

**IMPACT ASSESSMENT OF SMALL CREDIT FINANCE TO POVERTY  
ALLEVIATION IN THE RURAL SOCIETY OF TANZANIA THE CASE OF  
MWANGA COMMUNITY BANK LIMITED (MCBL)**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENT FOR THE REWARD OF THE MASTERS DEGREE  
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**CERTIFICATION**

The undersigned certifies that he has read and hereby recommend for acceptance by The Open University of Tanzania a dissertation titled: **Impact Assessment of the Small Credit Finance to Poverty Alleviation in the Rural Society of Tanzania: Case of Mwanga Community Bank Limited**, in fulfillment of the requirements for the Degree of Master of Business Administration (MBA, Finance) of The Open University of Tanzania.

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Date

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**DECLARATION**

I, **Mika Mkanja**, 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**

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I commit that all views and errors present in this research to be solely mine.

## **DEDICATION**

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## ABSTRACT

The study was carried out in Mwanga District, Kilimanjaro region, with the aim of assessing the contribution of small credit to poverty reduction in the rural society of Tanzania. The study was based on the fact that Microfinance has proved to be an effective and powerful tool for poverty reduction. The researcher interviewed 93 Mwanga Community Bank Limited Clients and the management to see the Impact assessment of small credit finance to poverty alleviation in Mwanga District. The main objective of the study was to examine and assess the impact of micro-finance in poverty alleviation. A case study design was adopted to get the required in-depth data for a small unit. Probability and non probability sampling techniques were applied. Interviews, questionnaires and documentary reviews methods were adopted for the purpose of collecting the required data. The data collected were analyzed using descriptive statistics such as frequency tables, graphs, charts and percentages. Community Banks provided access to credit facilities. Loans secured from Rural Community Bank contributed towards poverty reduction. Poverty reduction was manifested through a number of ways, such as opening up new investments, expanding existing investments, ability to pay school fees and higher learning institutions' fees , and paying for health services. It is recommended that, interest rate, application period, insurance fund, and minimum cash deposit seem to be clients' constraining factors, some changes should be made. The Interest rate should be reduced to at most 15% compared to the current interest rate of 19% and repayment period should reflect individual client's business MCBL should insist much on group guarantee system rather than cash deposits to the micro-credits clients.



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**LIST OF ABBREVIATIONS AND ACRONYMS**

BoT	Bank of Tanzania
BRAC	Bangladesh Rural Advancement Committee
CGAP	Consultative Group to Assist the Poor
CRDB	Cooperative and Rural Development Bank
CSP	Cooperative Societies Policy
G8	Group Eighty
GDP	Gross Development Product
GoT	Government of Tanzania
GTZ	German Development Organization
HBS	Household Budgeting Survey
HIPS	Highly Indebted poor Countries
HIV	Human Inefficiency Virus
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
MDG	Millennium Development Goals
MFI	Micro Finance Institutions
MMF	Malawi Mudzi Fund
MCBL	Mwanga Community Bank Limited
NBAA	National Board of Accountants and Auditors
NBC	National Bank of Commerce
NBFI	Non Bank Financial Institutions
NESP	National Economic Survey Programme
NGO	Non Governmental Organization

NMFP	National Micro Finance Policy
NPES	National Poverty Eradicating Strategy
NSGRP	National Strategy for Growth and Reduction of Poverty
NTP	National Trade Policy
PRSP	Poverty Reduction Strategy Paper
RFSP	Rural Financing Servicing Programme
RRB	Regional Rural Bank
SACA	Smallholder Agriculture Credit Administration
SACCOS	Savings and Credit Cooperatives
SAP	Structural Adjustment Programmes
SIDO	Small Industries Development Organization
SMEDP	Small and Medium Enterprise Development Policy
SPSS	Statistical Package for Social Science
TAS	Tanzania Assistance Strategy
URT	United Republic of Tanzania
WB	World Bank

## CHAPTER ONE

### 1.0 INTRODUCTION

The study was assessing the influence of Mwanga Rural Community Bank on reducing poverty in the society, as part of the government efforts to accelerate economic growth and poverty reduction in Tanzania. The overall goal of MCBL is a sustainable increase in incomes, assets and food security of poor rural households, while its purpose is to enhance the capacity of rural poor to mobilize savings and to invest in income generating activities, support for the design, development and implementation of sustainable rural financial services at the village, ward and district levels as well as to improve the managerial capacity of solidarity groups involved in Micro-finance activities, develop a sustainable rural financial network infrastructure and, further empower poor rural households to benefit from rural financial services. The study therefore made an assessment on how so far MCBL has supported and contributed towards reduction of poverty.

### 1.1 Background of the MCBL

**MCBL** is located along the East African highway of Arusha-Dar es Salaam in Mwanga District, Kilimanjaro region the north-eastern part of Tanzania. The bank was officially inaugurated by former President W. Benjamin on October 21, 2001. This Bank was established by the citizens of Mwanga District and from other areas such as Dar es Salaam, Tanga, Dodoma and Arusha. International/National NGOs, Mwanga District council also participated. The Tanzania Trust Fund and Mwanga Pare Community Development Trust Fund together own 40% in MCBL with individual members of the



community owning the rest 60 %.

The Bank provides the following services, sales of shares, savings account, fixed deposit account, normal savings account, junior account, faidika account, current account, foreign account, foreign exchange and money transfer. Moreover, MCBL provides short term loans from fifty thousands to one Million and long term loans is above one Million for businessmen, farmers, pastoralists and other financial/non financial institutions.

## **1.2 Vision Statement**

MCBL is on the front line to manage and provide favorable bank services in the competitive market for the sustainable growth.

## **1.3 Mission Statement**

To join together the community monetary power, to raise the Community Economy and to provide acceptable bank services for sustainable development of the community.

## **1.4 Objectives of Rural Community Banks**

According to the study conducted by BoT in 1997, Community Banks have the potential of fulfilling the following objectives;

- (i) Increase use of banks and monetization of the rural communities.
- (ii) Enhance savings mobilization and thereby capitation in the rural areas.
- (iii) Increase access of financial survives to the poor in the rural areas. This granted, the Community Banks provide an expansion in the number of the households and areas reached by microfinance services in the country.
- (iv) Enhance capacity of rural communities in owning and control

their own development. It is therefore, expected that the Community Banks empower the rural poor with an institution that enable them to move out of poverty and improve their standards of living. The empowerment can be realized from the use of the Community Banks to raise local and external financial resources for small and large investment in individual and community owned projects.

### **1.5 Background to the Problem**

Soon after independence in 1960s, Sub-Sahara Africa (SSA) had been facing development crisis. In Tanzania for instance, the decline in living standards, decaying infrastructure, upwards trends in population growth, low real GDP growth rate, and declining per capital income are some of the factors that have qualified the country to be classified among the poorest in the world (World Bank, 1990). The Poverty problem in Mwanga District has been increasing due to the shortage of rainfall per year as a result of poor harvest of food. The shortage trends of Maize from 2005 to 2012 were 5,857.22 tons, 5,540.78tons, 4,736.11tons, 4,172.01tons, 6,621.98tons, 5,378.37tons, 6,529.69tons and 6315.07tons respectively. This shortage of food caused the per capital income to decline below Tshs. 422,162 per year or below Tshs. 1156.61 per day (Mwanga District report, 2012).

The members of the Community fail to pay for education and health services, poor life standard and poor housing are among the consequences of poverty which are openly known in the society.

One of the efforts done was to establish the Community bank which was

inaugurated by the former President W. Benjamin on October 21, 2001, namely Mwanga Community Bank Limited. This was purposely initiated to meet the main objective of Microfinance credits, in order to offer financing and empowerment to poor, for the development of the business sector means of achieving high standards and reducing poverty in the society.

Other efforts done are the District Council Committee meeting done in every month to solve the problem, free and cheap food provided to the Community every quarter, introduction of manpower labor in the construction projects, instead of using machines.

Reducing poverty is the central theme of any micro credit. A well targeted credit always helps the poor. Therefore, micro credit is not just forwarding credit; it is mainly intended to help the population to move out of the poverty blanket. A properly structured and well thought out credit programme can be a phenomenal change in the times of people. Critical appraisal of micro credit should almost invariably be based on the assessment of performance and efficiency of credit facilities and other services available to the poor and of the ability of the organization delivery those services to sustain their operations into the future.

Poverty has increasingly become a problem of many developing countries in the world. Tanzania being one of these countries has been facing poverty problem for since independence 1961. The governments of Tanzania, donors, non-governmental organizations, social groups and researchers have been taking various measures such as

to provide small finance credit from financial institutions. Credit creates opportunities for self employment rather than waiting for employment to be created. It liberates poor women and men from clutches of poverty. It brings the poor into the income stream. Given the access to credit under an appropriate institutional structure and arrangement, one can do whatever one does best and earn money for it so as to overcome poverty. One can become the architect of one's destiny and the agent of change not only for one's family but also for the society.

Community Banks in Tanzania were established in order to fill the existing financial gap in the rural areas whereby for many years it has been difficult for the poor to access banking services (BoT/NBAA 1997). The purpose of Community Banks is to mobilize savings and providing credits to the rural poor, hence assisting in reducing poverty and improving well-being of the rural society. Baumann (2001) urges that, main goal of many microfinance institutions especially rural microfinance institutions is to provide sustainable microfinance facilities to the poor, thus facilitating in generation of income and reduction of poverty.

The challenge in Tanzania's rural development remains that of identifying sustainable ways of enabling the main sectors of the rural economy, agriculture and micro enterprises to achieve their growth potential. Well designed rural finance programs can make a significant impact on the living conditions of the poor. Provision of the services do not only benefit those who live in rural areas, but also the poor who live in urban and semi urban areas, those who cannot access the financial services provided by the Commercial Banks (Msami 1999).

The Government of Tanzania has tried to its best to find out the way of reducing poverty among its people, one of them is to provide small finance credit from financial institutions. In its measure to reduce poverty in the country the government devised various policies, strategies and plans. Among them include National Strategy for Growth and Reduction of Poverty (NSGRP, 2005), Tanzania Assistance Strategy (TAS), Cooperative Societies Policy (CSP, 2002), National Trade Policy (NTP), the Cooperative Society Rules (2004), National Micro Finance Policy (NMFP, 2000), Small and Medium Enterprise Development Policy (SMEDP, 2003). In each instrument the aim was to guide a specific sector on how to attain the National main Goals and among others includes poverty reduction by year 2025 (URT, 1998).

Tanzania Government with other stakeholders have been taking various initiatives such as establishment of SIDO, NMB, some non-governmental institutions such as Poverty Africa, Equal opportunity for all Trust Fund (EOTF), Promotion of Rural Initiatives and Development Enterprises (PRIDE), Small Enterprises Development Agency (SEDA), Shujaa wa Kupiga Vita Umaskini (SKUVI), SACCOS and other savings and credit societies, poverty alleviation fund, women trust fund to enable poor people to access financial services. The impact of Community Banks will be measured in terms of the number of new investments established and financed loan, number of members who afford to support training costs for their children and amount of money used to pay other services like health insurance.

## **1.6 Statement of the Problem**

Soon after independence in 1960s, Sub-Sahara Africa (SSA) had been facing development crisis. In Tanzania for instance, the decline in living standards, decaying infrastructure, upwards trends in population growth, low real GDP growth rate, and declining per capital income are some of the factors that have qualified the country to be classified among the poorest in the world (World Bank, 1990). The Poverty problem in Mwanza District has been increasing due to the shortage of food as a result of poor harvest. The shortage trends of Maize from 2005 to 2012 were 5,857.22 tons, 5,540.78 tons, 4,736.11tons, 4,172.01tons, 6,621.98tons, 5,378.37 tons, 6,529.69 tons and 6315.07 tons respectively. This shortage of food caused the per capital income to decline below Tshs. 422,162 per year or below Tshs. 1156.61 per day (Mwanza District report, 2012). The member of the Community fails to pay for education and health services, poor living standards and poor housing are among the consequences of poverty which are openly known in the society (personal observation).

The household budget survey which was conducted in 2008-2010 in Mwanza District indicated that the proportion of the population lived below the poverty line was 28.7 percent and below basic needs poverty was 35.7 percent. This situation attracts the attention of every stakeholder in Mwanza District to find out ways of reducing poverty.

One of the efforts done was to establish the Community bank which was inaugurated by the former President W. Benjamin on October 21, 2001, namely Mwanza Community Bank Limited. This was purposely initiated to meet the main objective of Microfinance credits, in order to offer financing and empowerment to poor, for the development of the business sector as a means of achieving high standards and reducing poverty in the society.

Other efforts done are the District Council Committee meeting done in every month to solve the problem, free and cheap food provided to the Community every quarter, introduction of manpower labor in the construction projects, instead of using machines.

The Government of Tanzania has been said that one of the reasons for income poverty is existence of obstacle to access credit by the low-income earners to the Commercial Bank (National Micro-Finance Policy, 2000). The government intervention in the running of economics of Sub-Sahara Africa (SSA) countries was pervasive from 1960s through the early 1980s. This intervention was said to be more politically than economically motivated. In Tanzania the government's socialist ideology demanded that industrial production be a state concern (Soyibo, 1997). As a result of this, government parastatals dominated the manufacturing, financial and other sectors of the economy. This resulted into inefficiencies and distortions and consequently resulted into misallocation of resources to the least productive sectors. Finally, the national economy shook, leading to a decline in living standards, decline in real GDP and decline in per capital income. Hence, the nation fell in a serious poverty situation.

The problem of access to financial services by the low income earners in Tanzania has a historical background which goes back since independence in year 1961 whereby the Government with the vision of improving the standard of living of Tanzanian has undertaken various socio-economic reforms. These include nationalization of private companies along with Financial Institutions made in year 1967, privatization of parastatal organizations and reform of Financial Institutions made in the year 1990s.

Credit creates opportunities for self employment rather than waiting for employment to be created. It liberates poor women and men from clutches of poverty. It brings the poor into the income stream. Given the access to credit under an appropriate institutional structure and arrangement, one can do whatever one does best and earn money for it so as to overcome poverty. One can become the architect of one's destiny and the agent of change not only for one's family but also for the society. Community Banks in Tanzania were established in order to fill the existing financial gap in the rural areas whereby for many years it has been difficult for the poor to access banking services (BoT/NBAA 1997). The purpose of Community Banks is to mobilize savings and providing credits to the rural poor, hence assisting in reducing poverty and improving well-being of the rural society. (Baumann, 2001) urges that, main goal of many microfinance institutions especially rural microfinance institutions are to provide sustainable microfinance facilities to the poor, thus facilitating in generation of income and reduction of poverty.

(Andrew, 2005) argues that rural people are duty-bound to mobilize themselves for their own community or cooperative banks ought to be cared for by banks, which are closer to the people and understand their needs. Tanzanians, meaningful poverty reduction initiatives must, therefore, target the rural areas and in particular the agricultural sector as it dominates the economy. For the agriculture to have increase contribution to the economy, rural enterprises need among other things access to financial services (Mataba and Bee, 2005).

However, it should be recalled that during the same period, that is after independence in 1961, Tanzania declared a war against three development enemies namely,



diseases, ignorance and poverty. Various plans and programs were formulated and implemented aiming at expanding and strengthening of the social and economic infrastructures such as education, health, water, communication and transport and agriculture and the economy at large. Some of these plans succeeded but others failed and many Tanzanians were still living below the poverty line (Satta, 1999).

Together with the financial sector reform, the Government of Tanzania had to promote the informal sector as a strategy for poverty alleviation among its people. Within this sector, there are many small-scale producers who are not performing well due to lack of capital. The government of Tanzania has been concerned with provision of micro-credit financing to micro-enterprises. Recognizing the growing importance of micro-enterprises in Tanzania's economy, Government of Tanzania has been keen in establishing micro-finance institutions to cater for credit to finance these enterprises. However, this strategy started even before the financial sector reform. In 1973, the Government of Tanzania established the Small-Scale Industries Development Organization (SIDO) through an Act No.28 as a parastatal organization. In August 1997, the Parliament of Tanzania Passed Act. No.6 to facilitate the incorporation of the National Micro Finance Bank (NMB) Limited, as a commercial bank to promote micro finance to micro-enterprises.

Tanzania is increasingly becoming aware of poverty alleviation and micro finance issues. The nation's concern with poverty alleviation issues is so great that it has been given priority by making it as one of the portfolios of the Vice president's Office. Unveiling the National Micro-Finance policy in January 2001, has highlighted the link with micro-finance. Among other things the policy document spells out the National

Vision for development of micro-finance as a tool for poverty eradication in the country.

Furthermore, in its poverty alleviation strategy, the Government of Tanzania has formulated a National Policy on Poverty eradication and its long-Term Development Perspective, the Government has set the goal to eliminate poverty by year 2025 (URT, 1998). This strategy outlines areas of strategic interventions by different stakeholders in poverty eradication and defines roles and responsibilities of those actors so as to ensure its effective implementation (Mahanga, 2001).

There are some of the government efforts to promote micro-credit financing for the purpose of poverty alleviation in Tanzania. Apart from the above mentioned institutions (i.e. SIDO and NMB), some non-governmental institutions, such as Poverty Africa, Equal opportunity for all Trust Fund (EOTF), Promotion of Rural Initiatives and Development Enterprises (PRIDE), Small Enterprises Development Agency (SEDA), Shujaa wa Kupiga Vita Umaskini (SKUVI) and other savings and credit societies, poverty alleviation fund, women trust fund and community based organizations are involved in micro-credit financing in Tanzania. Hence, it is therefore the aim of this research to find out if access to credit from Rural Community Banks contributes to the poverty reduction.

## **1.7 Objectives of the Study**

### **1.7.1 Overall Objective**

The overall objective of this study was to determine the contribution of MCBL

towards poverty reduction in Mwanga District.

### **1.7.2 Specific objectives are:**

- (i) To determine the level of access to credit from MCBL.
- (ii) To examine the extent to which MCBL credits has been effective in alleviating poverty.
- (iii) To identify factors that limit effectiveness of MCBL in alleviating Poverty.
- (iv) To find out ways on how to increase effectiveness of MCBL in alleviating Poverty.

### **1.8 Research Questions**

- (i) Did the target groups access credit from MCBL?
- (ii) To what extent did the MCBL credits improve wellbeing of borrowers?
- (iii) Which factors influence the effectiveness of MCBL in alleviating Poverty?
- (iv) What are ways to increase effectiveness of MCBL in alleviating Poverty?

### **1.9 Significance of the Study**

The research provided adequate information and understanding on the functions of MCBL in reducing poverty among rural people as well as adding to body of knowledge. It was also significant to policy makers and the government in the establishment of Community Banks and in the setting of rules and regulations governing their operations; also it will add knowledge to the existing literature and be a basis for further research.

Furthermore, several studies have been conducted concerning micro-credit

financing to micro-enterprises in Tanzania. However, none of the studies have tried to assess the impact of financial intermediaries in poverty alleviation in Tanzania taking MCBL as a case study. Hence, the study has led to a better understanding of various areas of weaknesses of financial intermediaries which hinder effective alleviation of poverty in Tanzania. The identified suggestion and recommendations will become guidelines and useful sources of information to planners, policy makers, administrators of financial intermediaries in Tanzania and specifically MCBL. Finally, the study will add new knowledge and insights in the field of micro-finance. Furthermore it is hoped that, the study will stimulate further researches on micro-finance of which the researcher will not give much attention.

#### **1.10 Scope of the Study**

The study identified how small credit contributes to poverty reduction to societies living in rural areas. The project concentrated and was limited on the uses of the credit obtained from MCBL as it serves farmers, business persons and workers from both public and private parastatal organizations.

#### **1.11 Definition of Major Research Concepts**

**Poverty Reduction;** There are different approaches of defining poverty, viz. income, subjective well-being and capability; they are further described below (Ishengoma and Kappel, 2005).

**Poverty alleviation** refers to lifting the poor out of poverty (Bagachwa, 1994). There are two approaches in alleviating poverty, first is through redistribution implies that the rich becomes less rich and the poor becomes less poor; and the second is

alleviation through growth based on the theory that government and other developing partners should concentrate on growth policies and the result of growth will trickle down to the poor through both primary and secondary incomes and thus alleviating poverty. Thus SMEs falls under poverty alleviation through growth (Mhone, 1995). The recent definition of poverty by the World Bank (World Development Report, 2000-1) extended the conceptual dimension beyond the conventionally help ideas of permanent income consumption to a more comprehensive notion of lack of opportunity, capabilities, sense of voiceless-ness and vulnerability of external shocks. Thus anti-poverty strategies aimed at meeting the Millennium Development Goals (MDG) not only needs to create income earn capabilities, empowerment of the poor in the sphere of state/social institutions and security against variety of shocks.

Consequently, the principal assumption underlying the maximum economic growth strategy in the long term, the benefits of economic growth will trickle down and reduce the levels of poverty. The growth could be adopted by the government by enhancing the infrastructure that will ensure competition, entrepreneurship, job growth and economic wide efficiency, innovation, growth and poverty alleviation (World Bank, 2003).

**Poverty** is multidimensional, that is, it encompasses not only income for the satisfaction of basic needs, but also human, physical, environmental, social and political capital as a means of achieving income (Zeller, 2004). Bagachwa (1994) defined poverty as the inability to attain a minimum standard of living measured in terms of basic consumptions needs or income required to satisfy them. Also poverty can

be defined as a state of having low income, lack of material well being, lack of choice and opportunities for better life. Poverty can be characterized as poor health, high mortality rate, insecurity, lack of democratic participation in decision making bodies, lack of knowledge, housing, and low per capital income, indebtedness and inadequate supply of food (Shoo, 2001).

Poverty has become a global concern. Every society has its own share of desperation. About 1.2 billion people comprising one fifth of the world population, live in poverty so extreme that they cannot meet their basic needs (IFAD, 2002). Chronic hunger, malnutrition and susceptibility to diseases are the norms with such extreme poverty. In Sub-Saharan Africa, poverty is a major factor contributing to both the spread of HIV/AIDS and the failure to contain it. The Tanzanian situation is compounded by low production of goods and services, slow export growth, weak balance of payments, shortage of foreign exchange and essential goods as well as inadequate funds for recurrent activities such as operations and maintenance of services. The proportional of households headed by women are rising, from 18 per cent in 1991-2 to 23 per cent in 2000-1 with urban areas having the largest proportional. It has also been found that access to basic social amenities such as water, electricity and sanitation are rising (URT, 2000-1).

The ongoing debate whether micro credit programme benefit the extreme poor deserves critical evaluation. In the recent World Bank study in Bangladesh has come with encouraging results. It reconfirms that micro finance matters a lot for the very poor

borrowers and also for the local economy. It helps reduce extreme poverty more than moderate poverty (World Bank, 2001).

Todaro (2003) argues that poverty cannot be properly measured by income but by what a person is or can be and does or can do. It thus means that what the person succeeds in doing with commodities of given characteristics that they come to possess or control. So, the income and wealth are not ends in themselves, but instruments for achieving other requirements in life; therefore capabilities to function are what matters for the people whether poor or rich.

**Community Bank**, the bank organized by members of community for the purposes of mobilizes savings and transforming/turning into capital by extending loans to the members of the community concerned (BoT Guideline, 1993). Communities banks are also, appropriate institutions for accessing financial services and an instrument for alleviating poverty in the rural areas. Conventional banks are not well suited in providing financial services to the poor on a sustainable basis. Many of them are not convinced that they can provide such services and make profit (Drake and Otero, 1992). Evidence shows that community banks have the ability to reach the poor, mobilize local resources, foster community participation and investment, and achieve high repayment rate (GEMINI, 1991).

**Small Credit** is the provision of small loans to poor individuals within groups as capital investment to enable income generation through self employment. Small Credit is provided in the absence of conventional forms of collateral. Instead, group guarantee mechanisms such as peer monitoring and peer pressure are employed as a form of social collateral (Weber, 2001).

Micro financing is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish microfinance from other formal financial products; the smallness of the loans advanced and the savings collected; the absence of asset based collateral and simplicity of operations (Central Bank of Nigeria, 2005). In a wide sense, they may also comprise national or regional banks with micro finance services for small savers and borrowers (Getubig et al 1997; Seibel 1999)

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents the literature for the study. It entails the discussion of Microfinance Institutions, Poverty, the efforts made towards reducing poverty in Tanzania, the relation between Microfinance and poverty reduction, policy licensing and regulatory framework for microfinance. It also encompass empirical studies both internationally and nationally, the demand for financial services and theoretical framework for the study.

#### **2.2 General Literature Review**

The status of poverty in the country is concentrated in the rural areas, based on the 2000/01 Household and Budget Survey, about 38% of the rural population is living below living standards, compared to around 22% in the urban areas. Two factors explain the slow decline in rural income poverty. The gains from economic growth and poverty reduction have not been shared equally among social groups. The rural



population has received fewer benefits. The story on non-income poverty is similar as rural services on education, health, and drinking water are lower in quantity and quality than urban services (Semboja, 2004).

Tanzania as with other developing countries, has been struggling to reduce poverty. One of the interventions has been the introduction and implementation of social and economic policies which address the issue of poverty both at national and individual levels. During the World Social Summit held in Copenhagen in 1995, Tanzania joined other nations in their commitment to eradicate poverty. Following this commitment, Tanzania has developed plans for poverty reduction which are outlined in the Tanzania Development Vision 2025, the National Poverty Eradication Strategy, Poverty Reduction Strategy Paper of 2000, and the National Strategy for Growth and Reduction of Poverty of 2005. All these stress the importance of equitable, sustainable economic growth and improvement of peoples' welfare (URT, 2002).

Microfinance credits were initiated to meet different objectives. The most commonly mentioned objectives include poverty alleviation and improved standard of living, offering financing to poor, men and women empowerment, and the development of the business sector as a means of achieving high standards and reduced market failure (Kessy et al, 2006). Experience shows that microfinance can help the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor to become economic agents of change. Poverty is multi-dimensional. By providing access to financial services, microfinance plays an important role in the fight against many

aspects of poverty. For instance, income generation from a business helps not only the business activity expand but also contributes to household income and its attendant benefits on food security and children's education.

Microfinance credits are important for poverty reduction and alleviation for the poor. Credit for investment will reduce income poverty if the project is profitable and grows. But credit for consumption smoothening is unlikely to reduce the poverty level of the borrower. But it will prevent the borrower from falling deeper into poverty levels. In the long run, if the shock (e.g. crop failure) does not repeatedly occur or is not too prolonged, the credit may facilitate poverty reduction by creating opportunities for the borrower to participate more fully in the production process through more healthy and trained population. Therefore, both credits are important for the rural poor (Semboja, 2004).

Microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. The poorest form the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance. While there is no question that the poorest can benefit from primary health care and from basic education, it is not as intuitive that they can also benefit from microfinance, or that microfinance is an appropriate tool by which to reach the Millennium Development goals. There is extensive evidence that microfinance has a positive impact on the first Millennium Development Goal: that the number of people

living in extreme poverty (defined as those living on less than \$1 per day) will be reduced by half between 2000 and 2015.

Over the past three decades, the development community has been increasingly interested in microfinance as an approach for reducing poverty, supporting gender equity, encouraging more equitable income distribution, developing the private sector and promoting participatory development. Access to modest financial services and other forms of micro enterprise support are key strategies to reduce poverty - providing the poor with opportunities for self-reliance through entrepreneurship and stabilizing the livelihoods of the poor during difficult times.

### **2.3 Theoretical Framework**

A theoretical framework is based on the thought about the social worth of the output of a microfinance organization. Judgments of the performance of microfinance organizations have been based on the concepts of outreach and sustainability (Yaron, 1994). Outreach and sustainability are expressed in terms of the theory of social welfare. Sustainability is permanence. The social goal is to maximize the expected social value minus social cost discounted through time. In principle, sustainability is not necessary and sufficient for social optimality. Sustainability is not an end in itself but rather a means to the end of improved social welfare (Rhyne, 1998).

Thus, outreach stands for the social value of loans from the microfinance organization, and sustainability helps to maximize expected social values, including the net gain of users from loans and deposits, the profits or losses of the clients, and the social opportunity cost of the resources used. Sustainability affects outreach because

permanency tends to lead to structures of incentives and constraints that prompt all the groups of borrowers to act in ways that increase the living standards. The professed goal of micro-credit support is to improve the welfare of poor households through better access to small loans. Financially, sustainable Microfinance credits with high outreach have a greater likelihood of having a positive impact on poverty alleviation because they guarantee sustainable access to credit by the poor.

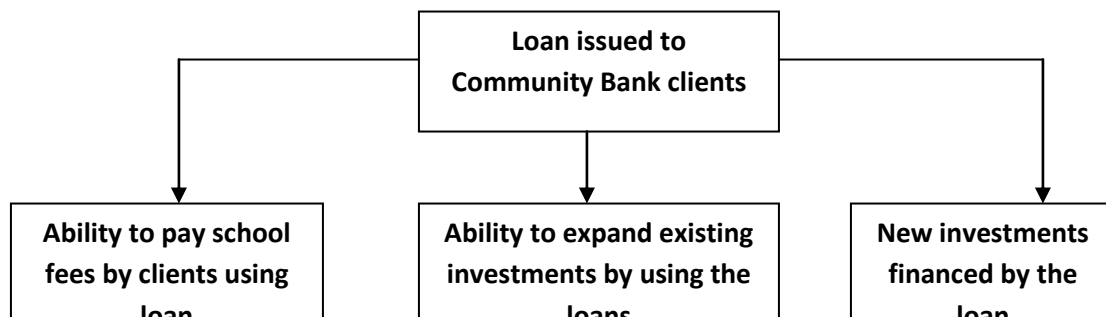
#### **2.4 Conceptual Framework**

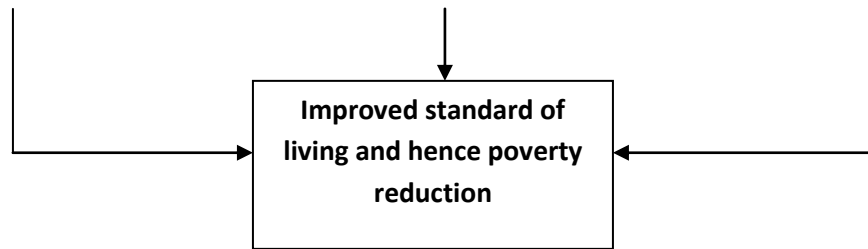
This section discussed the framework that was employed throughout the study. It provides reasons and justifications for the use of mixed methods research framework over others in the contributions of Community Banks in poverty reduction

The conceptual framework of this study was based on the fact that accessed credit from microfinance institution has the potential of improving the standards of living, that is, poverty reduction among those with little or no income. Community Banks provide access to credit facilities. Loans secured from Community Bank were contributed towards poverty reduction. Poverty reduction was manifested through a number of ways, such as opening up new investments, expanding existing investments, ability to pay school fees and higher learning institution's fees.

#### **Figure 2.1: Impact of Loan from Community Bank**

**Shows the Relationship of the Variables both Dependent and Independent**





*Source:* Developed by the Researcher, (2013)

#### 2.4.1 Analysis of the Conceptual Model

Let,  $Y=f(X)$

Y be Dependent factors

And X be Independents factors

Then, from Figure 1, the Dependent factors are the Poverty reduction such as ability to pay school fees, ability to expand existing investments, ability to establish new investments, improved living standard and hence poverty reduction and the Independent factors are Bank activities such as loan issued to the Community Bank clients. When Bank loans were issued, we expected the Bank clients to be able to pay school fees, expanding existing and new investments resulting good living standard, hence, poverty reduction.

Therefore, this study was based on the fact that accessed credit from MCBL has the potential of improving the standards of living, which is poverty reduction among those clients. The arrows show/point from the Independent factors to the Dependent factors. Community Banks provided access to credit facilities. Loans secured from Rural Community Bank contributed towards poverty reduction. Poverty reduction was

manifested through a number of ways, such as opening up new investments, expanding existing investments, ability to pay school fees and higher learning institutions' fees simultaneously, ability to invest on other activities such as Horticulture and Fishing. Other indicators were increased in purchasing power, paying for health services and involvement in decisions, democratic system and increase in equality, prevention of marginalized groups. Access to loans from Rural Community Bank was therefore significantly contributed to poverty reduction, improving the standard of living among the bank clients loan recipients.

## **2.5 Empirical Evidence**

Micro-credit financing programs were expected to raise the welfare of the poor Women and men. This would help to raise the welfare by promoting human capital investment. However, studies on the activities of micro-credit institutions in Tanzania have been very few compared to other developing countries. At any rate, some empirical studies have been carried out in Tanzania and other countries as outlined below:-

A study by (Hossain, 1984) on Grameen Bank in Bangladesh found that there was a 30 percent increase in per capital income of borrowers. An evaluation of the impact of the Bangladesh Rural Advancement Committee (BRAC) was made in 1998. A research was made from 500 borrowers who received loans from BRAC. Their incomes were examined to see the improvement in their lives. Also the study revealed that the per capital annual income of the household for borrowers from BRAC was 26 per cent higher than that of the control households. It also showed that 50 per cent of the borrowing households had an annual income of more than 19000 daka (Bangladesh currency) per annual where as this was true for only 29 per cent of the control group.

In India, Regional Rural Banks (RRBs) are part of the network of institution through which the finance reaches the Indian farmers and entrepreneurs. They are mainly concerned with direct poverty relief. Basing on sample of 280 borrowers as control group from two RRBs in Andhra Pradesh, (Mosley, 1996) found that loan borrowers about 12 showed a positive income change, while others showed a negative change on an average.

The study done by Cowling and Mitchell, 2003 on evaluation of the United Kingdom Small loan Guarantee Scheme was of particular relevance. The study used data set of 42,000 small firm borrowers who were perfectly rationed in the debt market prior to their successful application for loan guarantee backed funds to empirically test the default specification in the seminal work of (Stiglitz and Weiss, (1981). The researcher was convinced with empirical results that between 55% and 72% of loans issued under the scheme successfully improved the life of the Community, (Cowling and Mitchell, 2003). In Malawi, the Smallholder Agriculture Credit Administration (SACA) and the Malawi Mudzi Fund (MMF) have been studied to get the impact of microfinance interventions. A study by Buckley ( 1997) on SACA found that the average credit farmer had an income three times higher than the average non-credit farmers. It was also found the credit farmers achieved about 71 per cent income per hectare than non-credit farmers.

In Kenya, it was widely recognized that small-scale and informal sector businesses, the later usually referred to as *jua kali enterprises* have a vital role to play in the economy. But this was a fairly recent view, given official sanction and popular support only by

the mid 1980s. In 1960s the sector was effectively overlooked. In the 1970s it was discovered, but largely ignored, and in 1980s it was given extensive attention, but little direct support. Finally, the 1990s appears to be the time when the problem was translated into reality and the sector not only gets the attention but also the support that is so obviously deserves.

In his study titled “Financing *Jua kali* sector in Kenya”, Buckley 1996 argues that, NGOs lending to small businesses and especially micro-enterprises have exploded since the United States Agency for International Development (USAID) set up the Kenya Rural Enterprises Programme (KREP) in 1984. Another scheme of particular note is the PRIDE scheme established by an enterprising American and largely funded by USAID. Within these NGOs, first loans are most commonly for Kshs. 10,000 and repayments are made at weekly meetings, where core groups of five members called a *watano* (meaning the five) come together with six other groups to form what are called KIWAs *Kikundi cha Wafanyabiashara*-(meaning group of entrepreneurs). However, the study shows that KREP focus on business creation or business expansion rather than poverty alleviation, (Buckley, 1996).

In Bangladesh, credit as a development strategy has gained particular prominence because of a long-running concern with the difficulties of providing formal finance to rural areas, and the dominance of informal credit markets. Grameen Bank, Bangladesh Rural Advancement Committee’(BRAC’s), Rural Development Programme (RDP) and Tana Resource Development and Employment Programme (TRDEP) are targeted at the functionally landless rural poor; they issue mostly small, un-collateralized one year



term loans to individuals belonging to jointly liable peer groups; and they use similar on-site loans disbursement and weekly collection methods by forming village organizations (VOs) or centres (Kendras), (Mountgomery et al, 1996).

Meyer (1989) in his study, "Financial services for micro-enterprises; Programmes or market, argues that, entrepreneurs need financial services, not just loans. He shows that programmes that offer only loans force a borrower to obtain deposit, savings and cheque services elsewhere. The author further argues that finance is important, therefore, the entrepreneurs of all income levels with appropriate projects will find loans as a development challenge. In his titled "Sectoral Credit Allocation and Credit Flow to Small Enterprises in Ghana", Aryeetey (1991) points out that it is generally assumed that there is a significant potential demand for credit by small borrowers. This study revealed that only one of the 100 randomly selected enterprises in eastern region, Ghana, received the loan applied for in full.

Aryeetey (1992) in a study titled "The relationship between the formal and informal sectors of financial markets in Ghana" points out that many micro entrepreneurs in the eastern region who saved with an informal organization, or had done so earlier, admitted that their expectations of being granted credit facilities after a short period of savings, motivated their decision to allocate a part of their portfolio to his facility. The author noted that, even though the amount granted per client was not very large, the granting of this facility to many customers at once and the high rate of default eroded whatever reserves these companies might have attempted to keep.

In Rwanda and Burundi, micro-finance has enabled poor people to rebuild their lives after years of civil war. Most men and women gather at the micro-finance

institutions to seek for micro-credit as they have no capital and big banks are not interested in lending small businesses. The system used is called “*Caution solidaire*”. This system relies on a group of between three and eight people who know and trust each other. They go to the bank with a business idea, but with empty pockets. If the bank finds that the business proposal is viable, each member of the group is required to act as a guarantor for the others. In other words when one among the group default or dies the whole group takes the responsibility for paying the money owed (Financial Times, 2006).

The Tanzania Postal Bank (TPB) offers micro-credit to both individuals and groups. However, although the bank’s micro-credit policy allows both individual and group based lending, only group based micro-credits have so far been extended. In the group based lending, individuals take the first step in the micro-credit process by organizing themselves into group of five to be known as “G5”. Membership in any particular group is strictly limited to people who are not members of the same household, have similar economic resources and therefore equal bargaining strength, enjoy mutual trust and confidence and live in the same area (Financial Times, 2006).

Munyaga (Majira, 2006) argues that the state should create a clear policy on micro-credit. He argued that recently there has been a mushrooming of institutions offering micro-credit to micro-enterprises in Tanzania. The main targeted group is the poor people to alleviate poverty. He referred to a search carried by REPOA (1999) which revealed that 5,000,000 poor people in the country have benefited from this programme.

According to the REPOA report, the main problem with this programme is the small size of credits given which does not suffice to their investment and hence the programme has failed to alleviate poverty. According to the same report, poverty is a low income situation of a person or household which does not allow having a surplus for sustainable production. The end results are poor health, poor education and moral decay. A study by Mbwilo (2007) on Mbinga Community Bank revealed that credit to peasants contributed to reduction of income poverty through improving yields of agricultural crops by enabling borrower to afford purchasing farm inputs. Those who borrow more frequently had higher income compared to less frequent borrowers.

## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section is composed of the research methodology and procedures that were used in the study. It encompasses research design, description of the research area, sources of data, sampling procedures and sample size, data collection methods, and data analysis methods.

### **3.2 Research Paradim.**

This chapter focused on the research clear pattern of methodologies, examples and models which were used in this study. This section provided the methodology that was adopted in the collection, analysis of the research plan and tools which were utilized in carrying out this study. According to Kothari (1999), research methodology refers to a systematic way applied to solve the research problem. This section describes the methodologies that were used in conducting this study. Specifically, it focuses on the research design, study area, population of the study, sample size sampling techniques, data collection methods, as well as data analysis procedures. The research employed both primary and secondary data that were collected and obtained from the population and other relevant sources. Descriptive exploratory study was used to explore the role of regulatory and supervisory MCBL.

### **3.3 Research Design**

The research adopted a case study design. Case study research calls for selecting a few examples of the phenomenon to be studied and then intensively investigating the characteristics of those examples (“cases”). By closely examining a relatively small number of cases, comparing and contrasting them, the researcher learns about significant features of the phenomenon and how it was varied under different circumstances. The choice of case study design was based on the fact that it was characterized by a thorough study of unit of enquiry over a range of variables while maintaining the unitary nature of the unit and it was flexible in terms of data collection and analysis. Basically, it guided the data collection and analysis phases of the research project (Kinnear and Taylor 1996).

According to the views of Kothari (1997), research design is a plan of action for collecting data, organizing and analyzing it with the objective of combining the relevance of research with the economy in procedure. A case means a unit under investigation. Case study research calls for selecting a few examples of the phenomenon to be studied and then intensively investigating the characteristics of those examples (cases). This study defines it as the process of planning and organizing the whole research and put it in the situation of combining theoretical and empirical findings. Kisonga (2005) mentioned that the case study have advantages of enabling asking respondents about profit, possibility of combining a variety of evidence like interviews, documents, observations and depth enquiries.

#### **3.4 Description of the Research Area**

The study was carried out in Mwanga Rural Community Bank in Mwanga District, purposefully selected because is only the district with Rural Community Bank in the Northern part of Tanzania.

The bank is situated at the capital of Mwanga District; the district is located along the East Africa highway of Arusha-Dar es Salaam. MRCB evolved from Mwanga/Pare Development Fund which is also a NGO that is involved in development activities in Mwanga District. A German Development Organization through GTZ gave Tshs. 17 million grant to purchase fixed assets. MRCB mission is to provide modern reliable banking and insurance services to its customers and to support local enterprises and integrate itself as a partner in development at Mwanga. MRCB is registered by BoT and started its operations in September 2000. The bank was officially inaugurated by

former President William Benjamin Mkapa on October 21, 2001. Tanzania Gatsby Trust and Mwanga/Pare Community Development Trust Fund together own 40 per cent stake with individual members of the community owning the rest. The bank shares are sold at Tshs. 5,000 and there is no limit as the bank is still broadening its capital base.

According to 2012 census the District had a population of 131,442 with the annual growth rate of 1.3 percent, of which 69,942 are female and 61,500 are male. Mwanga district covers an area of about 2,641 square kilometers. Mwanga is one of the six districts in Kilimanjaro Region. It is a part of the homeland of Pare people (Vasu called by Pare themselves). North Pare Mountains, which runs from north to south, divides this district into two agricultural zones; ‘Milimani’ (mountainous area, 808sq. km) and ‘Tambarare’ (lowland area, 1,833 sq. km). There are five divisions in the district; namely Mwanga and Jipe-Ndea Divisions cover villages in lowland, Ugweno and Usangi Divisions cover villages in mountains and villages in Lembeni Division are mixed. The Table 3.1 shows the distribution of wards and villages in the divisions.

**Table 3.1: District Administrative Structure**

<b>S/No</b>	<b>Division</b>	<b>Number of Wards</b>	<b>Number of Villages</b>
1	Mwanga	3	9
2	Lembeni	4	14
3	Jipe-Ndea	2	9
4	Usangi	3	12
5	Ugweno	4	17
<b>Total</b>	<b>16</b>		<b>61</b>

*Source:* Mwanga District Profile, (2013)

Major economic activities are agriculture and livestock, business and fisheries. Maize, bananas, rice and beans are the main food crops while coffee and sisal are the major

cash crops. Means of transport are by road including a tarmac trunk road of Dar es Salaam, Tanga and Arusha. Also there is a railways line joining the major towns and city mentioned above. Other economic activities include sisal estate and hydro-electric power station at Nyumba ya Mungu Dam, which have encouraged small scale industrial activities.

### **3.5 Sampling**

#### **3.5.1 Sample and Sampling Techniques**

Sample is the segment of the population that is selected for investigation. It is the subset of the population (Bryaman, 2001). The assumptions underlined as a support to the convenient sample were; the population was completely randomized and the basis for selection is independent of characterizes being measured (Raymond Barker, 1983). MRCB beneficiaries were obtained and those included in the study were randomly selected and the researcher designed means to reach them. Most were however captured in their work places, residents and they were requested to participate. The population for the study was selected in a largely random manner, but with regard to the individual's ability to provide the types of data sought through each research instrument. Purposive sampling involves deliberate selection of a particular unit of the universe constituting a sample. It was a sampling procedure which was used when selecting a sample that meets a certain criteria of the study.

#### **3.5.2 Sample Size**

According to Trochim (2005), Sampling is the process of selecting units (for example,

people, organizations) from a population of interest so that by studying the sample we may fairly generalize our results back to the population from which they were chosen. The sample size was 93 beneficiaries participating both men and women. The selection of respondents was random selection based on simple random method in order to reduce degree of biasness.

### **3.3.3 Research Population**

The research population which included the MCBL Staff, the MCBL Clients, and other beneficiaries participating men and women in the programme were 655.

## **3.6 Source of Data**

Source of data were from both primary and secondary data. Primary data were collected from various people who have been facilitated by Mwanga Rural Community Bank; they were interviewed to gather the data as to why they opted for acquiring MRCB services. Secondary data were obtained from various documents and reports. Source of secondary data was from MRCB annual reports, books and journals, Government and various publications.

## **3.7 Types of Data**

### **3.7.1 Primary Data**

Primary data collection was done through field survey, whereby semi structured questionnaire was used (App.4). Kiswahili was used as a medium of communication to avoid language barrier and to maximize the freedom of the respondents. The questionnaires were converted into Kiswahili to ensure highly response rate.



Structured interviews were used to supplement questionnaires through assisting the respondents to translate or explain the questions where they were not clear.

### **3.7.2 Secondary Data**

Secondary data were collected from the bank through various sources including books, internet, journal and various institutional reports. The data collected were bank performance, total amount of credit offered to present and identification of borrowers and prospective borrowers of the bank. Population of the district and to the respective village and other socio-economic data were obtained from Mwanga District Planning Officer.

## **3.8 Data Collection Techniques**

The structured questionnaires were designed for the purpose of capturing data at community and institutional level. Closed ended questions as well as open ended questions were used in order to establish the opinion and views of those interviewees on the matter.

### **3.8.1 Interviewing Techniques**

Questionnaires were used in personal contact so as to avoid non responses for those who were not used to fill questionnaires. To compliment quantitative data collection techniques, in-depth face-to-face interviews were used. In-depth interview as a method of data collection involved a detailed face-to-face conversation between the interviewer and interviewee. This method was selected due to the fact that: it was possible to apply to educated and non educated respondents, the interviewer was able to make clarification when the respondent could not understand the question asked and also the

interviewer had an opportunity to observe reactions, emotions as well as listening to the opinions of respondents. The researcher used both qualitative and quantitative data collection techniques so as to reach all interviewees and obtain all the relevant data that was required for the study.

Questionnaires were translated into Swahili Language and administered to MRCB members and leaders while in-depth interviews were conducted through notes taking to some of the members of the MRCB. Observation technique is a method of which, an individual or individuals gather first hand data on programs, processes or behaviours being studied. It provides a researcher with an opportunity to collect data on wide range of, to capture great variety of interactions and openly explore the topic under study. In this particular study, observation was employed in assessing the respondent's behaviour regarding MRCB and its contribution to their lives.

### **3.9 Data Analysis and Interpretation Techniques**

The descriptive and statistical analysis was used on data analysis. Percentage, tabulation, graphical and cross tabulation was used during data presentation and the Statistical Package for Social Science (SPSS) was used to analyze data. The computer Statistical Package for Social Scientists (SPSS) was used because it provided the wide range of choices in selecting variables at various stages of the analysis and testing different relationships from various software's and different types of files and used them to generate tabulated reports, plots and charts of trends, distributions, descriptive statistics and conduct complex statistical analyses. Also, (SPSS) was used to analyze questionnaires including both closed ended and open ended questions (Kothari, 1985).

### **3.10 Study Limitations**

There were a number of limitations in this study, include the following:

- (i) Firstly, the respondents were limited in terms of size and composition since sample was used instead of the whole population.
- (ii) Secondly, the data collection was restricted only within the Mwanga District, which may fail to represent the actual scenario of the whole Rural Community Banks in the country.
- (iii) Third, it was not easy for the respondents to give information about income and price of the bags as most of them do not have the exact figures or they forgot for lack of record keeping, the researcher had to take the estimated income in some cases where records couldn't be found.
- (iv) Fourth, most of the interviews were held at the MCBL office, homes/houses and farms/work place thus interruptions could not be controlled.
- (v) Fifth, while interviewing the people, there were problems in explaining the questions as some of the people, who were involved in microfinance program, were illiterate, the researcher had to give some more explanations of the questions to make them understand them.
- (vi) Finally, the accuracy of the analysis heavily relied on the data provided by the people involved in microfinance program in Mwanga District

## **CHAPTER FOUR**

### **FINDINGS AND DISCUSSIONS**

#### **4.1 Introduction**

This chapter presents the findings and discussions for the study. The presentation is organized according to major characteristics of the MCBL respondents, research objectives, questions, the emerging theme and issues it covers the major development

of the MCBL, identified factors that hinder the MCBL and suggest ways to solve them.

## 4.2 Socio-Demographic Characteristics of Respondents

### 4.2.1 Gender

A total of 93 respondents, (53.8%) males and (46.2%) females were involved in the study (Table 4.1). The study showed that most of the borrowers from MCBL between 2009 to 2012 were females. It was found (52%) females and (48%) males' accessed loans. From 2009 to 2012 (Table 4.1), this explained by loan payment behavior among females and males' being economic active. It was identified that loans accessed were used for investment (78.5%), paying school fees (75.3%), building good quality house (64%), health (48.4%), food security (24%) and purchasing assets 72% (Table 4.1). Majority of the respondents recommended that loans from MCBL had improved the standard of living.

**Table 4.1 : Composition of the Gender of the Head of Household Composition**

	<b>Number of Respondents</b>	<b>Percentage</b>
Female	43	46.2
Male	50	53.8
<b>Total</b>	<b>93</b>	<b>100.0</b>

*Source:* Field Data, (2013)

### 4.2.2 Family Size of MCBL Members

The study found that most of the respondents had children. The majority (59.1%) of the respondents had a family size ranging from three to five. 31.2% of respondents had a family size ranging from six to eighty, 4.3% of respondents had a family size ranging from nine to eleven, while 5.4% had only two family members.

Rural Community Bank services would be used to cover some of these needs or costs

as many people cannot afford to pay for all of them. It was evidenced when respondents were asked the extent of accessing credit has improved their household life based on the provided indicators (Table 4.2). Their responses showed to fulfill the following indicators building good quality houses, health status, food sufficiency, paying school fees and purchasing of productive assets. Some of them showed to fulfill more than one indicator. Respondents with family size six to eighty showed to access higher amount of loans disbursed by MRCB. It was found that 48% of the entire amount released from 2009 to 2012 was accessed by borrowers having six to eighty family sizes. It was also found that 31% of the loans were disbursed to those with nine to eleven family members, 17% of the loans were disbursed to those with three to five family members and 4% of the loans were disbursed to those with only two family members. Households with limited family members accessed lower cumulative loans compared to those with large family size as far as observed that the higher the family members the higher the commitments, vice versa is also true. This implies that the larger the size of the household the more commitments the family had those with more family members had to spend more in education, health, food and clothing. Also, it was identified that the profit from loans accessed were used for investment (78.5%), paying school fees (75.3%), building good quality house (64%), health (48.4%), food security (24%) and purchasing assets 72% (Table 4.6). Majority of the respondents recommended that loans from MCBL had improved the standard of living.

**Table 4.2 : Family size of MCBL members**

<b>Members Family Size</b>	<b>Number of respondents</b>	<b>Percentage</b>
2	5	5.4
3 – 5	55	59.1
6 – 8	29	31.2
9 – 11	4	4.3
<b>Total</b>	<b>93</b>	<b>100</b>

*Source:* Field Data (2013)

#### **4.2.3 Level of Access and Size of Credits Accessed from MCBL by Age**

It was found that age hindered some people from accessing loans provided by MCBL. It was identified that from the year 2009 to 2012 loans ranging from 50,000/= to more than 1,000,000/= TZS in size had been granted to borrowers. (Table 4.3) below shows that none of the respondents 9% of the borrowers aged below 25 accessed loans above 1,000,000/= TZS. Moreover, among the 658 borrowers from MRCB (from 2009 to 2012) only 9% of the borrowers were under 25 years of age. The majority of borrowers within this borrowers age group accessed loans ranging from 50,000/= to 200,000/= TZS.

Moreover, very few of the borrowers aged above 47 years had loans below 100,000/= TZS. The majority of borrowers within this age group accessed loans ranging from 200,000/= to above 1,000,000/= TZS. This is explained by the social commitments such people have. Households with age lower than 25yrs accessed small amount of loans below one million compared to those with those above 25 yrs old who accessed loan to above one millions as observed that the higher the old age of family members the higher the commitments, vice versa is also true. This implies that the higher the old age of the household the more the commitments of the family also, had to spend more for investments, paying school fees, building good quality houses, health, food security and purchasing assets. Hence, the majority of the respondents recommended that loans from MCBL had improved the standard of living.

**Table 4.3: Loans Accessed by Respondents from 2009 to 2012 by Age of Borrowers**

Age (Years)	Below 50,000	51,000-100,000	101,000-200,000	300,000-500,000	501,000-1,000,000	Above 1,000,000	Total
> than 25	13	16	23	7	3	0	62 (9%)
25 – 35	33	27	48	51	47	13	219 (33%)
36 – 46	3	27	32	67	65	27	221 (34%)
Above 47	7	31	37	25	19	37	156 (24%)
<b>Total</b>	<b>56</b>	<b>101</b>	<b>140</b>	<b>150</b>	<b>134</b>	<b>77</b>	<b>658(100%)</b>

*Source:* MCBL (2013)

#### 4.2.4 Gender of Borrowers

The study showed that most of the borrowers from MCBL between 2009 to 2012 were females. It was found 142 (52%) females and 130 (48%) males' accessed loans from MCBL (Table 4.4). But it has been identified that a small number of females about 3% accessed loans above one million compared to 9% of males accessed loans above one million. Also, only 4% of males accessed loans below 50,000 compared to 5% of females' accessed loans below 50,000. This has been observed that males have more borrowing confidence than females, but most of females do borrows micro credit for small businesses such as mama ntilie, tailoring, women/males saloon, horticulture and bodaboda.



**Table 4.4 : Loans Accessed from 2009 to 2012 by Sex of Borrowers**

<b>Comp osition</b>	<b>Below 50,000</b>	<b>51,000 - 100,00 0</b>	<b>101,000- 200,000</b>	<b>300,000- 500,000</b>	<b>501,000- 1,000,00 0</b>	<b>Above 1,000,00 0</b>	<b>Total</b>
Female	32	65	81	78	59	19	334 (52%)
Male	25	36	59	72	75	58	325 (48%)
<b>Total</b>	<b>56</b>	<b>101</b>	<b>140</b>	<b>150</b>	<b>134</b>	<b>77</b>	<b>669(100%)</b>

*Source:* Field Data (2013)

#### 4.2.5 Family Size

Respondents with family size six to eight showed to access higher amount of loans disbursed by MRCB. It was found that 48% of the entire amount released from 2009 to 2012 was accessed by borrowers having six to eight family members. It was also found that 31% of the loans were disbursed to those with nine to eleven family members. Households with limited family members accessed lower cumulative loans compared to those with large family size (Table 4.2).

This implies that the larger the size of household the more commitments the family had, those with more family members had to spend more in education, health, food and clothing. Rural Community Bank services would be used to cover some of these needs or costs as many people cannot afford to pay for all of them. It was evidenced when respondents were asked the extent of accessing credit has improved their household life based on the provided indicators (Table 4.5). Their responses showed to fulfill the following indicators building good quality houses, health status, food sufficiency, paying school fees and purchasing of productive assets. Some of them showed to fulfill more than one indicator. Respondents with family size six to eighty showed to access

higher amount of loans disbursed by MRCB. It was found that 48% of the entire amount released from 2009 to 2012 was accessed by borrowers having six to eighty family sizes. It was also found that 31% of the loans were disbursed to those with nine to eleven family members, 17% of the loans were disbursed to those with three to five family members and 4% of the loans were disbursed to those with only two family members. Households with limited family members accessed lower cumulative loans compared to those with large family size as far as observed that the higher the family members the higher the commitments, vice versa is also true. This implies that the larger the size of the household the more commitments the family had those with more family members had to spend more in education, health, food and clothing. Also, it was identified that the profit from loans accessed were used for investment (78.5%), paying school fees (75.3%), building good quality house (64%), health (48.4%), food security (24%) and purchasing assets 72% (Table 4.6). The respondents recommended that loans from MCBL had improved the standard of living.

**Table 4.5 : Influence of Family Size towards Taking Loans**

<b>Family Size (Number)</b>	<b>Amount of Loans (Tshs)</b>	<b>Percentage (%)</b>
2	5,507,520.00	4
3 – 5	23,406,960.00	17
6 – 8	66,090,240.00	48
9 -11	42,683,280.00	31
<b>Total</b>	<b>137,688,000.00</b>	<b>100</b>

*Source:* Field Data (2013)

#### **4.2.6 The Use of Credits among Respondents**

Reducing poverty is the central theme of any micro credit. A well targeted credit

always helps the poor. Therefore, micro credit is not just forwarding credit; it is mainly intended to help the population to move out of the poverty blanket. Critically, appraisal of micro credit has variably based on the assessment of performance and efficiency of credit facilities into poverty alleviation.

Community Banks in Tanzania were established in order to fill the existing financial gap in the rural areas whereby for many years it has been difficult for the poor to access banking services (BoT/NBAA 1997). The purpose of Community Banks is to mobilize savings and providing credits to the rural poor, hence assisting in reducing poverty and improving well-being of the rural society. Baumann (2001) urges that, main goal of many microfinance institutions especially rural microfinance institutions is to provide sustainable microfinance facilities to the poor, thus facilitating in generation of income and reduction of poverty. MCBL has enabled access to financial services by low-income earners as well as contribution towards alleviation of poverty. The impact of the Micro credit from the Bank was measured in terms of the number of new investments established such as mama ntilie, tailoring, women/males saloons, horticulture and bodaboda, respondents afforded to support training costs for their children and amount of money used to pay other services like health insurance.

Furthermore, it was found that (78.5%) respondents used the credits for investment or buying credits, (75.3%) respondents used loans for paying school fees, and (64%) respondents used the loans for building good and quality houses, health (48.4%), food security(24%) and purchasing assets (72%) (Table 4.6). Hence, credits from the MCBL have proved the creation of opportunities for self employment rather than waiting for

employment to be created. It has liberated poor women and men from clutches of poverty. Also, it has brought the poor into the income stream. Gave the access to credit under an appropriate institutional structure and arrangement, respondents have done the best to earn money from MCBL to overcome povert

**Table 4.6 : The Use of Credits in the Study Area**

<b>Usage</b>	<b>Frequency</b>	<b>Percentages</b>
Investment/Buying Inputs	73	78.5%
Paying school fees	73	78.5%
Purchasing of assets	67	72%
Building good houses	60	64.5%
Health/treatment	45	48.4%
Buying Food	22	24%

*Source:* Field Data (2013)

#### **4.2.7 The Impact of Credit Accessibility to Poverty Reduction**

Respondents were asked whether loans obtained from MCBL had impacts on poverty reduction. The respondents said that credits from MCBL had increased their incomes and they have attained a real change in their lives and self-esteem when they compare themselves to that period before they obtained loans.

It was found that (75.3%) respondents used the loan for paying school fees, (51.6%) respondents used the loan for building good and quality house and, (71.9%) respondents used loans for improving their health status, (64%) improved for food sufficient and (37.5%) purchasing of assets compared to those not improved which are negligible (0%) respondents used the loan for paying school fees, (5.5%) respondents used the loan for building good and quality house and, (1.1%) respondents used loans for improving their health status, (0%) improved for food sufficient and (10%) purchasing of assets compared to those not improved (Table 4.7). Respondents

recommended that loans from MCBL had improved the standard of living. Through the loans they had been able to pay school fees, build houses, increase assets and improve their health status. Some mentioned to have increased the size of investments through purchasing productive assets like power tillers, oil seed processing machine, coffee peppery machine, maize Sheller machine and other own iron roofed houses, cattle, acres of land, furniture and television set.

**Table 4.7 : Contribution of Credit to Poverty Reduction**

Cont. Cr. Poverty Red.	Poverty Indicators				
	of to Paying school fees	Building good quality houses	Health status	Food sufficiency	Purchasing of assets
Improved	64 (75.3%)	47 (51.6%)	64 (71.9%)	55 (64%)	30 (37.5%)
Remained the Same	8 (9.4%)	21 (23.1%)	10 (11.2%)	15 (17.4%)	25 (31.3%)
Less Improved	13 (15.3%)	18 (19.8%)	14 (15.7%)	16 (18.6%)	17 (21.3%)
Not Improved	0 (0%)	5 (5.5%)	1 (1.1%)	0 (0%)	8 (10%)
<b>Total</b>	<b>85 (100%)</b>	<b>91 (100%)</b>	<b>89 (100%)</b>	<b>86 (100%)</b>	<b>80 (100%)</b>

*Source:* Field Data (2013)

## **CHAPTET FIVE**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter presents the summary, conclusion and recommendations. It is organized as summary of major research findings, conclusion and recommendations and recommendations for further research.

#### **5.1 Summary of the Main Findings**

The study aimed at analyzing the impact of the Rural Community Banks on poverty reduction in the rural society of Tanzania by focusing on a case of Mwanga Rural Community Bank in Mwanga District.

The study revealed the following: Loans secured from Rural Community Bank contributed towards poverty reduction. Poverty reduction were evidenced through a number of ways, such as opening up new investments, expanding existing investments, ability to pay school fees, paying for health services and ensuring food sufficiency,

ability to invest on other activities in addition to normal activities. Other indicators were increase in purchasing power, involvement in decisions, democratic system and increase in equality, prevention of marginalized groups. Access to loans from Rural Community Bank therefore significantly contributed to poverty reduction, improving the standard of living among the bank clients loan recipients. Furthermore, the literature reviewed clearly showed that the finding in this study had also been observed in other places, giving the conceptualization of global impression on MFIs on poverty reductions. This was also supported by the study carried out previously by Kisonga (2004) and Kessy Urio (2006).

The statistical analysis that was carried out based on the stated hypothesis revealed that credit accessibility from MRCB contributed to poverty reduction in rural areas. It was also revealed that credit from MRCM contributed to the reduction of poverty in improving household's access to education and contributes to the reduction in household's capability poverty in improving household's access to education. The results emphasized how important it is for MRCB to deliver good, satisfying and reliable services to its clientele. If customers perceive the services offered by MRCB as good they will continue using them and this ensures their sustainability. It would also attract other customers that were not using services provided by MRCB.

## **5.1 Conclusions**

The study aimed at assessing and examining the impact of micro-credit in poverty alleviation. The following variables were analyzed paying school fees, building good

and quality houses, health status, food sufficient, purchasing of assets and investment or buying credits. The following were the major findings of the study. MCBL taken as study case was established from initiatives taken by local NGO's in collaboration with foreign donors. It was found that about 70% of MCBL shares were owned by individuals. The study was based on the concepts of accessibility of credit to rural community. In terms of credit accessibility, the study observed the contribution towards improving households' access to education and health as well. Sustainable Rural Community Banks with high outreach have a greater likelihood of having a positive impact on poverty reduction because they guarantee sustainable access to credit by the poor.

The research established a significant increment of income level to most of MRCB clients which lead to the improvement on the expenditures of the areas like education, health, investment or buying credits, food security and assets purchase. The clients had increased incomes and they have attained a real change in their lives and self-esteem when they compare themselves before they obtained loans. MCBL has enabled access to financial services by low-income earners as well as contribution towards alleviation of poverty. The impact of the Micro credit was measured in terms of new investments established such as mama ntilie, tailoring, women/males saloons, horticulture and bodaboda to support their daily lives.

However, it was found that (75.3%) respondents used the loan for paying school fees, (51.6%) respondents used the loan for building good and quality house and, (71.9%) respondents used loans for improving their health status, (64%) improved for food



sufficient and (37.5%) purchasing of assets compared to those not improved which are negligible (0%) respondents not improved used the loan for paying school fees, (5.5%) respondents not improved used the loan for building good and quality house and, (1.1%) respondents not improved used loans for improving their health status, (0%) respondents not improved for food sufficient and (10%) respondents were not improved used the loan for purchasing of assets compared to those improved (Table 4.7).

Hence, credits from the MCBL have proved the creation of opportunities for self employment rather than waiting for employment to be created. It has liberated poor women and men from clutches of poverty. Also, it has brought the poor into the income stream, access to credit under an appropriate institutional structure and arrangement done to earn money from MCBL to overcome poverty and improve the standard of living.

## **5.2 Recommendations**

The purpose of MCBL as one of micro-credit financial in Tanzania is to empower the productive poor to transform the lives of their families through the development of sustainable micro-enterprises. The study has revealed that MCBL has managed to improve the business of their client to some extent. However, there is still a gap which needs to be filled for the betterment of its operation and the success of its clients.

Hence, the study recommends the following;

- (i) Conduct further research on the screening criteria used by the MCBL to fulfill the intended objectives of establishment of Rural Community Banks.

- (ii) If MCBL is serious about alleviating rural poverty, it has to make significant progress in looking at alternative systems that work in remote rural areas. This will involve searching for cost-effective ways of extending centrally managed systems into more remote areas, alternative approaches to strengthening the governance and management of community based organizations, and the new approaches to the provision of financial services that build on the informal systems already in those communities.
- (iii) There is a need to establish a link between Rural Community Banks and borrowers in the process of credit accessibility. Such link will enable the rural population to obtain credit and related services like savings mobilization.
- (iv) Government should improve and sustain its support to Rural Community Banks because they have more access to the poor people of which majority of them live in rural communities. By doing so, it will increase the strengths of the community towards fighting, reducing and improving poverty indicators.
- (v) Interest rate charged by MCBL seems to be high compared to profitability of her client. It is recommended that, the interest rate is very high at 19% p.a so it should be reduced to at most 15% p.a. However, this decision should consider the profitability of the company which the study did not manage to access.
- (vi) It is recommended that, the standard starting loan is still below the clients average working capital so it should be increased from Tshs.50,000/= to at least Tshs.300,000/=. However, those client who apply for less than Tshs.300,000/= should also be considered.
- (vii) It is recommended that monthly repayment system should not be the same to all clients. Some businesses start selling after three or more months.

Therefore, every client should sign her own repayment contract which will reflect the needs of her/his business.

- (viii) Since the main purpose of MCBL is to empower the productive poor to transform their lives, it should not target urban areas only since, many poor Tanzanians live in rural areas. Hence, MCBL should also target this group which could be very productive in agricultural activities and small business. There is a need for the researchers to undertake a study that will generate information about the ability of rural bank clients to utilize the loans obtained from the Rural Community Bank.
- (ix) Conduct research on the impact of MCBL on poverty reduction in other areas where these kinds of study have not been done and fall on the areas which have the same economic activities like Mwanga. The study could establish the opportunity of more micro credit to be attracted to operate in the rural areas.
- (x) Training should focus on the nature of individuals businesses. It is recommended that credit officers should carry out training within the client's premises after securing a loan.
- (xi) Further research is recommended especially to other micro-credit institutions to find out their roles toward poverty alleviation. Although there was a noted contribution of micro-credit to poverty alleviation, it was so small that the study recommends further researches on the causes of failure of micro-credit institutions towards achieving a reasonable degree of success in poverty alleviation.
- (xii) Lastly, research is valuable tool to better understanding and support microfinance initiatives. An analysis of the local microfinance environment, such as population, organizational culture, natural resources, and economy, will help to promote microfinance strategies that complement these realities, utilizing

assets of the area, and reinforcing the capacity for social, economic, and organizational innovation. Institutional appraisal is another research tool that will allow donors to better access and support Rural Community Banks, the quality of the financial services and the loan portfolio, governance and transparency, management capacity and efficiency, financial performance and plans for the future.

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## APPENDICES

### Appendix 1: Research Work Plan

Activities	Months				
	Jan, 2013	Feb - March,13	Apr- May,13	June- July,2013	Aug,Sept. 2013
Proposal writing and presentation					
Field work					
Data entry					
Data analysis					
1 <sup>st</sup> report writing					

Final report writing							
Report submission							

### Appendix 2: Research Budget

Activity	Cost (Tshs.)
Proposal writing and presentation	200,000.00
Field work	1,000,000.00
Data entry	170,000.00
Data analysis	200,000.00
1 <sup>st</sup> report writing	550,000.00
Final report writing	400,000.00
<b>Total</b>	<b>2,510,000.00</b>

### Appendix 3: Questionnaire for MCBL Staff

Q.1 For how long have you been working with this organization? \_\_\_\_\_

Years

Q.2 What has been the rate of loans application from clients?\*

Increasing [ ]      Decreasing [ ]      Stagnant [ ]

Q.3 What has been the credit repayment performance of your client?\*

Good [ ]      Fair [ ]      Bad [ ]

Q.4 In your own opinion, what do you think is the cause of your answer to Q.3 above?

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Q.5 What is your target group?\*

Men [ ] Women [ ] Rural [ ] Urban [ ] All [ ]

Q.6 Does your organization devote to educates regarding small business

Enterprises?\* Yes [ ] No [ ]

Q.7 If the answer in Q.6 is yes, how do you go about it?

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Q.8 How do you see the performance of majority of your client's business enterprises after securing a loan from your organization?\*

Improving [ ] Stagnant [ ] Deteriorating [ ]

Q.9 What factors do you consider before extending a credit to a client?

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Q.10 Is profit maximization the key objective in your organization?\*

Yes [ ] No [ ]

Q.11 If the answer in Q.10 above is No, what is your key objective?

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Q.14 "Micro-credit financing has a big role in poverty alleviation", With respect to

your organization, what is your comment on the above statement? Comment;

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Q.15 To what extent do you think your organization has succeeded to alleviate poverty situation in Mwanga? Explain

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\*Put ✓ where applicable.

**THANK YOU FOR YOUR CO-OPERATION**

**APPENDIX 4: QUESTIONNAIRES FOR THE MCBL CLIENTS**

1. Name of the village/Street.....
2. Gender of the head of household who borrow
  - a) Male
  - b) Female
3. Education of the head of the borrower
  - a) No formal education

- b) Primary education
- c) Secondary education
- d) Above secondary education

4. What is the family size of your borrower

- a) 2
- b) 3 -5
- c) 6 -8
- d) More than 8

**Income of the Household borrower**

5. What are your economic activities?

.....

6. What types of crops do you grow?

.....

7. What are the yields of the crops you have been growing for the past six years

Crops	Yields in Bags for the Three Main crops in Respective Years					
	2007	2008	2009	2010	2011	2012

10. What is the size of agricultural land for each crop you have been cultivating to obtain the above mentioned yields?

.....  
 .....

11. What was the selling price per bag for each agricultural product you sold for the recent six years?



Crops	Selling Price per Bag for the Three Main Crops in Respective Years					
	2007	2008	2009	2010	2011	2012

### Credit Accessibility

(a) What is the source of working capital for your household (Tick)

S/N	Source	Tick
(i)	Credit from Community Bank	
(ii)	Credit from friends and relatives	
(iii)	Credit from other Financial Institutions	
(iv)	Credit from advance payments	
(v)	Credit from other sources (mention) ..... .....	

(b) What is the amount of loans you borrowed from the MRCB in the following years, tick at the appropriate year?

Loan Size (Tshs)	Years			
	2009	2010	2011	2012
Below 50,000				
50,000				
51,000 – 100,000				
101,000 – 200,000				
200,000 – 500,000				
501,000 – 1,000,000				

Above 1,000,000				
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### Assessment of the Role of Credit

- (c) To what extent your accessibility to credit has improved your household life  
(Tick)

Poverty Indicators	Contribution of Credit to Poverty Reduction			
	Not Improved	Less Improved	Remained the Same	Improved
Paying school fees				
Building good quality houses				
Health status				
Food sufficiency (consumption)				
Purchasing of productive assets (specify) .....				
Others (specify) .....				

15. What do you own in any of the following assets below?

Name of the Asset	Number	Value
Plots/Farm (acres)		
Bicycle		
Motor cycle		
Car		
House		
Wheel burrow		
Milling machine		

Cattle		
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16. How many meals per day do your household members consume for the past one year
- (a) One meal
  - (b) Two meals
  - (c) Three meals
17. For how many months your household experiences food shortages
- (a) None
  - (b) 1 -2 Months
  - (c) 3 – 4 Months
  - (d) 5 – 6 Months
  - (e) Above 6 Months
18. do you have any member of household above seven years of age who have not gone to school because of the household's failure to pay school fees
- Yes
- No