothing to comment. This is also supported by finding by Mfaume (2006).

It is expected that education plays a very important role in shaping individuals' ways and practices of living, currently customers do not trust small businessmen especially roadside vendors because of the environment, behaviors and the way they attend and

treat their customers. Business education need to be extended to this group to enable it practice in a way that will attract not only the local people but also foreigners who may want to be serviced by this group. The group needs to be educated on the best business practices that may be used by outsiders as a model for others to learn.

2.3.3.3 The Legal and Regulatory Frameworks

Majority of small business entrepreneurs have low levels of education. This problem makes the interpretation of even basic regulations difficult. As shown on the interview results, businessmen interviewed complained of unfriendly operating environment for licensing and registration of their businesses high taxes and levies imposed by market authorities in daily operations. In fact no any government which can manage its activity without any formal regulation that sets the rules of operation.

Findings from a study done by UNESCO (2004) showed that Tanzania is now re-aligning regulatory environment around the needs of SMEs. The government is currently indulging in encouraging foreigners to invest in various sector of the economy. This goes with among other things setting environment attractive to foreign investor which including tax holidays and exemption of some taxes for goods imported for facilitation of investments.

The plight of small businessmen is for the government to apply the same effort to uplift the indigenous population which will include among many things to improve legal and regulatory framework so as to create an enabling business environment in which SMEs operate. Most SMEs fail due to the reason that the legal framework supporting SMEs is uncoordinated. SMEs sighted an example that getting business

license to most small businessmen is a cumbersome process. Apart from long registration process, there are a number of fees and taxes that are charged by both the central and local governments. This has been a burden to most of the SMEs surveyed in this study and most of them are asking for the government's intervention in the situation.

Lack of business skills and education among the majority of this group makes the operating environment even more complex. Some of businessmen do businesses in hide-outs evading payment of basic levies which could be used to improve the working environment. Business education should be extended to this group because some of the requirements for example business registration are very essential for any institution which may wish to extend loan or advance facility.

2.3.3.4 Issue of Gender and Women Participation

In Tanzania, while at least one-third of Medium Scale Enterprises (MSE) operators are thought to be women (URT, 1995), it could be expected that a relatively large number of small business traders would be women. While women are active in MSEs, they face particular problems and challenges in developing their businesses thus affecting their performance. Traditionally women are left behind in terms of education in Tanzania. Data from (MoEVT, 2007) indicates that in 2006, out of total number of 47,459 primary school leavers (49%) in Dar Es Salaam region, 23,845 (51%) were males and 23,614 females constitutes (49%). For those who passed to join secondary education, data shows that 18,691(55%) were male and 15,084 (45%) were female. Since primary school leavers form the base for which secondary and

higher education students come from, it is therefore likely that males are more privileged than females in acquiring education. This is a traditional which starts from most of the traditional African families. It is therefore likely to find few women in activities normally dominated by males. In addition to those problems faced by all small-scale entrepreneurs, women frequently face gender bias in the socio-economic environment in which they operate. Apart from added burden of family and domestic responsibilities which have detrimental or limiting impact to their business they face additional or at least different social and cultural challenges than their male counterparts (Mayoux 2001). They are very vulnerable to insecurity cases than men counterparts in the working environment especially on cases where they need to work up early mornings searching for merchandizes or leave their working places late evenings.

Traditions and social barriers faced by females make it difficult to operate and guarantee a positive development in small businesses. For these reason women are found in very small businesses such as food vending, sewing and merchandizing home utensils whose performance cannot have a noticeable impact in terms of economic development.

In Tanzania, “the cultural environment of Tanzania makes it more difficult for women to start and run enterprises due to the expectations and demands of their traditional reproductive roles” (UDEEC, 2002, p. xiv). According to UDEEC (2002), negative attitudes and beliefs about women’s traditional roles have some significant impacts on performance of small scale businesswomen entrepreneurs such as:

- not being able to access appropriate resources;

- being regarded as minors, which limits their ability to own assets, enter into legal contracts and build collateral;
- being physically limited in where and how they can operate their businesses, and;
- being especially vulnerable to harassment from male officials and businessmen.

Such attitudes also discourage and deter many women from even considering entering competitive businesses and do not encourage them to actively pursue such an option. Indeed, self-censorship and self-restraint by women, because of anticipated societal and institutional obstacles, contribute to perpetuate and reinforce discriminatory practices against women entrepreneurs.

2.3.3.5 Demeaning and Demolition of Business Premises

Petty traders in this country have been frustrated most prominently through demeaning as well as frequent demolitions of their trading premises. Lack of permanent business premises makes their activity little respected and reliable. Frequent demolition always trigger street battles between vendors and the law enforcing organs and normally results into destruction and loss of property. Petty traders complained of not adequately listened whenever they address their problems. The demeaning and frequent demolitions have negatively affected the performance of many of the small business enterprises.

It is important noting that the state has organs and authorities entrusted to enforce law and order. Even if there could be good reasons and justification for acting and sometime harassing the small traders, but balancing of interest is very important

whenever exercises take place. Paradoxically, there are several alternative ways such as fostering discourse platform between small traders and concerned authorities for the purpose of improving the situation. If this is done with the trust and some restraints the intended goal of making the micro sector's performance impacts specific and link with macro sector on poverty reduction will be achieved

2.4 Empirical Literature Review

In this section, we provide a summary of the information and theories currently available concerning the impact of microfinance loan in relationship with alleviation of poverty.

2.4.1 General Empirical Reviews in World

Several empirical studies have been conducted to ascertain the impact of microfinance on poverty alleviation worldwide. However, no consensus has emerged on the impact of microfinance on poverty reduction. Some studies found that micro credit positively impacted poverty (Goldberg 2005, Khander 2003); while some others reported no positive effect (Mayoux 2001, Duong and Izumida, 2002, Hulme and Mosley 1996). The study by Alemu (2006) reported positive impact of microfinance on the poor in five different zones of the Amhara region. In particular, the results reported that microfinance helped the poor to smooth their income in the study area. All the same, the study reported cases of loan diversion. Some clients were found to have used their loans for unintended purposes.

The study by Rajendran and Raya (2010) for India showed that microfinance had positive impact on poverty reduction, women empowerment and environmental sustainability. Imai, et al. (2010) reported similar findings as Rajendran and Raya's for India. Littlefield et al. (2003) found that micro finance allowed poor people to protect, diversify and increase their sources of income, the essential path out of poverty and hunger.

One of the major development problems facing the world today is growing phenomena of poverty. It estimated that over 1.3 billion people live on less than one dollar per day and 1 billion of people cannot meet basic requirement (Peralta 2000). A research made by Khandler (1998) on the impact of microfinance in poverty alleviation in Bangladesh, revealed that there had been an increase in household incomes, which were a direct result of microfinance programs. However, in another study using Khandler's data Murdoch (1998) found that the income effect was due to miss-targeting of microfinance program and the increase in incomes was due to those already above the poverty line who had managed to access the program.

2.4.2 Empirical Review in African Countries

Studies on the effectiveness of micro financing to SMEs in improving the quality of life in 315 million people (one in every two people) in sub Saharan African survey on less than one dollar per day and 184 million people (33% of the African population) suffer from malnutrition (UNDP, 2002) . Harris (2002) demonstrated that among the poor, those participating in microfinance programs who had access to financial services were able to improve their well being both at the individual and

household level much more than those who did not have access to. Barnes et al (2001) in their study in Uganda proved that the participation in MFIs programs led to improvement in economic welfare of households' enterprise growth or stability and greater empowerment of clients.

Some studies explain poverty as a complex problem which facing majority of the African family. Tackling it effectively requires a multi-faceted and coherent approach. Numerous policy domains and sectoral programmes have to be integrated around this goal. These range from a favourable and stable macro-economic framework, to education, health, infrastructure, development of enterprises and of key sectors of the economy. Access to employment and income generation opportunities, especially for low- and middle-income households is the link between economic growth and broad-based poverty reduction. Understanding how to alleviate poverty is a central concern of development economies.

Bruno, Squire and Ravallion (1995) indicated that there are ample evidences that policies designed to foster economic growth significantly reduce poverty, but that policies aimed specifically at alleviating poverty are also important. For example, programs that provide credit and build human capital try to eliminate the causes of poverty. Such program can have a short-run or long- run perspective. One such programme was the introduction of microfinance. Study by Asemelash (2003) for Ethiopia showed that microfinance had positive impact on the poor. Specifically, the results showed that microfinance led to increased income for the poor. Besides, it helped to increase poor people access to better schools and medical facilities.

2.4.3 Empirical Review in Tanzania

In Tanzania, the situation is worse, as 50% of Tanzanians are considered to be basically poor with approximately one third of people living in object poverty (URT, 2000). according to the household budget survey (HBS) of 2000/01 the proportion of the population below the national food poverty line is 18.9% and that below the national basic needs poverty line is 35.7% (URT, 2003).

At household level in the rural areas it is often difficult to separate financial needs of enterprise/business household activities from other financial needs of individual households. This presents itself as a challenge for financial services providers to formulate appropriate instruments which can address both enterprise and individual household needs such as school fees and costs associated with health care. If these are not catered for then even the performance of enterprise activities can be affected. For instance, diversion of resources to others basic needs can reduce resources available for enterprises development thus disrupting their performance (Wangwe, 2004).

Experience has shown that availability of financing, even small amounts has a very positive impact on the family economic condition as it helps to unlock productive potential. Micro finance facilities can provide a range of financial services including credit, savings and insurance to poor enterprises and households, offers the potential for growth and helps safeguard poor household against extreme vulnerability. Loans saving and insurance help even out income fluctuations and maintain consumption levels during lean period. Evidence from enterprises financed by micro finance demonstrates that access to financial services enables poor people to increase their

incomes, build assets, and reduce vulnerability. It also translates to better nutrition and improves health outcomes (Wangwe, 2004). Microfinance enable the poor to smoothen their consumption, manage their risk better, build their assets gradually, develop their income earning capacity and enjoy an improved quality of life (Kessy & Urio,2006).

SMEs all over the world are known to play a major role in social economic development. In fact the only way to reduce poverty in a sustainable way is to promote economic growth, through wealth and employment creation. In developing countries, SMEs are the major source of income, a breeding ground for entrepreneurs and a provider of employment. This is apparently also the case of Tanzania, where SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas. In fact it is estimated that about a third of the GDP originates from the SME sector (Nfuka, 2005). The SME sector makes a tremendous contribution to the economy. Such contributions have multiple facets and dimensions SMEs generate new jobs in the economic and thus contribute positively to employment generation and poverty reduction (Ghosh, 2005).

The consultation processes and analyses of the poverty profile in the country broadly define factors causing and exacerbating poverty in Tanzania as unequal distribution of resources, income and opportunities .subsequently, the National strategy for growth and reduction of poverty aims at addressing three major clusters of poverty reduction outcomes; growth and reduction of income poverty, improvement of quality of life and social well-being and good governance. These

clusters are interrelated and are set to support each other but the underlying force for poverty reduction is high economic growth. Economic growth is the aggregate result of the efforts of all individuals and groups to use resources at hand productively with a view to increase their welfare.

It is not growth as such which reduces poverty but rather individuals including the poor, who create growth and improve their own well being and after they are empowered (Kwayu, 2006). In Tanzania, PRIDE Tanzania is among MFIs which adopted the Grameen Bank model of lending, a study made by Kisonga (2004) on the role of microfinance in poverty reduction in Dar es salaam indicated that the majority of the respondents spent the income generated from SMEs (supported by MFIs) in improving their quality of life using indicators such as paying for school fees, paying for health services purchase of food and increased number of assets owned by them. Also the study by Kessy and Urrio (2006) covering Dar es Salaam, Zanzibar, Arusha and Mwanza showed that MFIs changed the life of poor people in a positive way. SMEs increased their income, increased the capital invested and therefore expanded.

2.5 Research Gap

We have seen how various studies have been done and how various people and government look at the SME sector as being machinery for people to bail themselves out of poverty and low quality of life. We have also seen some problems facing this sector on accessing loan capital from financial institutions and various strategies and policies taken by the government to ensure that the sector flourishes for the benefits

of its citizen. This review acted as a basis upon which research project in the area was designed. It was aimed at answering the questions about the impact of loan given to SMEs on changing the livelihood of small borrowers in Rungwe district in Mbeya region. Tanzania having liberalized the financial sector and introduced the microfinance sector in operation so as to have an avenue for small and medium entrepreneurs to access loans for capital, here is a need now to assess if really the loans are effective and helpful in changing the lives of the people within the SMEs sector. Despite the major contribution of this sector towards economic development, it is evident from the review that much less is known about the impact of microfinance institutions loan in alleviation of poverty to small borrowers in rural areas in Tanzania. This is the research gap that attempted to be covered under this study.

2.6 Conceptual Framework

Figure 2.1 elaborates further this relationship between poverty and access to financial services. The figure shows that access to financial services increases the levels of incomes, expands households' assets base and improves food security.

What is the relationship between Poverty and Financial Services?

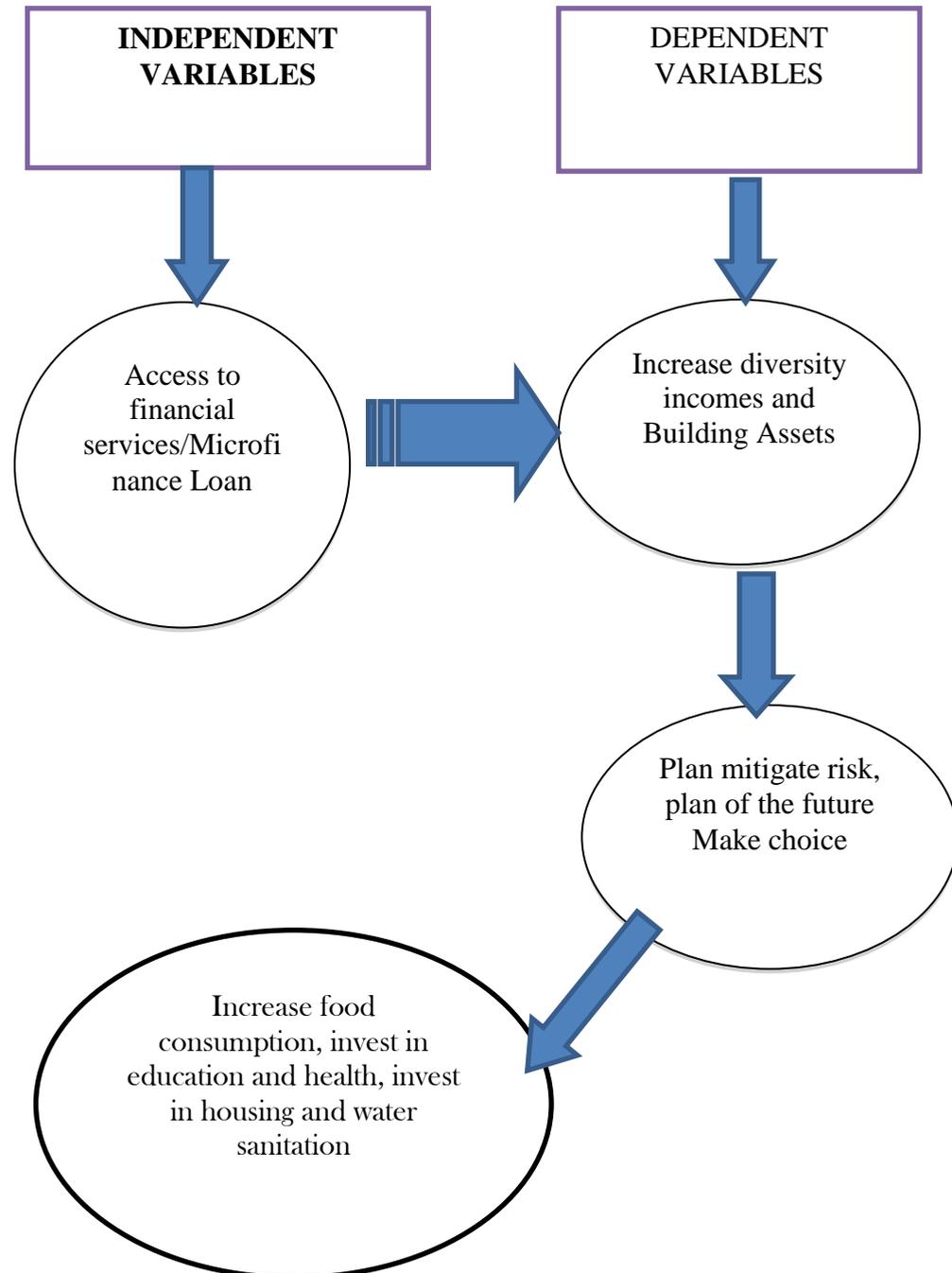


Figure 2.1: The Relation between Poverty and Access to Finance Services

2.7 Theoretical Frame Work

According to Zeller, et. al. al. (1997) Quoted in Meyer (2001:3-4) access to financial services can bring impact on food security in three ways. First, through an improved

income generating method as loans provides relief in the short run. Secondly, a household's access to finance reduces the costs of self-insurance and hence induces changes in the household's asset base and level of liabilities. Consequently, "precautionary savings" in the form of non-productive assets, which are held to cushion adverse shocks such as illness, and bad weather, is made available for productive investments. Thirdly, credit enhances consumption. According to Meyer (2001:4): Formal credit, savings and insurance services may help households' smooth consumption so they use fewer traditional methods, which are often inefficient and bind households into unproductive social relationships that discourage savings and wealth accumulation

CHAPTER THREE

3.0 RESEACH METHODOLOGY

3.1 Introduction

This chapter presents the methodologies which were used by researcher in collecting data from various sources. It describes the study area, sample size and sampling procedure. Further it describes research instruments, data collection techniques, data analysis and interpretation, reliability and validity of the research instruments.

3.2 Research Design

The research was executed in three stages. In the first stage a study was undertaken to pre-test the questionnaires. This was followed by a survey and in the third stage case study was undertaken. The study used quantitative data. Primary and secondary sources of data were also used in this study. For primary data generation respondents were drawn from both PRIDE microfinance and PRIDE microfinance customers. The respondents comprised (PRIDE) MFIs' offices and other stakeholders who in one form or another are involved with microfinance and poverty reduction. The information gathered from PRIDE (MFIs') include distribution of clients in Rungwe district, lending mechanisms, type of clients and financial product offered. From the side of the clients the questions were based on ease of accessing loans and changes to their welfare as result of MFIs' loan.

3.3 The Area of Study

The study was conducted in Rungwe district with aim of comparing socio-economic status of the groups of small business owner's in rural area. The study was conducted

in market areas at Kiwila, Makandana, Sokomjinga, Katumba and Tukuyu Market in Rungwe district. The selection of Kiwila market, Makandana market, Sokomjinga market, Katumba market and Tukuyu market was based on the accessibility of small business enterprises. Also these areas seem to be nuclear centres where people with small income earning are found.

3.4 Population of the Study

The population of the study included borrowers of micro credit from Tukuyu PRIDE branch, credit officers from PRIDE and business council officers at Rungwe district.

3.5 Sample Size

The sample of 80 respondents who were involved in this study was drawn from large population of borrowers of micro credit from PRIDE in Rungwe district and credit officer from PRIDE. A total of 76 SME's, 3 PRIDE officers and 1 District Business council officer took part in this study. The target sample in this study was PRIDE microcredit borrowers who took loans from PRIDE microfinance institution for the purpose of running their business.

3.6 Sample Procedure

Kothari (2006) Define Sampling as collection of some parts of population on the basis which judgments is made. In this study Random selection was employed for selecting SMEs who have taken loans from the institutions and are still active borrowers, also who have had taken the loans but have ceased to be active borrowers. These were expected to give their views on how they used the loans and the impact

experienced with their loans as far as lifestyle and employment are concerned. Purposeful selection was employed to get PRIDE officers and district business council officer respectively. These gave information concerned the SMEs owners who are systematic in loaning and who are not systematic in loaning from the institution its consequence in financial implication.

3.7 Data Collection Methods

In this study, both primary and secondary data were used. According to Ivy (2002), primary data is data which collected for a specific research purpose. In this case primary data was collected using self administered open and closed ended questionnaires. The collected data includes socio-economic characteristics of borrowers, business growth information, live hood status, uses of fund borrowed from PRIDE, sources of income, factors affecting business growth, business management skills of the borrower and other related information. The second data was sought from the available literature. Different textbooks, journals, magazines and Internet from different sources were used. The data collected includes microfinance, small and medium enterprise and poverty.

3.8 Data Collection Tools

Questionnaire and Interview guide were use to collect data from the field.

3.8.1 Questionnaire

A questionnaire is a self report data collection instrument that each research participants fills out as a part of research study (Johnson and Christensen, 2004). In

this research, Questionnaires were used in collection of information to PRIDE loaners who deals in running small business. The employed of this instrument was based on capacity of collecting a lot of information within a relatively short time. It was expected that the standardized questionnaires would provide comprehensive answers. Open ended and closed questionnaires were used aiming at obtaining views from respondents in order to elicit specific information needed.

3.8.2 Interviews Guide

This method was employed both for PRIDE managers and some of SMEs owners (entrepreneurs) who could not have enough time to concentrate on writing and reading due to their nature of his/her activities.

3.9 Reliability and Validity of the Tools

Pre-testing of questionnaire was done before collecting data to clear out ambiguity on questionnaire that had been set.

3.9.1 Data Validity

Validity refers to the extent to which a test measures what was actually intended to be measured (Kothari, 1990: Sanchers et al 2000) in measuring the content validity same of questionnaires were given to selected senior staff including the branch managers before distributed to the respondents to judge how well the instrument met the standard. The selected group gave insight on the Questions that were asked and Questionnaires were modified and then distributed to respondents.

3.9.2 Data Reliability

(Mwaipopo, 2007) state that researches study is said to be reliable if the same results will be obtained when the study is repeated using same instruments and approach. Validity is the property of research study or instrument being able to measure what it claims to measure. Data reliability is concerned with the estimated of degree to which a measurement is free of random of error. It refers to the relative level of consistency, stability dependability and accuracy. It contributor to validity and is necessary but not sufficient for validity. A measure is considered reliable if it would give the same results over and over again (assuming what is being measured is not changing) Despite the use of various test for reliability such as split half, Cron banch's coefficient alpha (Saunders et al, 2000). For this study the SPSS computer program was used to assess the liability using Cronbach's coefficient alpha.

Table 3.1 Reliability Analysis

Construct	No. of cases	Alpha
General Performance Improvement	55	0.66
Reduce Level of Poverty	51	0.60

The values for Cron banch's coefficient alpha is 0.63 which indicate that Instrument used in the study were reliable.

3.10 Data Analysis and Interpretation

The data collected from the field through various data collection instruments such as questionnaires and interviews was subjected to content analysis. In this research the data from the questionnaires were tallied and quantified. The computer software (Statistical Package on Social Studies - SPSS) was used for analyzing questionnaires through tables and percentages.

In order to interpret the information collected from the study comprehensibly, an SPSS coding guide was also developed. The SPSS coding guide enabled the use of information in constructing tables and graphs in the analysis section. The entire analysis and a thorough examination of all details of the findings then enabled the drawing of the conclusion of the study.

CHAPTER FOUR

4.0 DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents and discussed the results from the findings. The key issue discussed in this chapter includes the households' characteristics, information about livelihood status and livelihood improvement across different uses of funds.

4.2 The Analysis

4.2.1 Characteristics of PRIDE Customers focusing on Gender, Age, Education Level and Family Members

The analysis of data that led to the finding which are in this report has been done by the help of SPSS data analysis software. All tables and figures are automatically generated from the software according to responses obtained. The customers of PRIDE Tanzania interviewed in this study provide the pictures of the trend and fact of the people who are in the SME sector in Tanzania. The customers of PRIDE Tanzania in total are grouped by gender as 65% being female and 35% being male (this is a countrywide data as given by PRIDE Tanzania).

From this study 70% were females and 30% were males. This indicates that females are engaging themselves in entrepreneurial activities especially small and medium businesses than men. When interviewed they said that women are the ones who are left with the responsibilities of taking care of their families while men take little care, so automatically women find themselves being forced to do small business to

supplement income for family needs. Some women who are not married are using this as the sole source of their income to run their families. All family needs are obtained from their small businesses and to sustain them, they have to look for loans from micro finance institutions. (See table 4.2).

Table 4.2: Gender of Interviewees

Gender	Frequency	Percent	Valid percent	Cumulative percent
Female	56	70.0	70.0	70.0
Male	24	30.0	30.0	100.0
Total	80	100.0	100.0	

Source: Field Data

The age categories of the respondents have shown that those who are engaging themselves in the SMEs sector are mainly those with family responsibilities. The study tried to interview people from the age of 20 years which is above 18 years as a condition set by PRIDE Tanzania. The requirement follows compliance to the law of contract which emphasizes entering into contract with a majority age and not a minor. As the study shows, the most active group is between age 31 and 50 that constitute 76% of the total, with age 31- 40 having the highest concentration followed by age between 41 to 50. Between 18 and 30 years are not many only 10% as per our study due to the fact that most of them are still in schools being dependants to their parents. Above age 50 are also few (14%) due to the reason that majority of them are less active as a result of age advancement and most of them start to be dependants after inherent their business to family members. (Figure 4.2 below).

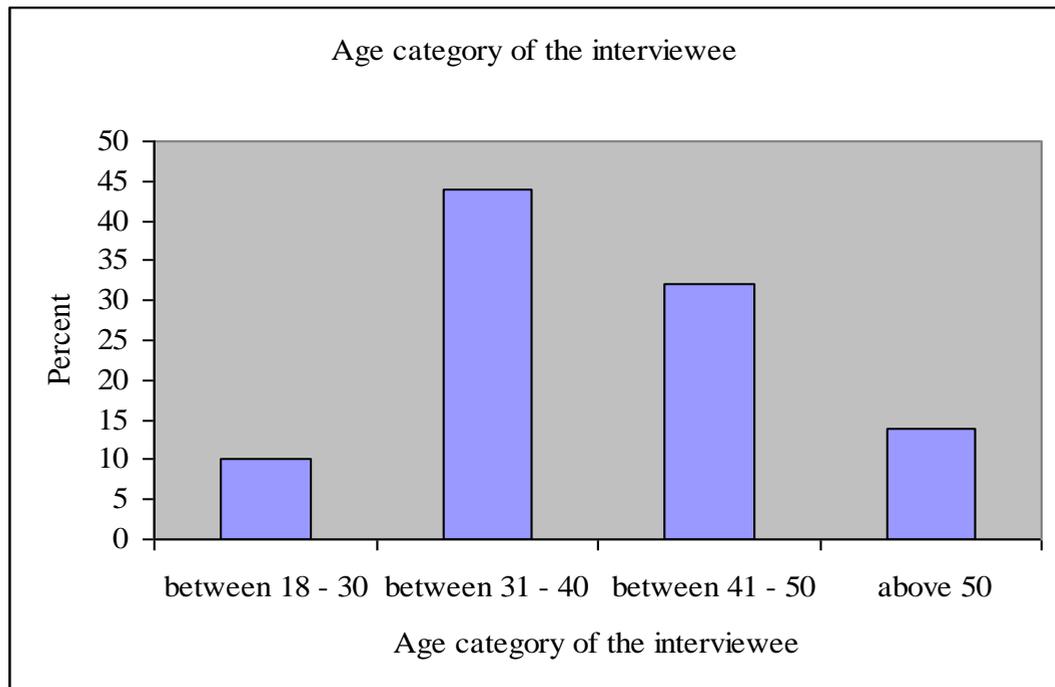


Figure 4.2: Age Category of Interviewees

Source: Field Work Data

Results from the study indicate that most of the beneficiaries their level of education is primary education which is basic in Tanzania context. These are the ones engaged themselves in small businesses because they don't have enough knowledge which allowed them to be employed in other field as a professional. The study showed that 60% of the interviewed clients have primary education. Those with secondary education that is between form one to form six constitutes 34% of the population. Those who attended college education are 6% of the population while there was none who attended no school. Majority of those with higher level of education more than secondary level they have formal employment and they engage in small business as a secondary employment that's why they occupy only 6% of total business entrepreneurs interviewed. (See table 4.3 below.)

Table 4.3: Education Levels of Interviewees

	Frequency	Percent (%)	Valid percent (%)	Cumulative percent (%)
Attended no class	0	0	0	0
Primary education	48	60	60	60
Secondary education	27	34	34	94
College education	5	6	6	100
Total	80	100.00	100.0	

Source: Field Data

Family obligations and family size have been some of the responsibilities born by many people. In the African context which prevails much in Tanzania, some families have been taking care of many family members under the umbrella of extended families. This is not exclusion with SME owners and borrowers from microfinance institutions. In fact they have been bearing a big responsibility and they have to support themselves through their SMEs. The study has found that 10% of the SMEs practitioners take care of families with 1 to 2 people, 30% take care of families with 3 to 4 people and 60% run a family with more than 4 family members. These statistics shows how SME owners play a big role in supporting the livelihood of their family members, other people and the nation at large. Refer to table 4.4 below.

Table 4.4: Number of Family Member

Dependants	Frequency	Percent (%)	Valid percent (%)	Cumulative percent (%)
Between 1-2 people	8	10.0	10.0	10.0
Between 3-4 people	24	30.0	30.0	30.0
People above 4	48	60.0	60.0	100.0
Total	80	100.00	100.0	

Source: Field Data

4.2.2 Customer's Valuation of Services and Benefits

Customers served by Micro Finance PRIDE Tanzania have different views on how they value the service they get from the institutions either poor, good or excellent. In the sample of 80 interviewees 51% saying the services are good and 45% saying the services are excellent. Those who said the services are poor are only 4%. Those who enjoyed the service gave the following reasons that fall under the 7 Ps of marketing evaluation.

- **Process:** they do get quick services from PRIDE employees such that they don't waste much time in the office. There are no long forms to be filled when you apply for the loan and the forms are in a language that is easy to understand (Swahili and English).
- **People:** they say the employees are friendly, supportive, fast and knowledgeable. They also have high integrity in doing their work.
- **Products:** the range of products offered is convenient to everyone and are good for their business. They enjoyed the insurance cover on the issued loans in case of death, accidents and natural calamities.
- **Price:** the price (interest rate and fees) are reasonable and affordable.
- **Place:** the offices are easily accessible. (Refer to Table 4.5)

Table 4.5: Customer's Valuation of Services and Benefits

	Frequency	Percent	Valid percent	Cumulative percent
Excellent	36	45.0	45.0	45.0
Good	41	51.0	51.0	96.0
Poor	3	4.0	4.0	100.0
Total	80	100.0	100.0	

Source: Field Data

With regard to whether they have benefited or not, they had the following responses. Majority of the respondents admitted to have benefited from the loans they get for their businesses. Out of 80 respondents 98% agreed that the loan and services received from Micro Finance Institutions benefits them, their families and other third part while only 2% said that they have not benefited. The kind of benefits that they have recorded from running their SMEs will be discussed later in this chapter. Those who have not benefited with the loans and services provided to them claimed that they have to repay the loans of their fellow borrowers who run away after getting loans. According to the group guarantee system used in group loans, whereby the borrower is guaranteed by his fellow group member and have to repay for him in case he/she abscond. These people had to bear the responsibility and failed to fund their SMEs effectively. (figure 4.3 below illustrate the results)

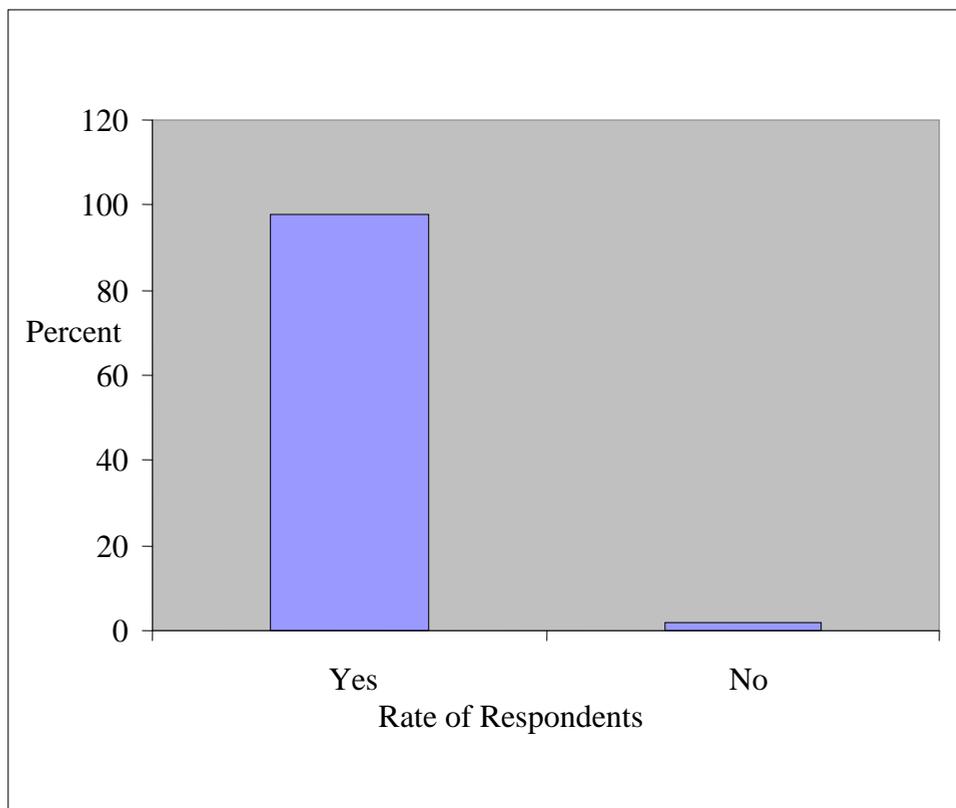


Figure 4.3: Percentage of Loan Service Benefited Customers

Source: Field Data

After discussing the several issues on this study the next sections focus on the findings of the specific objectives, this includes Analyzing life style of PRIDE customers how changed as the consequence of the loan they obtains and second to determine whether SME's have sufficiently created employment to the general public.

4.2.3 Life Improvements and Type of Benefits Realized

Through SMEs and loans they got from the Micro Finance Institution the beneficiaries have recorded some benefits which improved the quality of their life. The positive life change cannot be solely attached to the individuals but it has also can be counted as an achievement to the entire economy. This is where we can measure and see the positive impacts that SME's have to the economy of the country as a whole.

A few areas/items which are basic components of life were tested to see if the respondents have managed to achieve positively on those selected items. The selected items are such as being able to pay school fees for children, able to build a house, house renovation, meeting daily family expenses, meeting medical expenses, buying clothes for family, buying cars, buying land, buying furniture and winning social recognition. The research has found some significant changes that have been noticed and realized by the respondents. A large number of respondents have indicated that through their SMEs they are able to pay for the school fees of their children. The result shows that 74% can pay school fees on time for their children from their earning. The remaining 26% some of them they don't have children, others they have

small kids and others their children have already grown up and graduate from school.

See table 4.6

Table 4.6: School fees for Children

		Frequency	Percent %	Valid %	Cumulative percent
Valid	Yes	59	74.0	74.0	74.0
	No	21	26.0	26.0	100.0
Total		80	100.0	100.0	

Source: Field Data

4.2.4 Daily Expenses

One of the most important aspects of life is to meet the daily basic family expenses. These expenses are such as food, water, energy (charcoal or electricity), shelter etc. The study has shown that those who running SMEs can be able to meet the daily requirements easily from the earnings they generate from their business (SME's).

Among the respondents, 91% declare that they are able to meet their family needs and individual expenses while 9% expressed that they can't meet all basic expenses. The big reason explained is their businesses are still young and some of them have big number of dependants. See table 4.7 below results.

Table 4.7: Daily Expenses of Respondents

	Frequency	Percent	Valid percent	Cumulative percent
Yes	73	91	91	93
No	7	9	9	100
Total	80	100	100	

Source: Field Data

4.2.5 Meet Medical Expenses

The issue of health is one of our targeted questions because majority of people complained that they can't afford to meet the medical expenses which result to poor

production and slowdown the economic growth. Poor health and death can be a result of being unable to access health services due to lack of cash. Services can be available to different hospitals but if someone does not have money for the services, it can lead to deterioration of his health and consequently death. SMEs have helped different people to get money for medical expenses and ensure good health to their families thus improving their standard of living. This evidence obtained from the respondents interviewed, 86% said that they can afford to meet medical expenses easily for their families and themselves. This is a very good indicator of how SMEs can help to improve the quality of life of the people. (See table 4.7 below)

Table 8: Medical Expenses

	Frequency	percent	Valid percent	Cumulative percent
Yes	69	86.0	86.0	86.0
No	11	14.0	14.0	100.0
Total	80	100.0	100.0	

Source: Field Data

4.2.6 Buy quality furniture

Another area that we tried to observe as it considered an important in a daily life of human being is the question of having good household equipment and furniture. By this aspect the study aimed at looking the modern furniture like Sofa sets, coaches, cupboards, dining tables and beds. The traditional type of furniture that majority of people are used before establish their own small and medium business are wooden furniture with low quality. The change from the traditional used furniture to modern

ones which have high quality, attractive, last longer with minor repair and comfortable would mean improvement in the quality of life to the people involved.

In this study we found that 57% of the beneficiaries managed to switch from buying the traditional furniture to modern ones by using the income which they generate from their SMEs. The remaining 43% have not afforded to buy the modern furniture because other big responsibilities they have and their business are still on growing process. (figure 4.4 illustrate the results)



Figure 4.4: Buy Quality Furniture

Source: Field Data

4.2.7 House Construction, Renovation and Land Ownership

Better life can be measured on different properties that people owned. Good houses which last longer and accommodate the whole family are needed by the people to live in and enjoy life. The families can be happy and enjoy life when they are free to get good accommodation for them to survive. People failed to construct good houses to use with their family members because they don't have enough saving of money.

Through very well managed SMEs some people got an opportunity to generate more income and increase their saving capacity for construction of modern house and ensure good life. Among those interviewed, 29% of the respondent they afford to construct new modern houses and 39% they renovated their houses from the income they generate from their small and business to suit the modern life standard. On that result it shows that the total of 68% (29%+39%) of 80 respondents managed to improve their house either by renovation or construct new. This is a good achievement to people involved and to the nation as well because good house although it provide good accommodation but also it ensure the good health to people which result the increase production for family survive and economic growth. The table 4.9 and 4.10 below illustrate these achievements.

Table 4.9: Build or Renovate the House

	Frequency	Percent	Valid percent	Cumulative percent
Build a House	23	29.0	29.0	29.0
Renovate	31	39.0	39.0	68.0
None	26	32.0	32.0	100.0
Total	80	100.0	100.0	

Source: Field Data

As for land ownership, those who said that they have managed to buy a plot of land constitute 34% of the respondents while 66% have not managed to acquire land but they can rent for agriculture purpose. Land here meant any piece of land for cultivation different crops or for building.

Table 4.10: Invest on Land

	Frequency	Percent	Valid percent	Cumulative percent
Yes	27	34.0	34.0	34.0
No	53	66.0	66.0	100.0
Total	80	100.0	100.0	

Source: Field Work Data

The benefits achieved by the people through their SMEs are remarkable and need to be appreciated. The result indicated that the SME sector plays a big role in changing livelihood of the people. The few aspects that have been evaluated give a positive result and it encouraging the other people to engage in this sector. Let us have a look briefly at the employment aspect as one of the advantages drawn from SMEs.

4.2.8 Employment Creation through SMEs

Lack of employment has been a long term problem in our country. The proportion of people who get formal employment is very small as compared to those who are not employed. (Figure 4.5 below illustrate the finding)

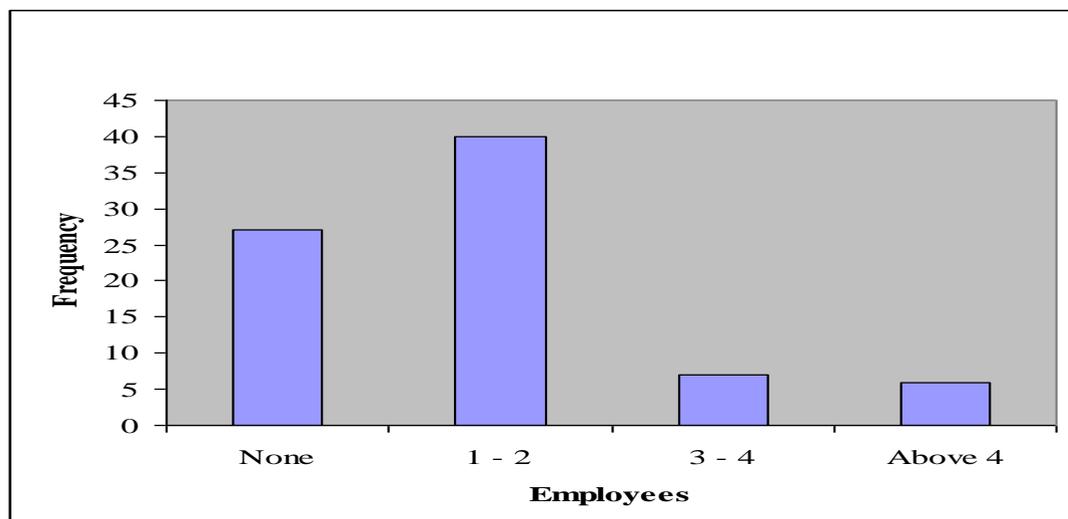


Figure 4.5: Current Employees in Business

Source: Field Data

The study shows that SME have created some employment to other people through not much but it is encouraging. The study shows that 66% of SMEs have managed to employ other people to help them in doing the business and the remaining 34% are running without employing other people. This is very good achievement in the economy and if well nurtured this sector can rescue the situation of high amount of unemployment in the country. The government therefore has a big task to ensure that this sector is growing and become one of the big employers of the unemployed.

4.2.9 Overcoming the Problem of Collateral

During the face to face interview 20 respondents were interviewed, 18 of them which form 90% of the population sample complained of stiff conditions to acquire advance facilities which requires collateral as such they were forced to form groups of not less than five people so as to succeed. This group had no personal assets to offer as guarantee or collateral for loan consideration. Two (2) respondents which form 10% of the population sample had no problems with collaterals. These were of the opinion that although they had little capital requirement they had assets such as houses and plots with title deeds which they surrendered for loan consideration.

4.2.10 Building the Savings Culture

According to terms and conditions of PRIDE TZ loan delivery, once a clients is registered as member , he/ she has to pay weekly saving until he/she quit the programme. When client decided to quit the programme all the accumulated savings are refunded. As for this study conducted in Rungwe District, PRIDE TZ requires clients to pay TSh. 1,500/- each week as compulsory savings. These compulsory savings are for loan insurance fund.

It is important to note that this compulsory savings builds the tendency for saving among poor people such as owners of MSEs. Likewise even those who remain as clients to PRIDE Tz benefit from this procedure because the savings help them expand their future working capital even if they quite the programme.

4.2.11 Income Increment and Business Expansion

All clients consulted declared that loans they have increased their income in many different ways. Though working capital loans advanced by PRIDE Tz, they were able to invest in their businesses, make profit and expand/open new businesses.

Generally, production has increased and clients stated that the loans have assisted them in increasing production which in turn increased their income and led to the expansion of businesses.

4.2.12 Discussion of Findings

The findings from this study show the effectiveness of loans from microfinance institutions given to small and medium entrepreneurs in changing the livelihood of the beneficiaries. Individuals who got loans and invest in SMEs have improved their life style significantly by being able to build or renovate houses, buying land, buying modern households, afford to pay school fees for their children, medical expenses, and winning social recognition.

Moreover the research has found out that there are many factors which together contribute the growth of SMEs. These factors ranges from education and training, family background, individuals personal commitment and discipline in business,

friendly regulatory framework and attractive working environment, sound capital base and experience which is shared and copied from one individual to another.

Despite these positive elements there have been challenges ranging from poor education background, little initial capital bases and interference of family issues in business matters. These elements have greatly affected the smooth running and growth of the small businesses.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusions and recommendations of the study based on the analysis of the research data described. It also provides suggestions for further research in the problem area. The study examined the impact of microfinance loans in alleviation of poverty in rural area to the small borrowers in Rungwe district, specifically Tukuyu market, Soko-mjinga, Katumba, Makandana and Kiwila. The findings could be useful to small scale traders who are currently contributing very much in terms of job creation for many of school leavers who are unable to find out opportunities for secondary and higher learning. Five market centers were selected for the study: Tukuyu ,Soko-mjinga,Makandana Katumba and Kiwila. Five categories of businesses conducted in those markets place were noticed. Common businesses were sale of second hand clothes, carpentry, home/kitchen utensils, and food vending and general merchandisers. Businessmen operate in under the umbrella of groups dealing with identical goods though they operate individually.

5.2 Summary of the Main Findings

The overall objective of this study was to assess the effectiveness of loans from microfinance institutions given to small and medium entrepreneurs in changing the livelihood of their beneficiaries. More specifically, the study intended to investigate if there have been any improvements in the quality of life to small and medium scale

entrepreneurs resulting from their businesses after being empowered by microfinance institutions through loan capital.

The study came up with the following other major findings in accordance with the study's research questions. Research has found out that there are many factors which together contribute the growth of SMEs. These factors ranges from education and training, family background, individuals personal commitment and discipline in business, friendly regulatory framework and attractive working environment, sound capital base, experience which is shared and copied from one individual to another. These factors form a complete set of complements for any sound business to flourish regardless of its size. Education and training widen the knowledge in markets, prices, customer care and behaviors, business opportunities, focus and vision in which a business can be conducted to attain positive performance.

Family background plays a very important role as it stimulates an individual in attaining what her/his predecessors have attained. Some of businessmen come from families that are well successful in business. This is a challenge that needs to be overcome by family members whenever one want to engage in business. Individual's personal commitment and discipline in business is the way a businessman values business and private matters. Without commitment nothing will succeed. Many businesses fail because undertakers do not have commit themselves whole in business and end up in mismanaging business property for matters not related to business. The result of this is loss, total failure and frustration.

A sound capital base determines the extent to which the business can be able to grow or fail. With very small startup capital it is likely that the chances of flourishing and bringing noticeable changes are minimal. A small startup capital hinders opportunities that could be capitalized if sufficient capital was there. Small scale businesses need to have sufficient capital which will propel the turnovers and assist in taking opportunities that could have been forgone for lack of adequate funds. This will definitely hamper the positive performance of small business firm. Businessmen with very sound startup capital are on the advantageous side compared to those with low start-up who normally ends up buying from the middle class small businessmen. The middle class enjoy the ready market from the majority with small capital whom because of low returns on little capital they have invested some finds the goings tough because the little profit they get ends in paying for daily meals and bus fare back home.

Friendly trading environment where taxes and other levies are manageable are stimulant to business growth and encourages voluntary compliance. If taxes are exorbitantly high, people tend to avoid and sometimes evade. With the current practice tax and market authorities set up levies without considering individual's daily income. This is mainly due to unavailability of income data for every individual and difficulty in administering their collection. In this case a flat rate is set for each category of operators depending on the type of business regardless of volume of transactions. Some of small businessmen have worked in the field for quite long and entrust experience as a first class teacher in their daily operations. When interviewed some indicated that they have been in business for more than seven years. Within this

period they have learned a lot not through classroom education (formal training) but through the actual experience on the field.

5.3 Conclusion

In order to deal with the research objectives developed, the study employed four research questions:

1. Have there been any improvements in the standard of living to small and medium scale entrepreneurs as a result of loan capital advanced to them from microfinance institutions?
2. Has there been any employment creation in small and medium sized enterprises resulting from business expansion due to loan capital received from microfinance institutions, PRIDE Tanzania in particular?
3. Is there any relationship between presence of MFIs, small business enterprises and state of social services?
4. How do MFIs advance loans to small business enterprises applicant?

The results from the study show that through SMEs and through loans extended to them by micro finance institutions, the beneficiaries have gained considerable improvements in their quality of life. The research has found some significant changes that have been realized by the respondents such as being able to meet daily needs for their families, being able to incur medical expenses for themselves and their families, being able to build modern houses or renovating their current houses, being able to buy clothes for the family, buying land,, furniture as well as winning social respect as a result of positive economic changes.

On the employment side, SMEs have played a big role as employers to the owners of the enterprises. The owners are getting paid by the SMEs for their livelihood. On the other hand apart from employing the owners as managers, there has been also a spillover effect in employing other people apart from the owners. This indicates that the SMES sector is very crucial in employment creation. It is through this kind of employment that more people can improve and enjoy their livelihood. Other people who do not own micro enterprises can also earn their daily bread by selling their labor force to enterprise owners.

The study has shown that 66% of the SMEs have employed other people apart from the owners. This is a very nice impact to the society and the national economy. This is also an indicator that sector is wealth to be given a high consideration and weight by the government and the society at large. The findings obtained in this report have shown how important the SME sector is and how it plays an important role in improving the life of the people. The contribution of the sector needs to be highly appreciated and people need be encouraged to take part in this sector. The role played by microfinance institutions in providing financial capital to SMEs also needs to be appreciated.

5.4 Recommendations

From the conclusion above, loans from micro finance institutions extended to SMEs have been found to be very effective in improving the quality of life of the beneficiaries. This implies that small and medium scale entrepreneurs who borrow from microfinance institutions have the tendency to make positive steps in

advancement to improving their lives. For that matter, micro financing has to be given high emphasis and the SME sector also has to be highly advocated. The SME sector has been appreciated in many countries as being a major sector of the economy. Its contribution to the GDP of the country and to the life of the individuals and families places it in the highly ranked and recognized sectors. The sector is also a good employers and it helps much in the reduction of unemployment poverty. From those it is recommended that the challenges encountering the SME sector have to be addressed squarely in order to make it a success.

Lack of business skills needs entrepreneurial education from grass-root levels of education. Entrepreneurship education will offer solutions related to formulation of business plans, lack of start-up capital and searching for valuable and relevant business information. It will prepare people, particularly youths to be responsible, enterprising individuals who will become entrepreneurs or entrepreneurial thinkers by immersing them in real life learning experiences where they can take risks, manage the results, and learn from the outcomes. This requires adequate preparation and extensive public education on entrepreneurship for both urban and rural people so that they understand on how to develop and manage small and micro enterprises.

More and purposeful efforts need to be employed to uplift this group from their present situation through tailor-made trainings to reach them in their areas. Possibility of study tours to other places can be arranged so that the experience obtained can be copied and applied in whatever good they will observe. This can be done through organized groups such as SACCOS catering different disciplines of entrepreneurship

ranging from merchandizing to value adding (processing) activities. Organizations such as SIDO should arrange their training programs and facilities to reach this very important group, most of them youths who otherwise will turn into jobless and other unwanted social evil groups. Training should be aimed at exploring opportunities relevant to this group in their respective working environment. Infrastructure in the areas used by petty traders was in very poor conditions needing intervention by the district authority for improvement. District authorities are advised to take immediate measures to remedy the situation otherwise it is a failure on the part of the government of the provision of social services.

Purposeful efforts should be done by government to secure establishment of sort of funds which should be aimed at assisting the petty traders who could not manage to secure funds from formal financial institutions. This could be in the form of guarantees through ward and street levels. The essence of these funds should be to uplift the unprivileged and ordinary petty traders who need small capitals but with limited collaterals needed by financial institutions. From the field evidence revealed relating to the profile of education of people engaging in small business there is less doubt that these people might need some action oriented policy. The policy that will address such key issues constraining the performance and development of small scale businesses sector such as education, regulations, authority dedicating designated customer availability places for their venture, environmental issues, creating safe environment for them to conduct their venture, and issues concerning entrepreneur's personal factors such as business skill, planning and development programs.

5.5 Implications of the Findings

Lewis' (1955) idea indicates a mutual relationship between financial development and economic growth, and Patrick and Green (2002) postulated that when financial markets develop, it resulted to economic growth. These theory revealed from the findings because microfinance in Rungwe district enable small scale entrepreneurs to smoothen their consumption, build their assets gradually, develop their enterprises, enhance their income earning capacity and enjoy an improved quality of life. MFIs have changed the life of SMEs people in a positive way. The findings indicate that microfinance loan having positive impacts on poverty reduction in Rungwe district. This give an implication as saw by Gobezie (2004) who stated that microcredit expand opportunities for enhancing income, improve capabilities in terms of human capital and improving the coping mechanism against vulnerability as well as empowered the disadvantaged individual household and even the community level.

Collateral was also observed as a condition for obtaining large loans from MFIs, with such condition it is only those with immovable assets who can access a large loan clients operating businesses in rented houses will be not able to access large loans for expanding their businesses. Kessy and Urio (2006) concluded that MFIs changed the life of poor people in a positive way. SMEs increased their income, increased the capital invested and therefore expanded their businesses. The result revealed that, most of the clients of MFIs are in the age group of 31-40 years. This is a group that employs large proportion of workers among the surveyed MSE owners. This was observed as he did Ghosh (2005) who indicated thst SMEs generated new jobs in the economic and thus contribute positively to employment generation and poverty

reduction. The respondents of this age group are also observed to be strong in participating in various business and entrepreneurship.

5.6 Limitation of the study

The result from this research covered a small area and small sample of the clients of microfinance in the country. Such sample selection was optionally made due to the use of limited resources in terms of time and money, while ensuring that it was large enough to enable the researcher attains the desired objectives of the study.

5.7 Recommended Areas for Further Study

In this case, the research recommends that a comprehensive research be conducted in other regions in Tanzania and if possible to cover all regions where a good number of small scale entrepreneurs particularly in rural area exist. This will give a broader analysis of the extent to which the presences of SMEs and Micro-credit institution have improved the livelihood of entrepreneurs. This will give a highlight on the current debate on the importance of SME and Micro financial institutions as a tool in overcoming the current global economic and social challenges. A study can also be done to see whether costs of borrowing imposed by financial institutions are reasonable to the borrowers.

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APPENDIX

APPENDIX 1: QUESTIONNAIRE

This questionnaire has been prepared by MBA in finance student at the Open University of Tanzania. This is a research that wants to find out how beneficiaries from loans from PRIDE Tanzania have benefited from services offered by the institution through their SMEs.

You are kindly requested to give correct information in this questionnaire. Your cooperation will be highly valued.

1. Gender (male/female).....
2. Age
 - a. Between 18-30
 - b. Between 31-40
 - c. Between 41-50
 - d. Above 50.
3. What is your education level?
 - a. Not attended class
 - b. Primary education
 - c. Secondary school education
 - d. Diploma
 - e. Degree
4. What is the amount of loan you are currently servicing” in TSh.....
5. How long have you been with PRIDE Tanzania as a customer taking loans?

- a. Below 1 year
- b. Between 1 and 2 years
- c. Between 3 and 4 years
- d. Between 4 and 5 years
- e. More than 5 years.

6. How many times have you borrowed from PRIDE Tanzania (number of loans taken).....

7. Have you ever borrowed from another microfinance institution apart from PRIDE Tanzania?

Yes () No ()

If yes

why?.....

.....

.....

If No why?.....

.....

.....

8. How do you value the services of PRIDE Tanzania?

- a. Excellent
- b. Good
- c. Poor
- d. Very poor

9. (a) Do you think you have benefited in any way with the loans you have taken from PRIDE Tanzania.

Yes () No ()

(b) If your answer is no, explain how these loans have negatively affected you.

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

(c) If YES, how do you benefited from the loan you received.....

.....
.....

10. If you have recorded some benefits with the loans what changes have you made in your life? Please tick the benefits you have achieved from the list below:

- a. To pay for my children’s school fees
- b. To managed to build a house
- c. To renovate my house
- d. To meet daily expenses for my family
- e. To meet medical expenses for my family
- f. To Buy clothes for my family and I
- g. To bought a car
- h. To bought land/plot
- i. To bought furniture
- j. To gained social recognition

11. How many family members are you manage to take care off from the loan you received from PRIDE institution?

- a. 1-2 people
- b. 3-4 people
- c. More than 4 people

12. How many employees did you manage to recruit at the time you start the business?

- a) None
- b) 1 – 2
- c) 3 – 4
- d) More than 4

13. Did you add more employees after taking loans from PRIDE Tanzania?

Yes () No ()

14. Have you lain off some employees from your business?

Yes () No ()

15. If you have laid off some employees, please state why

- (i)
- (ii)
- (iii)
- (iv)

16. How many employees (apart from yourself) do you have currently in your business?

- a) None
- b) 1 – 2
- c) 3 – 4
- d) More than 4

17. What is the category of your employees among the following category below?

- a. All are relatives
- b. All are not relative
- c. Relative and non relatives
- d. Self employed

18. What amount of wage are you paying your employees?

- a) Between TSh. 0 and 20,000
- b) Between TSh. 20,000 and 50,000
- c) Between TSh. 50,000 and 100,000
- d) Above TSh. 100,000

Thank you very much for your cooperation.

APPENDIX 2: QUESTIONNAIRE USED DURING THE FACE TO FACE INTERVIEW

- 1) How many times have you borrowed from PRIDE Tanzania?
- 2) Do the loan application and repayment procedure set by MFIs favor the poor and low income earner clients?
- 3) Are there any strong challenges that you are facing during the process of application for advancing a loan? Yes () No ()
 - a) If the answer is Yes, please mention at least three challenges
.....
.....
 - b) How do you overcome those challenges?
- 4) Did the loan received from PRIDE Tanzania benefit you in one way or another?
 - (a) Yes () No ()
 - (b) If the answer is no, explain how these loans have negatively affected you.
.....
.....
 - (c) If the answer is YES, how did you benefit from the loan you received?
.....
- 5) If you have recorded some benefits with the loans what changes have you made in your life?

Thank you very much for your cooperation.