

**CONTRIBUTION OF MICROFINANCE INSTITUTIONS TO POVERTY  
ALLEVIATION IN TANZANIA: A CASE STUDY OF FINCA MICRO  
FINANCE IN DODOMA MUNICIPALITY**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE  
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**CERTIFICATION**

The undersigned certifies that he has read and hereby recommends for the acceptance by the Open University of Tanzania a dissertation titled: **“Contribution of Microfinance Institutions to Poverty Alleviation in Tanzania: A Case Study of FINCA Micro Finance in Dodoma Municipality”** in partial fulfilment of the requirements for the degree of Master of Monitoring and Evaluation of the Open University of Tanzania.

.....

Dr. Hamidu Shungu

(Supervisor)

.....

Date

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## DECLARATION

I, **Daniel Elias Mwita**, do hereby declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

.....

Signature

.....

Date

**DEDICATION**

I, Daniel Elias Mwita dedicate this work to my wife Suma Mapunda who always supported me with prayers for success and advices during the entire period of my studies.

## **ACKNOWLEDGMENT**

Glory is to Almighty God for giving me a strength for enabling me to perform this study., I convey special gratitude to my supervisor Dr. Hamidu Shungu for his outstanding guidance and encouragement as well as constructive criticism throughout the study. Thank FINCA management Dodoma Branch for permitting me to carry out my study in areas under their territory. Thanks to all the respondents who agreed with my request of interviewing them may God bless you all. Thanks to my family members for their prayers and encouragement, may God bless you. Thanks should go to my colleague's students for their encouragement in sharing research experiences with them and those we used to discuss together and sharing during the prepare of this study.

## ABSTRACT

This study aimed mainly at assessing the contributions of microfinance institutions (MFIs) in Tanzania and determining their effectiveness in poverty reduction. The problem underlying this study was that the MFI contribution to small and medium-sized businesses in Tanzania was not adequate. In the data gathering and analysis, the study employed a mixed method approach. It took place in the town of Dodoma. In order to evaluate its impact in its many operating areas, the study focused on 60 participants who replied to every question and one MFI assessed. After the information gathered from both microfinance institution and their customers, it was found that MFIs have positively altered the lives of poor people. Customers of MFIs have raised revenue, invested capital and thereby expanded their operations. It was further recognized, despite these successes, that some constraints, such as the reimbursement grace period, loan deposit and MFIs, restrict the availability to MFI services for poor people. It was proposed that MFIs should not be able to give loans to consumers needy and collateral should not be a barrier, based on the results of this study. In order to facilitate loan provision for aboriginal entertainment companies and individuals who have no guarantees to access financial resources, MFIs were further recommended, including special tax incentives, business and entrepreneurial qualities and special policies that will lead to increased incomes, employment, poverty reduction and development.

**Keywords:** Microfinance Institution, Micro Insurance and Micro Saving

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**LIST OF ABBREVIATIONS AND ACRONYMS**

BOT	Bank of Tanzania
FINCA	Foundation for International Community Assistance
MFIs	Microfinance Institutions
MSMEs	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organization
SACCOS	Savings and Credits Cooperatives
SME	Small and Medium-sized Enterprise
SPSS	Statistical Package for Social Sciences
TBA	Tanzania Banking Association
URT	United Republic of Tanzania
WB	World Bank

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

The creation of a sound national financial system from a larger viewpoint was long regarded as a trigger for the broader aim of domestic economic development. In underdeveloped countries, however, efforts by national planners and specialists to build financial services have often failed for most people. As a result, when people are poorly borrowed, they frequently rely on family members or a local money launderer with high interest rates (Maksudova, 2010) A study of 28 informal cash pricing studios in 14 countries in Asia, Latin America, and Africa showed that 76% of money-lender rates surpass 10% a month, of which 22% was over 100% a month. Money prices generally charge poorer borrowers more rates than less poor borrowers. Although money creditors are often stigmatized and accused of usury, they are easy and rapid and can be extremely flexible if the borrowers have challenges (Kisanga, 2015).

NGOs have lent the idea of microfinance over the globe, with strong supporters, including Barrack Obama, to about 133 million clients by the Grameen Bank and BRAC in Bangladesh, Prodem in Bolivia and FINCA at the Washington international Headquarters by the end of 2006. In 2009 over 128 million people received a micro loan from the world's poorest people. Many people like microfinance because it promises to place power in the hands of the poor, as opposed to charity. But all the impoverished are entrepreneurs emerging from it? What if your debt can't be repaid? The State of Andhra Pradesh reportedly has resulted in more than 80 deaths in 2010,

due to a number of suicides caused by rural borrowers, which have caused aggressive lending by Andhra Pradesh micro-credit organizations (Chowdhury, 2017).

There are 46 licensed banks in Tanzania recently which under the provisions of the BoT Act 1995 are subject to the licensing and supervision of the Bank of Tanzania, as well as the foreign exchange act 1992. The licensed and monitored banks are also subject to the regulations issued by the BoT, for example the regulations on banking or financial institutions (William, 2013).

Most financial services were provided by the National Bank of Commerce (NBC) and the Cooperative and Rural Development Bank (CRDB) Asemota, A.E. In Tanzania prior to the ongoing financial and banking re-structuring (Rutashobya, 2015). On the contrary, low-income earners have no access to MFI credit services, and the few that have gotten Financial Services via MFI have a repayment load on MFIs and improvement of their economic operations. The MFIs have been mushrooming throughout the country. The objective of this study therefore is to analyze the contribution made by microfinance institutions to poverty alleviation of impoverished people and focuses on one major FINCA in the municipality of Dodoma.

## **1.2 Statement of the Problem**

The creation of a healthy national financial system is a key aim and stimulus for national economic development's broader objective and poverty alleviation. The generation of economic growth in emerging countries with poverty reduction is an important challenge at this time of globalization. In many developing world countries in which the bulk of the public lack access through formal institutions to financial

services either for credit or savings, insufficient credit availability has been a considered barrier over time to production (Mai, 2017).

Study of Munis (2013) show that selected of different microfinance institutions and variables by including type of loan last taken, loan interest, loan purpose, business life of the microfinance institution had positive impact on customers income. Ndimbo (2016) highlighted that that microfinance plays an important role in poverty alleviation but the party of microfinance alleviation but lacked enough evidence on the relative performance of individual liability lending Fischer (2009).

(Kaijage, 2014) on their study recommend microfinance is a proper tool for poverty alleviation and microfinance institutions design mechanism to improve business and technical skills of the bowers through training and skills related to loan utilization micro – insurance schemes which could help customers to business losses. This study assess the contribution of microfinance institutions in poverty alleviation in Tanzania

### **1.3 Objectives**

#### **1.3.1 General Objective**

The general objective is to identify the contribution of microfinance institutions in poverty alleviation in Tanzania.

#### **1.3.2 Specific Objectives**

- (i) To assess availability of microfinance institutions
- (ii) To evaluate performance of microfinance institutions
- (iii) To assess lending procedures and regulations of microfinance institutions

#### **1.4 Scope of the Study**

Recently, there is a growing of MFIs operating in Tanzania. According to the nature of the study it is difficult to assess the contribution faced MFIs in poverty alleviation because of the different endowment's constraints. Dodoma Municipal was selected as case study. The study tends to focus on how microfinances institutions contribute to poverty alleviation. Primary data from beneficiaries were collected using structured questionnaires through specific objectives on the contribution of Micro Finance Institutions to Poverty alleviation.

#### **1.5 Significance of the Study**

The outcomes of this study will be of tremendous advantage to different participants of the Tanzanian economy's microfinance banking industry, Secondly, it will also help banks managers in the banking sector more effectively manage their investment by implementing appropriate policies and procedures that recognize risk-specific to the Tanzanian banking sector microfinance bank. Third, it will also improve the understanding and attention of academics and students in the sciences of management of the importance of microfinance banks to economic growth. Such interest could lead to further researches which may seek to verify the results of this study or to replicate same using different methodologies or different populations.

#### **1.6 Limitation of the Study**

The possible limitations of the research will be inadequate time as well as insufficient funds. The study is quite broad and representative if all Microfinance in region wide in Dodoma is to be taken to account. However, the research will be limited to only one Microfinance in Dodoma Municipality.

### **1.7 Organization of the Dissertation**

This study is divided into five chapters. Chapter one is on background information, statement of the problem and objectives of this study. Chapter two looks at the Literature review, conceptual definitions and research gap. Also, empirical literature review is dealt with in this chapter. Research methodology is found in Chapter three. Chapter Four covers Presentation of the findings of the study and discussion on the findings and finally Conclusions and Recommendations is dealt with in Chapter five.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this part of the research looked at critical analysis of work done by other researchers on the contribution of microfinance institution to poverty reduction in Tanzania. This part covers the review of the secondary data related to the subject matter, which is the contribution of microfinance institution to poverty reduction in Tanzania. At the beginning it tries to provide conceptual definitions of key terminologies used in this study. It also provides critical review of supporting theories or theoretical analysis. In addition, it gives theoretical links of relevant studies and it winds up with research gap identified that would assist in the analysis of the study findings.

#### **2.2 Conceptual Definitions**

##### **2.2.1 Microfinance**

Microfinance is the system of providing financial services and the management of a small amount of money through a range of financial products that is targeted at low-income customers. That is, microfinance provides small credit and other facilities like deposit mobilization, insurance and transfer services to low-income households and petty traders who are normally neglected by the commercial banks (Bakhtiari, 2006).

##### **2.2.2 Microfinance institution**

Microfinance Institutions refer to financial institutions, which provide financial services to the poor who are typically excluded from the formal banking system for

lack of collateral (Ledgerwood, 1998). Lack of access to credit is readily understandable in terms of the absence of collateral that the poor can offer conventional financial institutions coupled with the various complexities and high costs involved in dealing with large numbers of small, often illiterate barriers through innovative measures such as group lending and regular savings schemes (Beck, 2008).

### **2.2.3 Micro Insurance**

Is also part of microfinance that provides the poor and low-income earner with various insurance policies to be insured against any unforeseen events. The idea behind this concept is that poor people are vulnerable to various forms of risk, both natural disasters and regular occurrences of illness, accidents and death. Therefore, to provide them with a safeguard for themselves and their families, micro insurance comes in to intervene in the case of losses. Micro insurance policies for children's education and health are now dominant in Ghana Cheston, S., & Kuhn, L. (2002)

### **2.2.4 Micro Saving**

Is a component of microfinance services that allows petty traders or low-income individuals to save or invest their monies and other valuables items to enable them accumulate wealth and also earn some level of interest on their money? It is a safeguard for the poor and low-income earner for the future as it secures them financially (Quaye, 2011). The micro saving principle is simply to save or invest a series of monies now and enjoy a lump sum in the future Dahir, A. M. (2015).

### **2.2.5 Credit**

According to Hassani (2015), credit is the trust, which allows one party to provide resources, largely financial resources to another party where that second party does

not pay back to the first party immediately. As the result it tends to generate a debt relationship, whereby first party either repays or returns those resources or other materials of equal value at a later date (Degryse, 2005).

#### **2.2.6 Micro Loan or Credit**

Involves the provision of small credit by MFIs to micro entrepreneurs or petty traders who are of a low financial stand and also lack collaterals to meet the standard of qualification for formal or commercial banks credit facilities. It makes loans available for poor people to transform their business ideas into a business venture, thus poor people through micro credit can engage in self-employment projects to generate income for themselves (Owusu, 2011).

It has been the main source of funding for poor farmers and crafts men and women in most developing countries, thus allowing them to improve their living standards and that of their families. Micro credit therefore serves as intermediation and solution for most governments who fail to provide financial assistance and employment for people in their countries Hallberg, K. (2000).

#### **2.2.7 Micro saving**

Is a component of microfinance services that allows petty traders or low-income individuals to save or invest their monies and other valuables items to enable them accumulate wealth and also earn some level of interest on their money. It is a safeguard for the poor and low-income earner for the future as it secures them financially (Quaye, 2011). The micro saving principle is simply to save or invest a series of monies now and enjoy a lump sum in the future Kombo, D.K. (2006).

### **2.2.8 Microfinance Policy**

Microfinance is one of the approaches that the government of the country has focused its attention in recent years in pursuit of its long-term vision of providing sustainable financial services to majority of its population Kuzilwa, J. A. (2005).

### **2.2.9 Small Business**

Refers to a privately owned corporation, partnership that has few employees and less annual revenue than regular sized business or corporation. Business is defined small in term of being able to apply for government support and qualify for preferential tax policy varies depending on the country and industry. While small business can be also be classified according to other method, such as annual revenues, shipment, sales, assets, or annual gross or net revenue and number of employees in one of the most widely used measures. In the context of Tanzania, small businesses are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs 5 million. The majority of small businesses fall under the informal sector. In this study, small businesses will mean those businesses, which are operated by single proprietor with less capital up to 5 million Montgomery, R. (2001).

### **2.2.10 Small Businesses and Credit Access from Microfinance Institutions**

Small and medium enterprises have been considered as the main engines spurring economic growth and promoting equitable development and in many countries is the driving force of the economies. Financing is necessary to help these small businesses set up and expand their operations, develop new products, and invest in new staff or production facilities. However small businesses find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit.

This is because they may lack collateral, or have not been in the business long enough to have a proven track record, or may not have audited financial statements like larger businesses.

They are usually considered a high risk due to these factors by the microfinance institutions that can give those loans and as a result will be charged very high interest to mitigate against this. In many countries small businesses still report having problems when trying to access loans both from banks and microfinance institutions Morduch, J. (2000).

The past thirty years or so has seen micro finance take off from small group-based lending experiments to several hundred micro finance institutions (MFIs) serving a growing portion of the developing world today. Nevertheless, the challenge to improve broad-based access to financial services—going beyond credit and into other products such as savings, insurance and money transfer services—remains Kuzilwa, J.A. (2002).

Microfinance emerged as an innovation in lending to the rural poor in Asia and as a response to frequent failure of previous interventions in rural financial markets, such as directed and subsidized production credit disbursed by agricultural development banks. While it started as a collection of banking practices built around providing small loans (typically without collateral) and accepting tiny savings deposits today many microfinance institutions (MFIs) expand their services and strive to offer payment and savings facilities, insurance, housing, and longer-term • loans to marginalized clientele in rural and urban settings Liheta B.S.A (2014).

There seems to be a steady growth in the microfinance industry starting from Bangladesh where the movement started to Africa. In Kenya the industry is picking up now while in the Asian countries the microfinance industry started at around the same time as the Grameen Bank. There is still insufficient data to find out how exactly the growth is since there is no universal regulation governing microfinance in different countries. This means that the data used is mostly done by self-reporting by the microfinance institutions and in some countries micro finance is still growing and so the impact can only be measuring a few years from now Matovu, D. (2006).

To reduce the credit gap, financial institutions, governments, and donors invest in lending products and policies designed to provide SMEs with the financing they need to grow and innovate. However, the extent to which such programs effectively reduce the barriers to SME financing has generally not been rigorously measured. The SME Program at Innovations for Poverty Action (IPA) rigorously evaluates potential solutions and promotes the most efficient and cost-effective ways to expand access to finance for SMEs Matovu, D. (2006).

#### **2.2.11 Contribution of SMEs to the Economy**

MSEs all over the world are known to play a major role in socio-economic development. URT (2017) estimates that about 1/3 of the GDP originates from MSE sector; they tend to be labor intensive thus creating jobs: The International Finance 17 Company (IFC) of the World Bank estimates that there are approximately 2.7 million enterprises in the country. A large majority of these (98%) are micro enterprises (employing less than 5 people), effective in the utilization of local resources using simple and affordable technology; and complementing large industrial requirements

through business linkages, partnerships and subcontracting relationships Ngechu, M. (2006).

#### **2.2.12 National Microfinance Policy**

The government and non-government organisation views on microfinance institutions as a powerful tool in elevating poverty and to improve and develop the microfinance policy and industry. The government of Tanzania has established a fledged Directorate of Microfinance within the Bank of Tanzania, which has spearheaded different financial related programs, including the introduction of the National Microfinance Policy.

The Government of Tanzania has been undertaking financial sector reforms since 1990s, in which its implementation has gone through the First- and Second-Generation Financial Sector Reform programmes and national financial policy established in 2002; the National Microfinance Policy provides the legal, regulatory and supervisory framework for microfinance activities. The entire process to write the comprehensive for national financial policy formulation to the development of legal and supervisory framework was close participatory involving all the key financial sector stakeholders including MFIs.

The introduction of National microfinance policy it aims to serve the low-income society by creating a micro financial system as effective tool in poverty alleviation. This National microfinance policy focuses on poor households, small scale farmers and small enterprises in rural and urban areas.

The National Microfinance Policy has been amended over time to give the BoT the mandate to license and supervise deposit equity-based microfinance institutions. Additional; The microfinance policy gives the BoT regulatory oversight cooperative institutions that are above a BoT size according to policy guidelines.

### **2.2.13 The Need for Micro-finance**

For the majority of Tanzanians, whose income is very low, access to financial services offers the possibility of managing scarce household and enterprise resources more efficiently, protection against risks, provision for the future, and taking advantage of investment opportunities, for economic returns. For households, financial services allow higher standards of living to be achieved with the same resource base, while for enterprises and farmers, financial services can facilitate the pursuit of income growth.

Savings services are among the most beneficial financial services for low-income people. Nearly all households need to save to protect themselves against periods of low income or specific emergencies and to cover large anticipated expenses (like school-fees). Enterprises also need to store the value they accumulate from their profits until they can invest them to earn a higher return. Moreover, savings in financial form provide funds for investment by others. Thus, savings services can have a very broad outreach and value University of Nairobi. Ojo, O. (2009).

Credit service can perform some of the same services as savings and can allow enterprises and families to make some important investments sooner. Enterprises use credit as a source of short-term working capital and longer-term investment capital. Households use it to meet consumption needs, particularly during periods when

income flows are low, such as during the off season before crops are harvested, and to make investments, such as housing improvements Okibo, B. W (2014).

Payments and other related services are also valuable to low-income people and to the residents and institutions in rural areas. Payments services can play an important supporting role in the overall profitability of the financial institutions that offer them. In short, micro-finance addresses the financial needs of major sectors of the Tanzanian population. They are primarily facilitators rather than creators of the underlying economic opportunities that lead to widespread economic prosperity. Micro-finance services are financial in nature. They differ materially from social welfare and resource transfer policies, although they can contribute to the reduction of poverty and improvement of income distribution, National Poorest, C. G. (2010).

#### **2.2.14 Credit Rationing Theory**

Early interest in credit rationing was driven in part by questions about the role that credit rationing might play in transmitting the macroeconomic effects of monetary policy, which was related to research on the so-called ‘availability doctrine’ in the 1950s and 60s (Scott, 1957). To the extent that monetary policy operates through a ‘credit channel’ (in which contractionary policy affects the economy through a decline in the supply of funds available for banks to lend), and to the extent that changes in the terms of lending include not only changes in loan pricing but also changes in the quantities of credit available to three borrowers, credit rationing may play an important role in the transmission of monetary policy’s effects on the economy (Blinder and Stiglitz, 1983).

Many development economists have come to recognize that the failure to properly allocate funds in the loan market – a broad phenomenon, within which credit rationing is a special and extreme case – can be an especially important potential impediment to growth in developing countries because of the relative absence of institutions in those countries that allow effective screening of borrowers (to mitigate adverse selection) or ongoing monitoring of borrowers' actions (to mitigate moral hazard).

The end result of these two decisive problems is that banks have to resort to various screening means to identify potential borrowers who are more likely to pay back their loans; since the expected return on such loans depends crucially on the probability of repayment.

One of the methods of screening suggested by Stiglitz and Weiss (1981) is the interest rate that an individual is willing to pay. The most important conclusion from theorists (Stiglitz and Weiss, 1981) argument is that information asymmetry in the form of adverse selection and moral hazard is the source of market inefficiency in developing countries and this leads to low-risk borrowers such as SMEs being side-lined or even excluded from the stream of potential borrowers.

In addition to the cyclical effects of rationing in credit markets related to monetary policy, development economists, especially Ronald McKinnon (1973), argued that a different credit rationing problem is more relevant for the long-term growth prospects of developing countries. High inflation, high zero-interest reserve requirements, government-mandated loan allocations to favored borrowers, and interest rate ceiling

son loans or deposits in developing economies (a combination which McKinnon termed ‘financial repression’) subjected many developing countries’ banking systems to an extreme form of regulation-induced credit rationing. High reserves, high inflation, and interest ceilings on deposits meant that banks were rationed in the deposit market, and thus had few funds to lend, while lending mandates and loan interest-rate ceilings meant that what funds were available to lend were often rationed by restrictions on who could bid for those funds.

The application of this model was important to the study as it’s helped to address the challenge of lack of connection that exists between small businesses and MFIs. This is because most of the businesses are not fully aware of the functions and services of the MFIs and if they know, it is just partially not like really customers or clients. Also, most of MFI’s do not know about small businesses that make them not to screen potential borrowers

#### **2.2.15 Empirical Literature Review**

A study done by Agbenyo (2015) focused on the contribution of micro finance and problem Small and Medium Scale Enterprises (SMEs) face in accessing credit in Ghana. The challenges affect their operations in the area of reduction in profits, increase in operational costs, delays in operation. The researcher suggested that there should be collaboration between the SMEs and the microfinance firms where the MFIs will provide a soft loan to these firms to help them increase their operations, focus on the nature of the business and the ease of recording cash inflows than the security requirement.

A study done by Arthur (2015) focused on the challenges SMEs face in accessing credit within the Ashanti Region of Ghana. Irrespective of the various contributions of the Government, there are still many problems which tends to affect the operations of the microfinance and SMEs, presented as high rate of interest charges by banks, poor credit history, high cost of taxes, changes in the environment such as globalization, political, social, economic and technological differences which result in the limited knowledge of business opportunities leading to non-productivity. In order to enhance a sustained and accelerated growth in the industry of SMEs, there must be a united body to implement some restrictive measures of managerial via employee training programs for all enterprises to be equipped as well as bargaining with the various financial institutions on the high interest rate levels to a reduction.

A study done by Gichuki (2014) in Nairobi City County, Kenya. The study revealed that the key challenges hindering micro and small enterprises from accessing credit facilities to be high cost of repayment, strict collateral requirements, unwillingness of people to act as guarantors, high credit facilities' processing fees and short repayment period. Therefore, it was recommended that financial institutions set more flexible, affordable and attractive requirements in financing micro and small enterprises.

A study done by Abdel (2013) focused on the accessibility of Microfinance for Small Businesses in Mogadishu. The main findings of this study identified that small businesses in Mogadishu were facing challenges to access loan from MFIs such as, individual collateral, group lending, interest, repayment period, small capital and this results many small businesses to demise soon or may not be started due to lack of ability to overcome the challenges. The researchers recommended that microfinance

institution is required to set more flexible, affordable and attractive requirements in financing small businesses, their role need to be felt by the small enterprises in terms of growth and development.

From the study of Jonathan Adongo (2015), he found that: Microfinance institutions provide the full-range of financial services but on a smaller scale. This is suited to the needs of the rural poor. In Namibia, microfinance institutions operating in the rural areas can be distinguished as informal or formal. Informal microfinance institutions in Namibia are those that are not registered or governed by any legally mandated entity. They include informal groups, unregistered money lenders and burial societies.

Due to the difficulty in establishing standards or enforcing legal provisions for noncompliance informal microfinance institutions are less preferred to formal institutions. Fortunately, not much use is made of informal financial alternatives in Namibia. The FinScope survey conducted in 2006 showed that only 12% of the overall Namibian population use informal financial services. Formal microfinance institutions in Namibia are governed by the Division of Cooperative Development in the Ministry of Agriculture, Water and Forestry (MAWF), the Namibia Financial Institutions Supervisory Authority and the Ministry of Trade and Industry (MTI) Steering Committee.

The survey concluded that microfinance is an innovative step towards alleviating poverty. The author mentioned that microfinance facilities provided to the people help them to use and develop their skills and enable them to earn money through micro enterprises. Moreover, provision of micro finance helps them to smooth their

consumption level and manage unexpected risks. Micro finance helps the poor to build assets, educate their children and have a better quality of life.

According to Zacharia (2008), it reviews, generally be concluded that the contribution of microfinance institutions on poverty reduction among poor, is very minimum, due to hard conditions in accessing and servicing loans that poor people cannot afford. It is therefore recommended that microfinance banks should improve accessibility of their services to poor by relaxing their terms and conditions on accessing services, especially loans. FINCA should widen her market by introducing new products, such as house loans, agricultural loans, education loans and loans for initial capital. This will make borrowers access relevant loan products to meet appropriate objectives.

There is also a need for the Bank to formulate flexible payment conditions and payment schedules to help poor customers afford loans, and make success out of them. Payment schedule should be flexible to comply with borrowers' economic activities. Furthermore, a grace period for group loans should be extended from two weeks to at least one month and for individual and salary loans bank at least two months, so that money returned to the bank may come from the profit generated by loan investments. (Provident J.at all 2007)

#### **2.2.16 Review of the Studies Done in Tanzania**

In Tanzania several studies have been done on microfinance institutions service, there are over 50 registered MFIs in Tanzania but their overall performance has been poor. In her study Chijoriga evaluated the performance and financial sustainability of MFIs in Tanzania, in terms of the overall institutional and organizational strength, client

outreach, and operational and financial performance. In the study, 28 MFIs and 194 MSEs were randomly selected and visited in Dar es Salaam, Arusha, Morogoro, Mbeya and Zanzibar regions. The findings revealed that, the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives, or a strong organisational structure. It was further observed that MFIs in Tanzania lack participatory ownership and many are donor driven. Although client outreach is increasing, with branches opening in almost all regions of the Tanzanian mainland, still MFIs activities remain in and around urban areas. Their operational performance demonstrates low loan repayment rates and their capital structures are dependent on donor or government funding.

In conclusion, the author pointed to low population density, poor infrastructures and low house hold income levels as constraints to the MFIs' performance. Many of these MFIs have no clear mission and objectives. Also, their employees lack capacity in credit management and business skills. Among the questions, which arise out of these research findings, is whether these MFIs whose performance is questionable will have any impact on poverty alleviation. Other studies on microfinance services, in Tanzania were carried out by Kuzilwa (2009) and Rweyemamu et al, (2009). Kuzilwa examines the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of businesses that gained access to credit from a Tanzanian government financial source. The findings revealed that the output of enterprises increased following the access to the credit.

It was further observed that the enterprises whose 29 owners received business training and advice, performed better than those who did not receive training. He

recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses. Rweyemamu et al, (2009) evaluated the performance and constraints facing, semiformal microfinance institutions currently providing credit in the Mbeya and Mwanza regions. The primary data, which were supplemented, by secondary data, were collected through a formal survey of 222 farmers participating in the Agricultural Development Programme in Mbozi and the Mwanza Women Development Association in Ukerewe. The analysis of this study revealed that the interest rates were a significant barrier to the borrowing decision. Borrowers also cited problems with lengthy credit procurement procedures and the amount disbursed being inadequate.

On the side of institutions, the study observed that both credit programmes experienced poor repayment rates, especially in the early years of operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-payment. It was further revealed that poor infrastructure of the MFIs led to high transportation costs, which increased the transaction costs in credit procurement, and disbursement and this ultimately hindered the effectiveness of the credit programmes. This happened because most of borrowers lived in rural areas, far from credit offices.

The coverage by Kuzilwa was on the National Entrepreneurship Development Fund only, while Rweyemamu et al' study was on assessing the micro-finance services for the agricultural sector only. 30 From the above evidence the researchers found that there was a strong need to study the schemes existing in Tanzania and see to what

extent their operations contribute to poverty reduction in the country. Recommendations were made to policy makers so as to find alternatives through which financial services could be offered to the low-income earning population or rather restructure the existing schemes for poverty reduction. In a study conducted by Kessy & Urrio (2009) on contribution of MFI on poverty reduction in Tanzania, the researchers covered four regions of Tanzania, which are Dar es Salaam, Zanzibar, Arusha and Mwanza. Both primary and secondary data were collected; primary data were collected from 352 SMEs through questionnaires, interviews were also conducted. FINCA, which is a microfinance institution, were used as a case study so as to get the insight of MFI operations.

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

#### **2.2.17 Models of Microfinance Interventions**

This section considers the literature reviewed on the various models of microfinance interventions. Models depict the ways of implementing various microfinance programmes. That is the methods by which a microfinance operation can be carried out (Owusu, 2011). These models are selected by MFIs based on the needs of the targeted group of clients, the environmental conditions of an area of operation and also the goal of the microfinance programme (Grameen Bank, 2013). There are

several models for microfinance interventions but the researcher will focus on the five models the literature reviewed. They are Individual Lending model, Group or Peer Lending Model, Grameen Bank Model, Village Banking Model and Rotating Savings and Credit Associations (ROSCA).

#### **2.2.18 Grameen Bank Model**

This model initially tasks the credit staff to identify a potential village and conduct one to two weeks mandatory training courses in the village to orient potential clients on the philosophy, rules and procedures of the MFI programme. Afterward, a group of five unrelated, self-selected prospective borrowers are formed. With this a village “center” is formed by six to eight of the five member groups. The village center groups also, in turn, formed the Regional Branch offices. The model allows the branch workers to work with large number of clients from 200 to 300. They train and visit their clients and their businesses but do not evaluate individual loans. Clients themselves who are members of a group assume the role of managing the financial services provided for them (Grameen, 2013).

To access loans from the Grameen Bank Model, new groups of potential borrowers, five members per group, meet and save for a minimum of four weeks to the MFI before loans are approved and granted. This process of saving and accessing loan are wholly managed by group members in this way: Firstly, the group appoints a leader (whose position is rotated among members) and also determines the nature of rotation for accessing loan. After saving for the required period two members of the group are initially granted loan. And after timely repayments for four to six weeks two additional members receive their loans. Lastly, another month of uninterrupted

repayment is used to assess and grant the loan to the fifth member who is usually the leader of the group. The model therefore makes each group member responsible for the loan repayment of all the other four members regardless of when a member received the loan. Also, in the case of loan default with one member of a group the other group members are made to cover for the loan.

None of the members will receive any loan until the defaulted loan has been cleared by the group. This sense of collective responsibility or liability serves as collateral on the loan granted. The Grameen Bank Model also incorporates a strong social requirement in addition to their repayment plan. That is, a borrower must educate his or her children, maintain their own health and the health of their children, commit to growing vegetables all year round and others as stated in their “Sixteen Decision” text. This model works best in densely populated rural areas and loans are mainly used for agriculture and retail (Ferka, 2017).

#### **2.2.19 Village Banking Model**

The village banking model is a community-based credit and saving association established to provide access to financial services in the rural areas. It aims at building ‘self-help’ groups and also enables members to accumulate savings for themselves. Typically, this model is made up of 25-50 low-income members who share the common purpose of advancing their livelihood through self-made employment to form a bank (Looft, 2017). This bank is financed by the internal funds mobilization from group members as well as outside loans from lending institutions. To eliminate the collateral demanded before a loan is granted, the village bank relies on the system of cross guarantees, where each member of the village bank ensures the loan

repayment of every other member. Also, members under this model elect their own leader or officers, membership, form their own bylaws, do their own bookkeeping records, distribute loans to individuals, collect payments, charge levy on members for misconduct or failure to redeem due loan repayments. This model seeks to establish a village bank that is both self-reliant and also to serve the entire village (Grameen Bank, 2013).

#### **2.2.20 Individual Lending Model**

This model is where loans are given individually to clients or borrowers. Here MFIs perform a thorough analysis on the business venture of their clients before they grant them the loan facility. Thus, borrowers received their loans based primarily on their past performance, credit histories or worthiness, viability of business presently and also with references (Brandt et al, 2019). Under this model, borrowers are made to provide collateral and guarantor ship to ensure the repayment. Credit officers under this model engage clients who have close contact with MFIs. This model is most successful for large and urban-based, production-oriented businesses and for clients who are ready to provide collateral or a willing cosigner (Looft, 2009).

#### **2.2.21 Impact Assessment of MFIs Credit and Saving on Livelihood**

The provision of Microfinance services assists petty traders to have the means to protect their livelihoods against unexpected challenges and to increase and diversify their livelihood activities (Johnson & Rogaly, 2019). Chowdhury, Ghost & Wright (2015) argued that if microfinance is to fully fulfil its social objectives of bringing financial services to the petty traders, then it is important for them to assess the extent to which its impact reduces poverty and improves the living condition of its

beneficiaries. A study conducted on sixteen different MFIs from all over the world have pointed out that having access to microfinance services have led to an improvement in the quality of life of clients, boosted their self-confidence, and also helped them diversify their livelihood security strategies and thereby increased their income levels (Robinson, 2009).

The outcome from this study was that there was a positive impact on household consumption and this impact is more significant when the borrower is a woman. A second investigation was conducted on the same household in 1998 and 1999 and it also generated the same outcome (Berguiga, 2019). Although, little research has been conducted on the impact of MFIs services on health and education, these seem to improve where MFIs have been working (Ferka, 2011).

Littlefield, Murdudh & Hashemi (2019) indicated that microfinance interventions have shown a positive impact on the education of their clients' children. It is because poor people who benefit from MFIs interventions are likely to invest their income in their children's education. In Ghana for instance Opportunity International has assisted most of their clients' children' education by granting them a very low interest rate to pay their school fees (Ferka, 2011).

Although, the impact of microfinance on the livelihood of petty traders have been acknowledged by some commentators there are some who think contrary. Hulme and Mosley (2019) concluded in their research on microfinance that most contemporary schemes are less effective than they might be. They further added that microfinance intervention is not the absolute solution for poverty-alleviation and that in some cases;

petty traders have been made worse-off by microfinance. Also, another commentator found five major faults with MFIs. He argues that, MFIs encourage a single-sector approach to the allocation of resources to fight poverty; microcredit is irrelevant to the petty traders; an over-simplistic notion of poverty is used; there is an over-emphasis on scale and there is inadequate learning and change taking place (Rogaly, 2019).

### **2.3 Research Gap and Synthesize**

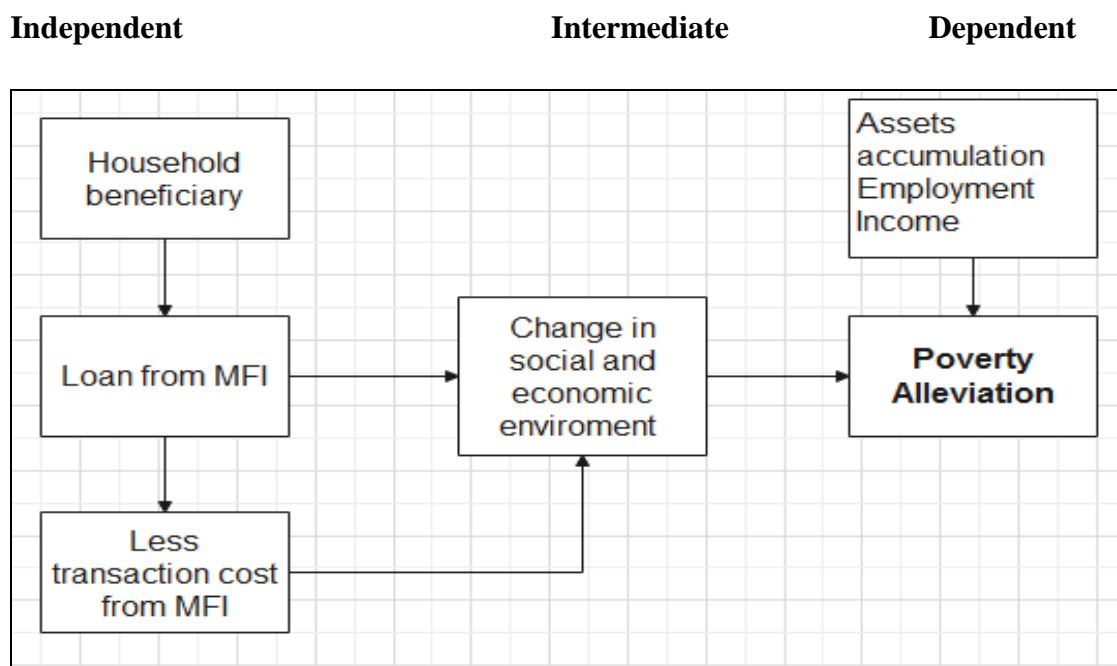
The literatures show that most scholars modelled the credits risk in banks. However, few scholars modelled the credits risk in MFIs (Doreitnera 2012). Likewise, various empirical studies have been conducted to assess the banks and MFIs performance, efficiency, outreach and sustainability. The literatures also show that SACCOS in Tanzania are important engine for the economic growth and development.

Moreover, the literatures show that only few empirical studies concerned FINCA are done in Tanzania. Different literatures studies have been focusing on looking at the issues that contribution of MFIs have identified a gap in the number of loan beneficiary, qualification to access loans and business life for the MFIs to offer loans (Mpofu et al., 2014). Nevertheless, the researchers did not study on how MFIs contribute on poverty alleviation.

On other hand in Tanzania recently there is no study done on microfinance to identify the contribution of MFIs on poverty alleviation. Therefore, this study seeks in fulfilling those gaps, more specifically in the MFIs related institutions found in Dodoma City Council.

## 2.5 Conceptual Framework

The demand for microfinance institutions increases with an increase in people's economic activities. Therefore, microfinance institutions have direct relationship with levels of economic development and poverty reduction. Independent variables according to this research have included microfinance institutions which caters credits to small income earners, raise capital, creation employment sustainability, if farmers are provided with credit increase production finally MFI empower women another independent variable is government action on microfinance which tries to provide good infrastructures to smoothen MFI provision example it is believed that most MFIs are highly located to areas which is easily accessible and well network connected and good policy formulation in favours of MFI to rural areas. Another independent variable is the act of Bank of Tanzania (BoT) on good provision of monetary and fiscal financial system example interest rate control and inflation.



**Figure 2.1: Conceptual Framework**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The first part of this chapter gives background information about the area where the study was undertaken. The second part of this chapter explains the type of the research design used. The third and fourth part of this chapter gives details on population studies and sample selection procedures respectively. The last part of this chapter explains how the collected data were processed and analysed.

#### **3.2 Research Design**

The investigation used both primary and secondary sources, the collected information is essential for a credible argument. This imposes a significant role in supplementing data from secondary sources such as theory, library research, prior literature, books, internet, journal articles and reports from primary sources, including practitioners, academy students, entrepreneurs, policymakers and any stakeholder.

In addition, the research conducted sampled population structured and structured interviews and observations. This was largely designed to obtain information that could not be collected in questionnaires affecting and preventing creditors, lenders and policy makers. The study is characterized by mixed methodologies; in a single study it combines quantitative and qualitative methods of gathering and analysing data. The combination of both strategies is based on triangulation and complementary reasons (Berger, 2012). The quality of the things is essentially complemented with social

science based on "objectivity" of quantitative methods. What, how, when and where of social issues (the essence and the atmosphere of the things).

### **3.3 Area of Study**

This location was one of the areas in which Microfinance Institutions focussed their efforts and was one of those areas in which people in need of Microfinance Institutions were able to get data as researchers live in this area. Another reason is that Dodoma City is the area where my research is feasible and researchable within my interest and competence, manageable within my availability resource and social relevance in which facilities are available. This location was one of the areas in which Microfinance Institutions focussed their efforts and was one of those areas in which people in need of Microfinance Institutions were able to get data as researchers live in this area.

### **3.4 Sample Size and Sampling Procedures**

Sampling techniques is a procedure a researcher uses to get people, units or other elements for a study. It is a process of selecting a number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire group (Kombo and Tromp, 2006). According to the nature of the study, simple random sampling procedure was done to enable the researcher to control the area of the study are sufficient respondents from those represent the total population.

#### **3.4.1 Sample Size**

The sample size for the study will be respondents obtained by a simplified formula for propositions by Yamane (1967) from 74 population form selected organization.

$$n = \frac{N}{1 + N * (e)^2}$$

Where: n = the sample size

N = the population size

e = the level of precision (5%)

$$n = 73 / 1 + 74(0.05)^2 = 60$$

The sample size will include 61 respondents.

**Table 3.1: Category of the Respondents from Sample Size By Proportionality**

S/No.	Type of respondents	Sample size
1.	FINCA officers	33
2.	Restaurants Owners	7
3.	Clothers Shops	9
4.	Retails Owners	13
	Total sample size	60

### **3.5 Data Collection Tools**

#### **3.5.1 Primary Data**

According to Kothari (2004), primary data are those, which are collected afresh and for the first time, and thus happen to be an original character. According to Kombo and Tromp (2006), primary data is the information gathered directly from the respondents. Information that obtained directly from first-hand sources by means of surveys, observation or experimentation. It is data that has not been previously published and is derived from a new or original research study and collected at the source such as project implementation. Primary data are more costly to obtain than secondary data, which is obtained through published sources, but it is also more current and more relevant to the research project.

### **3.5.2 Questionnaires**

The questionnaire is defined as a device for securing answers to questions using forms which the respondent fills by being asked orally or read write answers (Kothari, 2004). According to Creswell (2005) a questionnaire is defined as a form used in survey design that participants in a study complete and return to the researcher, and that the participants choose answers to questions and supplies basic personal or demographic information about themselves. Questionnaires were employed as a data collection tool because of its ability to collect large amount of data in a short period of time, and that it is relatively cheap to administer, often have standardized answers that make it simple to compile data.

### **3.5.3 Interviews**

An interview is an oral administration of questions (Kombo, 2006). Direct questions were asked to respondents in order to obtain the desired information and respondents' reaction. An interview is a conversation between two or more people where questions are asked by the interviewer to elicit facts or statements from the interviewee. Interviewing differs from other methods of data collection in that it is often more exploratory in nature, and allows for more flexibility.

Interviewing stems from the desire to know more about the community around us and to better understand how the community around. Cohen, Manion, and Morrison (2000) explained that interview allows subjects to provide their interpretations of the world in which they live, and to express how they regard the situation from their own point of view.

#### **3.5.4 Secondary Data**

According to Kothari (2004), secondary data are those, which have already been passed through the statistical process. Furthermore; Kombo and Tromp (2006), described secondary data as the information source of data neither collected directly by the user nor specifically for the user and it involves gathering data that have already been collected by someone else. Secondary data analysis saves time that would otherwise be spent collecting data and, particularly in the case of quantitative data, provides larger and higher-quality databases that would be unfeasible for any individual researcher to collect on their own. In addition, analysts of social and economic change consider secondary data essential, since it is impossible to conduct a new survey that can adequately capture past change and/or developments.

#### **3.6 Data processing and Analysis**

According to Bogdan & Bicklen (1992), data analysis is a process of systematically working with data or applying statistical and logical techniques to describe, organize, summarize and compare the data collected and divides them into manageable portions. SPSS Software was employed to determine frequency and percentages of the respondents and guide researcher to draw tabulation, pie charts and histograms.

## **CHAPTER FOUR**

### **PRESENTATION AND DISCUSSION OF THE FINDINGS**

#### **4.1 Introduction**

This chapter focuses on the presentation and analysis of data as well as the discussion of the results of the questionnaire. It entails identifying the contribution of microfinance institutions in poverty alleviation in Tanzania. Furthermore, the chapter addresses individual interviews on the contribution of microfinance performance of microfinance institutions and assess lending procedures and regulations of microfinance institutions.

#### **4.2 Characteristics of the Respondents**

The demographic information of the respondents, as well as the patterns of relationships within their families, were examined in this part. The characteristics of the respondents are important instruments for gaining insight and knowledge on the attitudes of the respondents toward the topic under research.

#### **4.3 Age of the Respondents**

The age of the respondents as an important demographic factor in any study since it provides insight into the dependability of the data collected and presented for public consumption. Each age group's respondents were meticulously gathered without bias, resulting in each age group's own distinct subculture. As a result, the knowledge provided by such groups reflects the social meanings they ascribe to certain events. The age distribution of the respondents in this study was divided into seven groups, with 25-30 years accounting for 12 percent of all respondents, 31-40 years for 31.6

percent, 41-50 years for 18 percent, 42-49 years for 15 percent, 50-57 years for 24 percent, 58-65 years for 6 percent, and 50+ years and above for 5 percent (5 percent).

**Table 4.1: Age of Respondents**

		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	25-30	12	19.6	19.6	19.6
	31-40	19	31.6	31.6	31.6
	41-51	24	39.3	39.3	100.0
	50*	5	5		
<b>Total</b>		<b>60</b>	<b>100.0</b>	<b>100.0</b>	

Source: Field Data, (2021)

More respondents in this study were between the ages of 42 and 49, and they were between the ages of 19 and 25. These are also the people who are directly involved in the administration of society as home heads, Mitaa (village) leaders, and religious leaders, therefore participation on tendering process it's an opportunity for their lives.

#### **4.4 Sex of the Respondents**

This study involved both male and female respondents and this was done purposefully because both categories have roles either in decision making or economic position in the household. Findings from the field work survey as indicated in elucidate that out of 61 respondents, 38 respondents (62.2%) were males, while 23 respondents (36.6 %) were females.

**Table 4.2: Sex of the Respondents**

		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	Male	38	62.2	62.2	62.2
	Female	22	36.6	36.6	100.0
<b>Total</b>		<b>60</b>	<b>100.0</b>	<b>100.0</b>	

Source: Field Data, (2021)

On the other hand, the gap between male and female responses was attributed to equal participation in the study by both sexes. Females outnumbered males in all age groups in low and middle-income countries like New Zealand in 2013, with males and females accounting for 48.7% and 51.3 percent of the population, respectively. The researcher was able to categorize males and females' knowledge and power relations in household decision-making because of the respondent's gender.

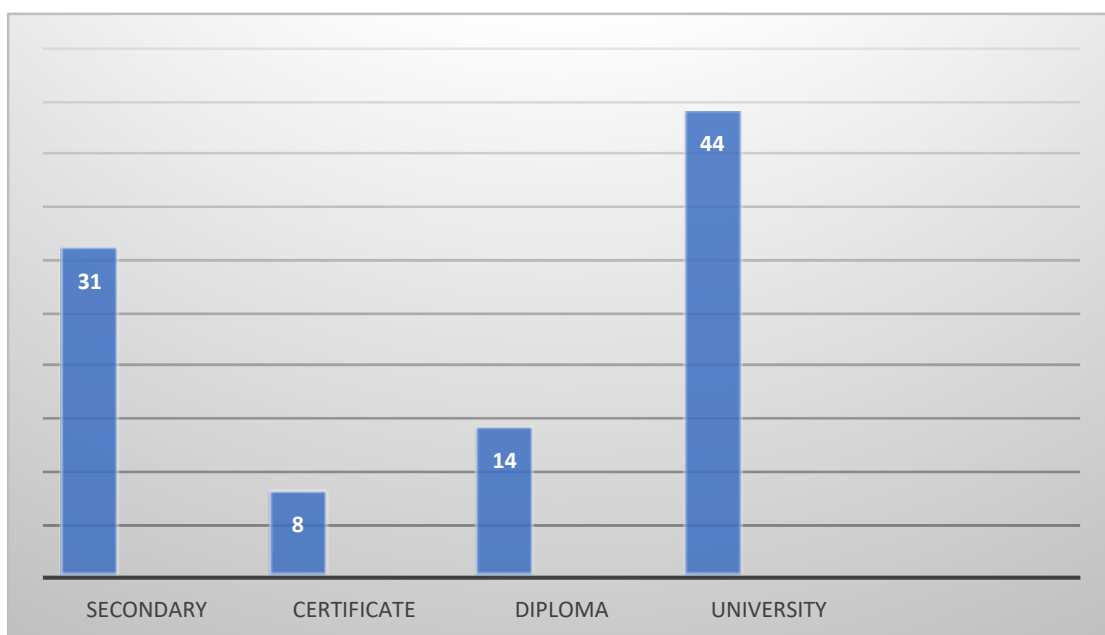
#### 4.5 Level of Education of the Respondents

Education has a tremendous impact on a person's capacity to make decisions in daily life, as well as their thinking, judgment, and interpersonal relations. According to Figure 8% of respondents had attended secondary school, 73 percent had gotten certificate education, 13% had acquired diploma education, and 5% had acquired university education. Understanding the educational degrees of respondents assisted in determining their knowledge of the topic under inquiry.

**Table 4.3: Level of Education of the Respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Secondary	19	31.1	31.1	31.1
	Certificate	5	8.1	8.1	8.1
	Diploma	9	14.7	14.7	14.7
	University	27	44.2	44.2	1.6
					100.0
<b>Total</b>		<b>60</b>	<b>100.0</b>	<b>100.0</b>	

Source: Field Data, (2021)



**Figure 4.1: Level of Education of the Respondents**

Source: Field Data Survey, (2021)

#### 4.6 Marital Status of the Respondents

Marital status of the respondents was investigated because it contributes to an understanding of the nature of the responses given. As demonstrated in the Table 4.4, 16(16%) respondents were single, 70(71%) respondents were married and 4(4%) respondents were divorced.

**Table 4.4: Marital Status of the Respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	13	21.6	21.6	21.6
	Married	40	65.2	65.2	65.2
	Divorced	6	13.5	13.5	13.5
	Widow/Widower	1	1.6	1.6	1.6
					100.0
<b>Total</b>		<b>60</b>	<b>100.0</b>	<b>100.0</b>	

Source: Field Data Survey, (2021)

There were 40 married persons and 13 unmarried people among the 61 people who replied. As a result, married people accounted for 65 percent of those who responded to the polls. The increased number of married persons was attributed to the research area's placement in the municipality's perimeter, where family is the source of work. As a result, knowing the respondents' marital status was a crucial variable since it allowed the researcher to determine the level of relationships and influence in family decision-making.

#### **4.7 Availability of Microfinance Institutions in Poverty Alleviation in Tanzania**

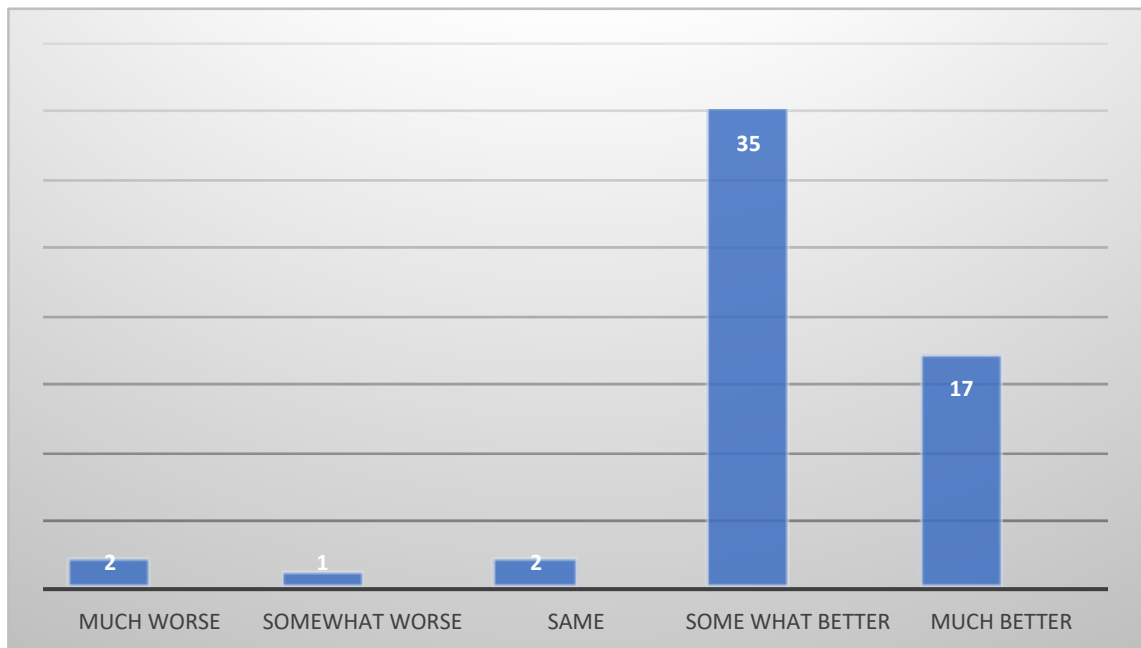
The first objective was to assess the availability of microfinance institutions in poverty alleviation in Tanzania. Muhammad, S. (2010). Mentioned three dimensions of poverty being in relation with income, education, security and empowerment. For the purpose of in answering research question through use of three dimensions of poverty in relation with availability of microfinance institution.

**Table 4.5: Current Availability of Microfinance Services**

		<b>Frequency</b>	<b>Percent</b>
Valid	Much worse	2	3.3
	Somewhat worse	1	1.6
	Same	2	3.3
	Somewhat better	35	58.3
	Much better	17	28.3
<b>Total</b>		<b>60</b>	<b>100.0</b>

Source: Field Data Survey, (2021)

Findings shows that 35 respondents which contributing to 58.3 percent show their availability of microfinance services was somewhat better, 17 respondents from the field which contributing to 28.3 percent show their access to microfinance services was much better, was the same, 2 respondents from the field which contributing to 3.3 percent show their access to microfinance services was much worse. 1 respondent from the field which contributing to 1.6 percent show their access to microfinance services was somewhat worse. The Table 4.5 presented pictorially in the Figure 4.2.



**Figure 4.2: Current Availability of Microfinance**

Source: Survey data, (2021)

Based on the findings from the field show that most of respondents had a better access to microfinances services. Through Montgomery, R. (2001) an availability and access to microfinances services explain that there is a decrease in the rate of poverty through individual. In that case above from the findings it indicates that great contribution of microfinance institutions to the poverty reduction in Tanzania and it exists through

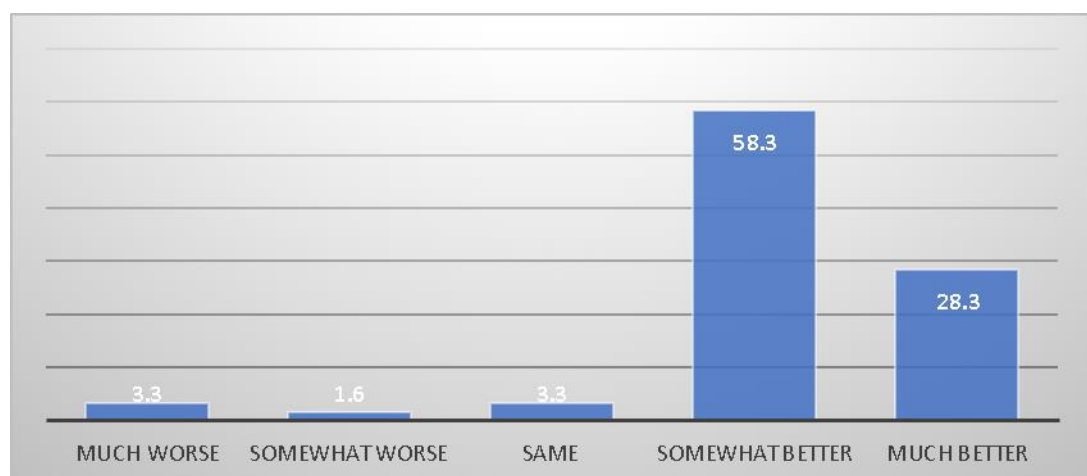
availability and provision of loan with low interested rate from microfinance helps individuals to expand their business and generate more income that they tend to be able to access others services like; education and health services as the process in reduction of poverty.

**Table 4.6: Current Access to Basic Financial Services like Loans Savings, and other Financial Services**

		Frequency	Percent
Valid	Worse	5	8.3
	Same	15	25
	Better	40	66.6
	Total	60	100.0
<b>Total</b>		<b>60</b>	<b>100.0</b>

Source: Field Data Survey, (2021)

From the total number of respondents from the field was 60. Field findings show 35 respondents contributing to 58.3 percent access to financial educational services was somewhat better, 17 respondents contributing to 28.3 percent their access to financial education was much better, 2 respondents constituting to 3.3 percent was the same and 1 percent of 1.6 respondents show was somewhat worse. From table 4.6 presented pictorially in the Figure 4.3.

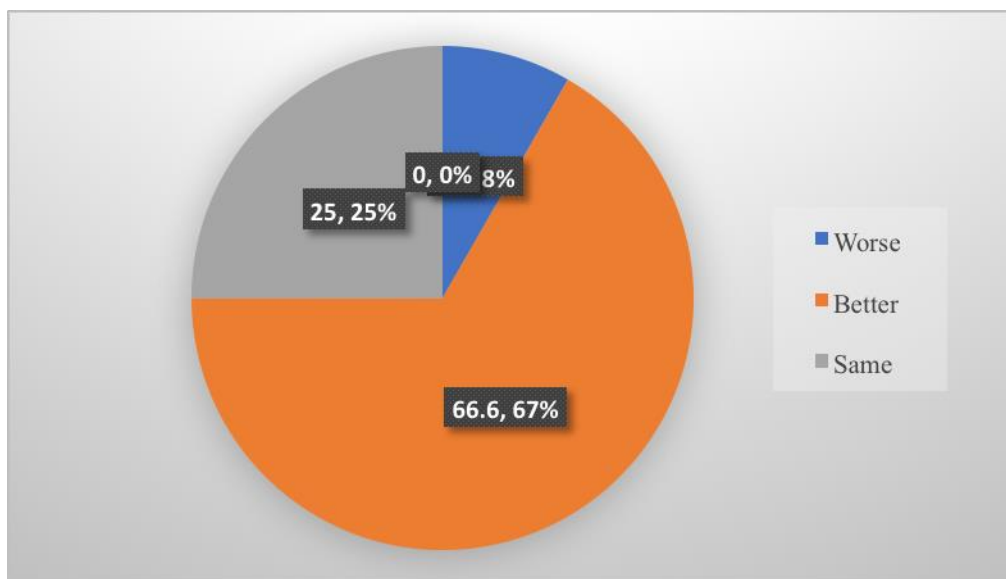


**Figure 4.3: Current Access to Educational Services**

Source: Survey data, 2021

These results show that most of respondents had a better access to finance educational services. Matovu, D. (2006) highlighted the poverty status of an individual through checking about his access to financial related education services. Financial education seeks to provide entrepreneurs knowledge and business skills to encourage success in customers and business in general. In that case it explains that contribution for microfinance institutions in poverty alleviation in Tanzania meaning that poverty was reduced based on education point of view.

Based on study findings, which has the total of 60 respondents from the field. Results from the field show that 40 respondents contributing 66.6 percent had better access to financial services such loans, savings and others financial related services, 15 respondents contributing of 25 percent said the access to financial services same and 5 contributing constituting 8.3 percent said the access financial services is worse. The table 4.6 presented pictorially for Figure 4.4.



**Figure 4.4: Current Access to Basic Financial Services Like Loans, Savings and others Financial Services**

Source: Survey data, (2021)

Access to better basic financial services like loans and savings is another indicator of services accessibility according to Manadhar, K. B., & Pradhan, K. K. (2005). Based on that case, this explain that a better access to financial services it indicates there is poverty reduction in that particular place. In that case based on the contribution of microfinance institution on poverty reduction can increase an individual income which will be used in for access others services like; water, food and shelter. This implies that microfinance institution plays a great role for poverty reduction in Tanzania.

#### 4.8 Performance of Microfinance Institutions

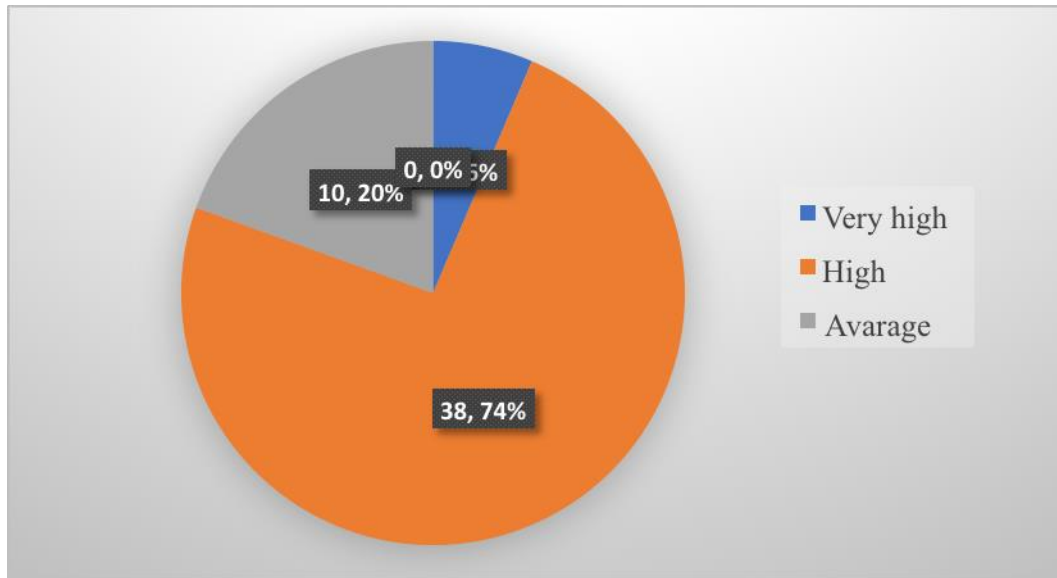
Income increases termed for indicator microfinances institution the higher the income the is positive impact to poverty reduction resulted to the roles played by microfinances in providing loans to the people.

**Table 4.7: Level of Income Improvement before and after Borrowing Loans**

		Frequency	Percent
Valid	Very high	2	3.3
	High	38	63.3
	Average	10	16.6
<b>Total</b>		<b>60</b>	<b>100.0</b>

Source: Field Data Survey, (2021)

The results from findings show that 38 respondents contributing 63.3 percent said that there was a very high for increase in income, 10 respondents contributing 16.6 percent said there was high increase in income and the rest 2 respondents contributing of 3.3 percent said income still average. From the table 4.7 presented in the Figure 4.5.



**Figure 4.5: Rate of Increase in Income before and after Borrowing Loans**

Source: Survey data, 2021

According to these findings there was increase in income and savings after loans and before loans for household income. The improvement/increase in income reduces poverty to the household. The study found that there was high improvement in income after involvement in microfinance institutions and there was reduction in poverty levels specifically based on income. In that case show that their positive performance for microfinance institutions in poverty reduction and improvement of people's welfare. The results from findings show that 74 percentage respondents percent said that there was a very high for increase in income, respondents contributing 20 percent said there was high increase in income and the rest respondents contributing of 6 percent said income still average.

#### **4.9 Living Condition before and after Microfinance**

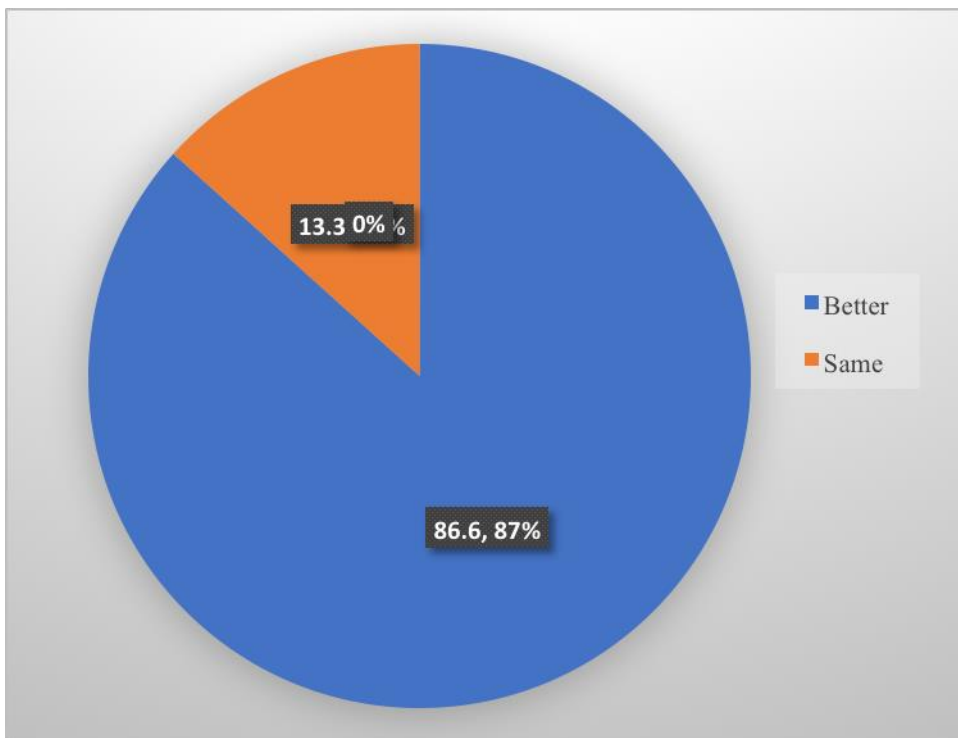
The access to a better service for microfinances shows about the level living standards. Through microfinances improves better the living of life and the poverty elevation.

**Table 4.8: Current Living Condition Compared to before Microfinances**

		Frequency	Percent
Valid	Better	52	86.6
	Same	8	13.3
<b>Total</b>		<b>60</b>	<b>100.0</b>

Source: Field Data Survey, (2021)

The results from the filed show that 52 respondents contributing about 86.6 percent of respondents said that they had a better life after microfinances and 8 respondents contributing 13.3 percent of respondents said they had the same life even after the introduction of microfinances. The table 4.8 presented in the Figure 4.6.

**Figure 4.6: Living Condition before and after Microfinances**

Source: Survey data, 2021

These results from the field showed that the life was better after microfinance loans than before microfinances. Kuzilwa, J.A. (2002) highlight that better living conditions termed as the indicator about the reduction in poverty in the particular resulted with the microfinances performances. Performance for microfinances include the ability to offer more loans, increase of savings level and improvement of the new and existing business. There is positive relationship between microfinances performances and poverty reduction.

#### **4.10 Situation of Accessing Loans before and after Microfinances**

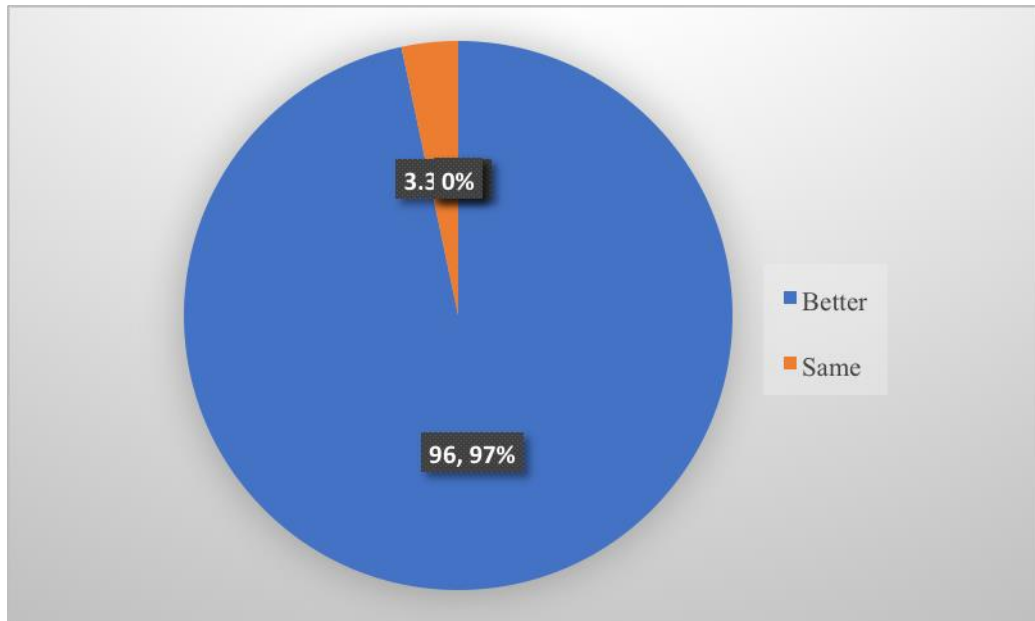
Access to loans services in microfinances and microfinances performances. The findings from the study shows that there is huge gap for loan provided before microfinance and after microfinances.

**Table 4.9: Situation of Accessing Loans before and after Microfinances**

	<b>Frequency</b>	<b>Percent</b>
Valid Better	58	96.6
Same	2	3.3
<b>Total</b>	<b>60</b>	<b>100.0</b>

Source: Field Data Survey, (2021)

The study involves of 60 respondents where by the findings show that 58 respondents constituting to 96.6 percent of respondents had better access to loans after microfinances than before and 2 respondents from the field contributing constituting 3.3 percent had the same access of loans services. The table 4.9 can be presented pictorially in the Figure 4.7.



**Figure 4.7: Situation of Accessing Loans before and after Microfinances**

Source: Survey data, (2021)

This study has found that the most had better access to loan than before. These findings explain that to the most there was improvement of business and poverty elevation. These findings are similar to Gurses, D. (2009). Who found that there was better access to financial services such as loans and savings after introduction of microfinance institutions? Through the above hints, researcher has found that there was increase in loans provision after microfinances; secondly there was improved financial services such as loans, savings and others financial and payment of bills was better after microfinances and it is obvious that there is improvement for microfinances institutions on offering of services compared to before and poverty reduction.

#### **4.11 Lending Procedures and Regulations of Microfinance Institutions**

Researcher highlight that lending procedures and regulation in relation with loans repay given to repay the loans in enough and it enables borrowers to use the amount of

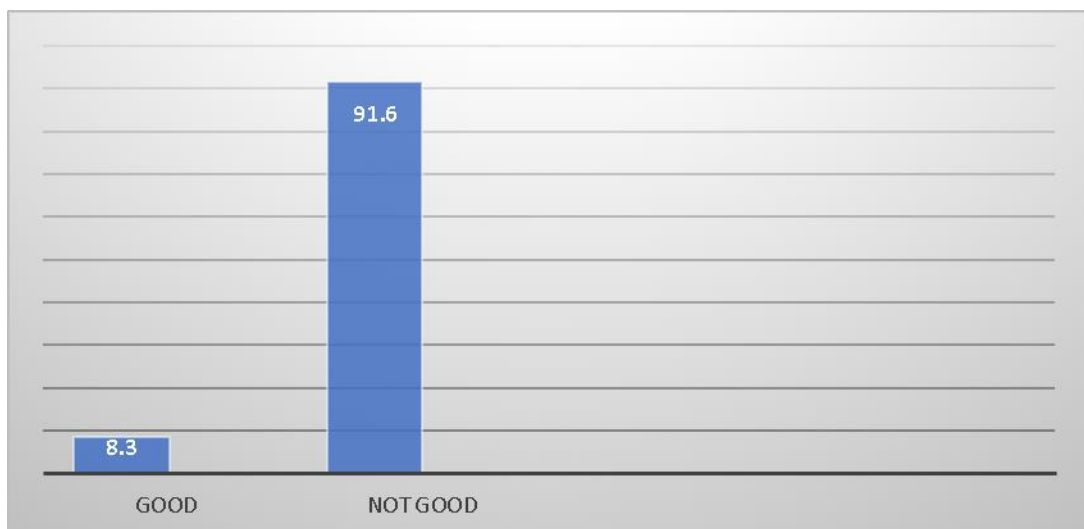
money borrowed through proper procedure and generate profits through their business. Higher profits will increase the when the lending procedures and regulation are adjusted in accordance with borrower's ability to repay loans.

**Table 4.10: Lending Procedures and Regulation given to Access the Loan Good or not Good before and after Microfinances**

		Frequency	Percent
Valid	Good	5	8.3
	Not good	55	91.6
<b>Total</b>		<b>60</b>	<b>100.0</b>

Source: Field Data Survey, (2021)

From findings table 4.10 respondents were 60 people. Findings show that 55 respondents which about 91.6 percent of respondents said not good for the lending procedures and regulation for access loan and only 5 respondents contributing about 8.3 percent says that the lending procedures and regulation to access loan is good. The table 4.10 presented pictorially in the Figure 4.8.



**Figure 4.8: Lending Procedures and Regulation Given to Access the Loan Good or not Good**

Source: Survey data, 2021

Therefore, to the majority about loans producers and regulation on access loans is not enough. And recommended that procedures and regulation of access loans should be adjusted based with the to the agreement for borrowers as well as the lenders. Through this will enable a huge number of people to access loans and as a result with business improvement and result of poverty elevation. IFC (2005) highlight that lack of understanding about the procedures and regulation about loans access through clients termed as the challenge for most of MFIs. It explained that challenge that MFIs require their loans back in a short time with complicated procedures and regulation to the borrower. The study has found that lack of knowledge and understanding about loans, interest rate is a challenge for most of the borrowers.

#### 4.12 Form of Collateral Required for Loan Borrowing

Most Microfinance request for collateral including land rights and others fixed assets like house and other complicated procedures and regulations. MFIs request collaterals due to the reasons about being sure of their loans to be return back on upon the agreed time.

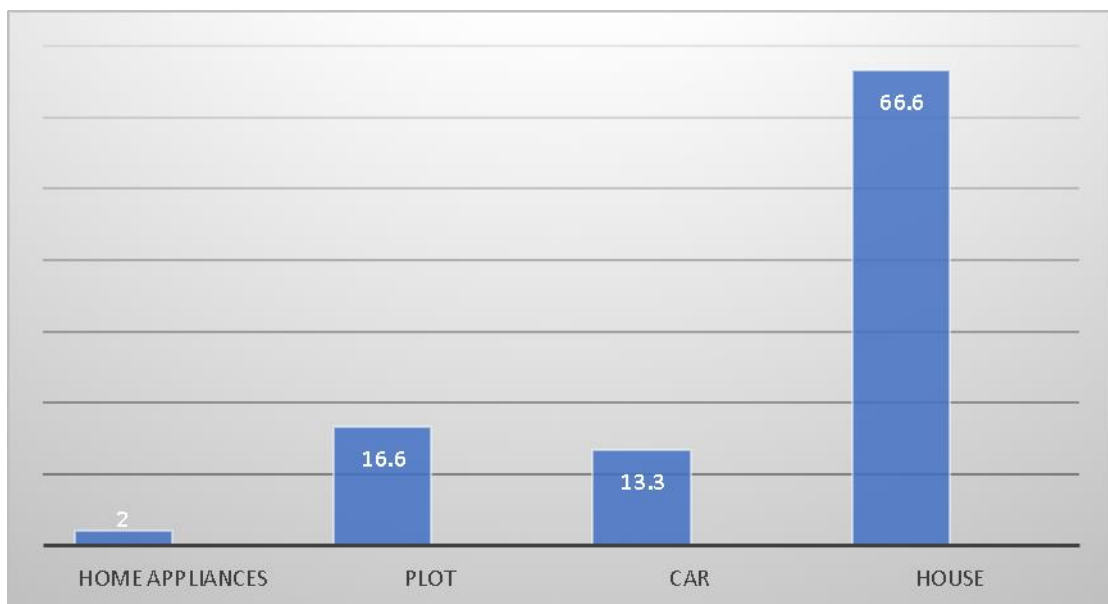
**Table 4.11: Form of Collateral Required for Loan Borrowing**

		Frequency	Percent
Valid	Home Appliance	2	3.3
	Plot	10	16.6
	Car	8	13.3
	House	40	66.6
<b>Total</b>		<b>60</b>	<b>100.0</b>

Source: Field Data Survey, (2021)

The Table 4.11 reveals about the number of respondents in field was 60. Findings show that 40 respondents contributing 66.6 percent said that they were required to

offer house for loans processing, 10 respondents contributing 16.6 percent said they were required by the to offer plots, 2 respondents contributing to 3.3 percent said they were required to offer household properties and 8 respondents contributing 13.3 percent said they were demanded to offer cars for loans requesting process. The availability of collateral determines the access and amount of loans from MFIs. The problem related with lack of required collateral termed as the results for lack of request of loans at the end results to increase in microfinance performances and poverty elevation. The table 4.11 presented pictorially in the Figure 4.9.



**Figure 4.9: Type of Collateral Required for the Loan**

Source: Survey data, 2021

This termed as the challenge for most of the borrowers because most do not have valuable assets which involves the issue of houses, land and car, for houses are used for loan collateral and the amount of loans to be offered should be large. It is recommended that all decision about collaterals must reflect the important characteristics of those demand loans and it should be considered due to the reasons

for majority of entrepreneurs have good working relationship with lenders. MFIs should have easier procedures and regulation-based condition to their customers for them to access loan.

#### 4.13 Interest Rates

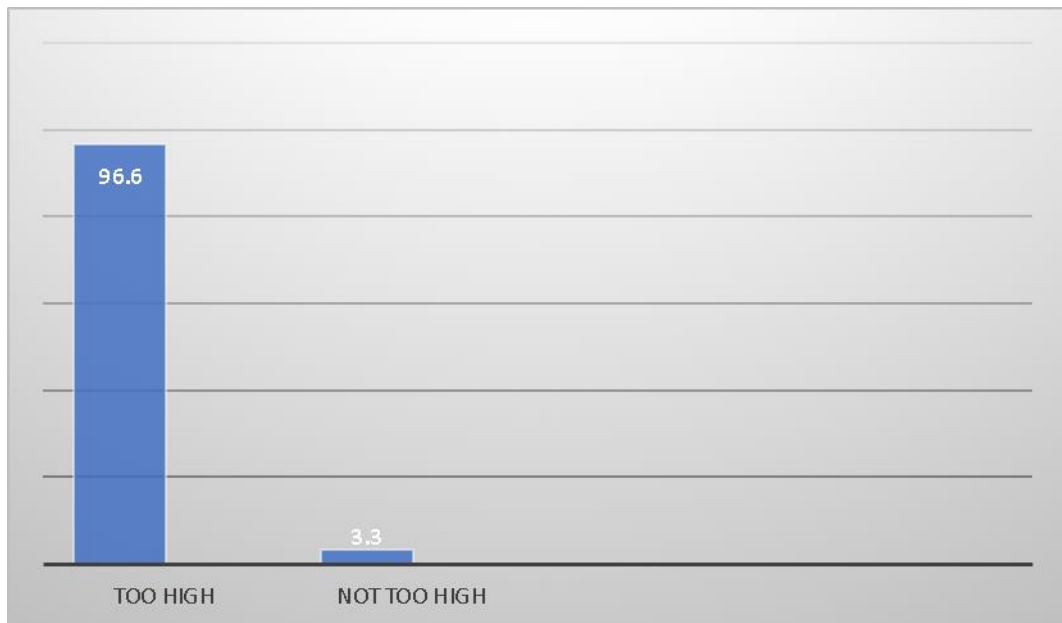
In this study investigates about interest rates in relation with producers and regulation for borrowers paid after loans to use on starting a new business, which should be paid, in a specific period of time, which can either be a week, moth or sometimes a year. Based on this study researcher wanted to know about interest rates if it's too high or not in relation with poverty reduction to household.

**Table 4.12: Interest Rates**

		Frequency	Percent
Valid	Too High	58	396.6
	Not too High	2	33
<b>Total</b>		<b>60</b>	<b>100.0</b>

Source: Field Data Survey, (2021)

Based on study findings responses were 58 respondents contributing of 96.6 percent of respondents said that the interest rates were too high and 2 respondents adding to 3.3 percent of said that interest rates were not too high. For high interest rates to be higher amount become the problem for borrowers to MFIs. When the interest rates are low customers will tend to be able to save more and be able to repay their loans vice and expand their business at the same time. Through the findings from the field show that there is negative impact on interest rates and microfinance related with procedures and regulation as well poverty reduction. The table 4.12, presented pictorially in the Figure 4.10.



**Figure 4.10: Interest Rates**

Source: Survey data, 2021

Researcher interested to know if the interest rates for microfinances are too high or not. **Irobi, N. C. (2008)** assessed the performance facing semi-formal microfinance institutions providing credit in the Mwanza regions. The analysis of this study highlighted that the interest rates were a potential problem for borrowing decision. This study highlight that Microfinance are charging high interest rate for even short loan and deduction is starting early after taking a loan mostly start with one week and become a reason for them not to recover the loans plus interest. Based on the above study it recommended that for interest rates must be lowered as well as the time to repay the loan must be increased and Government should write the new policy/ regulations to MFIs on the amount to be charged as the interest for all MFIs.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

This study was conducted at Dodoma Municipal through a specified purpose to identify the contribution of microfinance institutions in poverty alleviation in Tanzania. In order to achieve the study purpose specific objectives of the study were developed which included the following; assess availability of microfinance institutions, evaluate performance of microfinance institutions and assess lending procedures and regulations of microfinance institutions. The study was guided with the following questions, Are the microfinance institutions available? What is the performance of microfinance institutions? And What the lending procedures and regulations of microfinance institutions?

The study was used a case study on small business who access loan from MFIs at Dodoma Municipal. The study plays an important role since it gives clearly recommendations for improvement microfinance institution services and poverty reduction and be useful for policy makers and to strengthen MFIs in order to reduce poverty. Similar studies have been conducted across the globe including Tanzanian

For negative impact for customers having no financial education they observe positive impact where financial customers with financial education are capable of business planning and best approach for use of microfinance loans and they are better use of loan in appropriate manner. The study findings have shown that microfinance when intervened financial and business skill had a positive impact on poverty reduction.

This present that customers with entrepreneurship skills they can use the loan for productive activities

Despite the above positive findings, the study has revealed different challenges facing small business owner for loan acquisition from MFIs with high interest rates on loan and difficult conditions and requirements for loan applications especially the need for collateral security. The MFIs requires collateral for loan security to insure loan repayment by entrepreneurs. Another challenge was short period for loan repayment. It has realized that customers 'financial education as well as entrepreneurship skills and microfinance institution have positive contribution on to poverty reduction.

## **5.2 Conclusion**

Conclusively, based on research specific objective the conclusions have been drawn. The research findings have shown that microfinance institutions have positive results on poverty reduction when intervened customers financial education and business skills. Study it has been found that the customers with financial education showed a positive impact on poverty elevation. The negative impact for the customers having no financial education, observe positive impact won 't be to with the same extent with educated financial. Clients with financial education are capable for business planning and proper utilization of loans trained and far better utilize the loan in a profitable way. The findings have shown that microfinance when intervened microfinance institutions available positive impact on poverty alleviation

The study has showed that microfinance institutions have a positive contribution to welfare of entrepreneurs. It has been highlighted that, after use of microfinance loans

and others related services for entrepreneurs have improves their standard living through having access to loans, financial education, business training, food and account for business savings. The income level of entrepreneurs has improved and expand their business for making their business stable

### 5.3 Recommendation

Based on the study conclusions, the following recommendation are provided general view about reducing microfinance institution challenges discovered in this study with purpose of improving microfinance service and poverty reduction.

**Increase service coverage:** Most of the microfinance institutions are developed mostly in urban areas compared with rural areas where large pupation is found. MFIs are suggested should increase its covered to rural areas for poo people to access loan and increase standard of living

**Collateral requirement:** Most of the business owner doesn't own assets, which are demanded by microfinance as the collateral for them to access loan. Microfinance institutions should rethink about introducing a new approach for securing their loans to business owner for their loan, which can be accessible to large number of customers to foster the rate for poverty alleviation.

**High interest rates:** It's suggested that government and financial stakeholders should work close by ensuring microfinance institutions consider about reducing interest rate charged by microfinance institution.

It is recommended that Microfinance have to increase for amount borrowed for entrepreneurs to expand their business and savings should be timely credit delivery to the individual's credit are insufficient through ensuring expand of small business with people engage in business activities needs basic knowledge and skills to business through training on how to utilize loans and market channels for their services/product. The Government should establish market sources for the entrepreneur that they tend to increase sales as well as profit they can pay their interest of their loans time and increase income improvement and finally poverty reduction.

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## APPENDICES

### Appendix I: Research Clearance Letter

**THE OPEN UNIVERSITY OF TANZANIA**  
***DIRECTORATE OF POSTGRADUATE STUDIES***

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**Our Ref: PG201803260**

Date: 11<sup>th</sup> December 2019

The Director  
FINCE  
P. O.Box 78783  
**DODOMA**

#### **RE: RESEARCH CLEARANCE**

The Open University of Tanzania was established by an act of Parliament No. 17 of 1992, which became operational on the 1st March 1993 by public notice No. 55 in the official Gazette. The act was however replaced by the Open University of Tanzania charter of 2005, which became operational on 1st January 2007. In line with the later, the Open University mission is to generate and apply knowledge through research.

To facilitate and to simplify research process therefore, the act empowers the Vice Chancellor of the Open University of Tanzania to issue research clearance, on behalf of the Government of Tanzania and Tanzania Commission for Science and Technology, to both its staff and students who are doing research in Tanzania. With this brief background, the purpose of this letter is to introduce to you **Daniel E. Mwita, Reg No: PG 201803260** pursuing **Master Degree of Arts in Monitoring and Evaluation**. We hereby grant this clearance to conduct a research titled: **“Contribution of Microfinance Institutions to Poverty Alleviation in Tanzania: A Case Study of FINCA Micro Finance in Dodoma Municipality”**, he will collect his data in Dodoma Region Tanzania from 11<sup>th</sup> December 2019 to 7<sup>th</sup> February 2020.

In case you need any further information, kindly do not hesitate to contact the Deputy Vice Chancellor (Academic) of the Open University of Tanzania, P.O. Box 23409, Dar es Salaam. Tel: 022-2-2668820. We lastly thank you in advance for your assumed cooperation and facilitation of this research academic activity.

Yours sincerely,

Prof. Hossea Rwegoshora  
**For: VICE CHANCELLOR**  
**THE OPEN UNIVERSITY OF TANZANIA**