

**THE PERFORMANCE OF MICROFINANCE INSTITUTIONS ON  
POVERTY REDUCTION: A CASE OF PRIDE TANZANIA IN THE CITY OF  
MWANZA**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER IN BUSINESS  
ADMINISTRATION OF THE OPEN UNIVERSITY OF TANZANIA**

**2013**

## CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the senate of the Open University of Tanzania a dissertation titled: *“The Performance of Microfinance Institutions on Poverty Reduction: A Case of Pride Tanzania in the City of Mwanza”* in partial fulfillment of the requirements for the degree of master in Business Administration of the Open University of Tanzania.

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(Supervisor)

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Date

**DEDICATION**

I dedicate this work to my lovely wife Jacqueline who encouraged me throughout the period this study was undertaken, our children: Mwita, Mbusiro, Maturi and Ritha who were deprived of parental guidance during the time of my study.

## ACKNOWLEDGEMENT

This study would not have been possible without the strong support and guidance of Dr. Odass Bilame. I am highly indebted from his support from the time of developing a proposal to completion of this study.

I acknowledge the material and moral support from my lovely wife Jacqueline who assisted me during the whole process of research proposal and data collection. Her encouragement ensured that I completed the work as scheduled: My children Mwita, Mbusiro, Maturi and Ritha who missed parental love during the whole time of research period. Furthermore, I extend gratitude to my workmates from PRIDE Tanzania at Head Office, Zonal Office, Mwanza Branch and Pamba Branch who gave me all the support I needed in order to complete this work.

Special thanks are extended to the General Manager (PRIDE Tanzania) and the Zonal Manager Lake (PRIDE Tanzania) for the support rendered in the course of this study and the leave of the study that helped me attend examinations. I would like also to thank the research assistants: Mr. Amos Mwita, Revocatus Manyama, Magreth Chacha and Leah Masalakulagwa who supported me tirelessly during the data collection phase.

My gratitude also goes to the Faculty of Business Management staff of the Open University of Tanzania for strong encouragement, proof reading and lay out of the document. I would like to extend my gratitude to Ward Executive Officers, Clients and Staff of PRIDE Tanzania selected from Mwanza and Pamba Branches for their support in the data collection exercise.

Lastly, I am also indebted to many people, individuals and various institutions that in one way or another facilitated the smooth execution of this work. Their contribution is highly appreciated. However for any error of substance, mistakes and the slip of the pen found in this work lies in my quarter.

## ABSTRACT

Microfinance is one area which has to be considered by all development partners for the purpose of improving the income and livelihood of rural and urban poor people. This study intended to examine the performance of microfinance institutions on poverty reduction in terms of accessibility to microfinance services, employment creation, income growth and livelihood improvement as well as sustainability of MFIs as an outcome of government efforts towards the strategy of fighting against poverty among the poor communities especially in rural and urban areas. The study employed a case study design within a framework of mixed methodology whereby purposive and random sampling procedures were used to select a sample of 231 respondents which involved 200 PRIDE clients, 23 PRIDE staffs and 21 WEOs. Data were collected through the use of questionnaires, interviews, focused group discussions and documentary reviews. The qualitative data were analysed following the Miles & Huberman Model of Qualitative Data Analysis while the quantitative data were coded and analysed statistically by the use of computer software (SPSS version 15) giving frequencies and percentages. The findings of the study revealed that, microfinance is very essential for economic development as it plays a significant role towards poverty reduction. However, it was found that MFIs are not much effective in performing their role of reducing poverty in Tanzania. In particular, it was revealed that the accessibility to microfinance services among the poor people is still very low. On the other hand, the findings revealed that, there is little emphasis on the provision of business education to the clients before and after receiving loans such that majority of the entrepreneurs conduct their business through experience. Based on the research findings, the study recommended that both the government and microfinance institutions should strive to improve the financial infrastructure in order to expand accessibility to more people. This could be done by lowering the interest rates and increasing grace period. On the other hand, microfinance institutions should provide enterprising education to their clients in order to make them more effective.



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**LIST OF ABBREVIATIONS ACRONYMS**

ASCAs	Accumulative Savings and Credit Association
CBO	Community Based Organization
CGAP	Consultative Group to Assist the Poorest
DFID	Department for International Development
EG	Enterprise Group
FGD	Focus Group Discussion
FINCA	Foundation for International Community Assistance
HBS	Household Budget Survey
MDG	Millennium Development Goals
MEC	Market Enterprise Committee
MFI	Microfinance Institutions
MSE	Micro and Small Enterprises
NBC	National Bank of Commerce
NGO	Non Governmental Organization
NMFP	National Micro Finance Policy
NORAD	Norwegian Agency for Development Cooperation
NSGRP	National Strategy for Growth and Reduction of Poverty
PRIDE	Promotion of Rural Initiatives and Development Enterprise
PHDR	Poverty and Human Development Report
ROSCAs	Rotating Savings and Credit Associations
SACA	Savings and Credits Associations
SACCOS	Savings and Credits Cooperative Societies
SAP	Structural Adjustment Programme



SEDA	Small Enterprise Development Agency
SIDA	Swedish Development Cooperation Agency
SSA	Sub-Sahara Africa
URT	United Republic of Tanzania

## **CHAPTER ONE**

### **1.0 BACKGROUND TO THE STUDY**

#### **1.1 Introduction**

This chapter presents and discusses the background to the research problem. It consists of ten sections: (1) background to the problem; (2) statement of the problem; (3) general objective of the study; (4) specific objectives of the study; (5) research questions; (6) significance of the study; (7) limitations of the study; (8) delimitations of the study; and (9) organization of the study.

#### **1.2 Background to the Problem**

Microfinance is a comprehensive term that includes deposits, loans, payment services and insurance to the poor and low income earners. In general, this concept is perceived as providing poor families with small loans to help them engage in productive activities or expand their tiny businesses (Josily, 2006). Successful microfinance can be defined by three main characteristics: sustainability, outreach, and impact (Holcombe, 1997). Sustainability refers to the ability of a program to continue over time, preferably without ongoing subsidies. Outreach refers to the number of clients reached and targeting of the poor. Impact refers to the ability of a program to assist poor households and individuals to move out and remain out of poverty. This is the ultimate objective of microfinance provision in any country throughout the world. It is one of the modern strategies aimed at improving the living standard of the low income people through reducing their poverty status.

The general status of poverty in the world indicates that about 1.2 billion people of the total world population live in absolute poverty, spending less than one \$ per day.

Out of all these people who live below the poverty line, 291 million are found in Sub Saharan Africa (World Development Report, 2000/2001). Tanzania is among the developing countries in Sub Saharan Africa (SSA) which has a total population of about 34 million people with a population growth rate of 2.9 % and an estimated economic growth of 6.2% (National Census, 2002; Poverty & Human Development Report, 2007). The majority of its people (about two third) live in rural or semi urban areas where they are predominantly characterized by rampant poverty.

As a nation, Tanzania experiences low standard of living with most of its people; especially farmers unable to meet their family basic needs. Government efforts to fight against poverty in Tanzania started soon after independence in 1961. Several strategies aimed at improving the living standard through poverty reduction were employed. These strategies included the establishment of settlement schemes in early and mid 1960s, introduction of the Arusha Declaration in 1967 with an emphasis on rural development, establishment of villagenization programme in 1970s as well as decentralization of government functions, (Conyers, 1974; Woods, 1975 & Ellman, 1975). Despite the government efforts towards poverty reduction, the economic growth continued to slow down to an extent of causing a crisis in early 1980s.

In response to the economic crisis, the government of Tanzania in collaboration with the World Bank and the International Monetary Fund initiated the structural adjustment programmes (SAPs) which were aimed at recovering the economic situation through restructuring of institutional arrangements of the economy. These programmes were implemented in phases which included the National Economic Survival Programme (1981-82), the Structural Adjustment Programme (1982-1985),

the Economic Recovery Programme (1986-89), the Economic and Social Action Programme of 1989-92 and the Rolling Plans & Forward Budgeting of 1993-2002 (Chachage, 1993; Mtatikolo, 2000). Similarly, during the World Social Summit held in Copenhagen in 1995, Tanzania joined other nations in their commitment to eradicate poverty. Following this commitment, Tanzania developed plans for poverty reduction which are outlined in the Tanzania Development Vision 2025, the National Poverty Eradication Strategy, Poverty Reduction Strategy Paper (2000,) and the National Strategy for Growth and Reduction of Poverty (NSGRP, 2005).

Currently, the introduction of Micro-finance Financial Institutions (MFIs) is seen as the best alternative for low income earners as a means towards reducing their poverty level. Micro-finance offers a variety of services ranging from savings and credits to payment transfers and insurance. However, the concept of micro-finance is still relatively new in Tanzania; it is mainly linked to the issues of women and poverty alleviation. Since the implementation of the National Micro-Finance Policy in Tanzania (NMFP) in 2001, microfinance has been officially recognized as a tool for poverty eradication. Initially, with an increased exposure and use of microfinance in the country, banks have taken an interest in offering the service. The National Microfinance Bank is one of the main institutional providers of microfinance services in the country.

On the other hand, CRDB Bank and AKIBA Commercial Bank are two big supporters of microfinance services in the country. Other financial organizations that are involved in microfinance services in Tanzania include FINCA, PRIDE, SEDA and Tanzania Postal Bank (TPB) as well as many non-profit organizations. A recent

survey (2005) done by the Bank of Tanzania updated the directory of micro-finance practitioners and included basic information on micro-finance institutions including commercial banks, Non-Governmental Organizations (NGO), Savings and Credit Cooperatives Societies (SACCOs) and Savings and Credit Associations (SACAs). The directory includes a total of 8 banks, 45 CBOs, 2 Companies, 95 Government programs, 1,620 SACCOs, 48 SACAs and 62 NGOs .

This study focused on examining the performance of micro-finance institutions in respect to poverty reduction in Tanzania using PRIDE Tanzania in Mwanza City as a case study. In other words the study aimed at finding out the performance of individuals who had accessed loans from micro-finance institutions. Micro finance programs and projects have to be developed to meet the specific micro-finance needs of various groups so as to reduce their poverty burden. Evidence reveals that, in recent years (almost a decade) PRIDE has enabled many people to access small and medium loan facilities to cover some of their basic financial obligations. Therefore, this study sought to assess the performance of micro-finance institutions on poverty reduction so as to examine whether the overall objectives as stipulated in the NMFP have been realized.

### **1.3 Statement of the Problem**

There have been so many attempts in the past to solve or reduce poverty and empower low income people in Tanzania. We have had the Structural Adjustment Programme and Economic Recovery Programmes all aimed at increasing the welfare of the people in urban and rural areas. We have also had microfinance programmes such as Rural Financial Services Project (RFSP) which aimed at the providing small

loans to small and medium scale enterprises (SMEs). However, despite a variety of efforts taken by the government of Tanzania towards poverty reduction in the country, still poverty is a problem to many people in the country. The issue here is, are these MFIs and their programmes having any impact on the lives of people in the areas where they are operating? Has the poverty level reduced in those areas as has been articulated by their establishment? This study is therefore set out to examine the impact of MFIs on poverty reduction in Tanzania on one hand and to answer the proposed questions on the other hand

#### **1.4 General Objective of the Study**

The general objective of this study was to assess the effectiveness of micro-finance institutions in performing their role of reducing poverty in Tanzania as measured against the National Micro-Finance Policy (NMFP) objectives.

#### **1.5 Specific Objectives of the Study**

Specifically, the study aimed at achieving the following objectives

- (i) To examine the accessibility of poor and low income people to micro-finance services provided by PRIDE Tanzania.
- (ii) To examine the contribution of micro-finance institutions in terms of income growth and livelihood improvement with reference to PRIDE Tanzania.
- (iii) To examine the sustainability of PRIDE Tanzania in terms of loans provision.

#### **1.6 Research Questions**

In consistency with the specific objectives, the study was set out to answer the following research questions:

- (i) What proportion of the poor and low income people are able to access micro-finance services provided by PRIDE Tanzania?
- (ii) What is the contribution of micro-finance institutions on poverty reduction in Tanzania?
- (iii) To what extent is PRIDE Tanzania sustainable in providing loans to the needy poor and low income population in Mwanza City?

### **1.7 Significance of the Study**

In particular, this study was intended to examine the effectiveness and contribution of micro-finance institutions in performing their role of poverty reduction through providing small scale financial facilities and small scale enterprising education. The study is therefore very significant in the following ways:

Firstly, the findings of this study are expected to generate new knowledge and useful information that would enable the government, Micro-Finance Institutions and the general public to understand the significant role plaid by micro-finance facilities in poverty reduction strategies. This will in turn provide practical suggestions on the best ways to invest on potential projects and programs that are likely to benefit the poor and the disadvantaged groups of the community who need to venture in micro-businesses.

Secondly, the study highlighted major problems and challenges that face most of micro-finance institutions such as FINCA, PRIDE and SACCOS in achieving their objectives. This will assist the management of micro-finance institutions and the government to redesign their policies to fit the current and dynamic economic situation for effective realization of their objectives.

### **1.8 Limitations of the Study**

The one and most serious limitation encountered in this study is Low response rate resulting from the fact, majority of the respondents who included PRIDE staffs members and beneficiaries of micro-finance services from PRIDE were always busy with their routine activities. As such, it was very difficult to access them especially during office hours as they were reluctant to be interfered. In addition to that, it was also very difficult to get documented records from other respondents (small scale entrepreneurs who benefited from PRIDE micro-finance service) as many of them have been conducting their business without proper keeping of records and sometimes no records at all. However, despite the stated limitations, the researcher was able to mitigate the situation by the richness of qualitative data which were both detailed and explanatory and therefore able to answer the key research questions and thus satisfy the objectives of the study.

### **1.9 Delimitation of the Study**

This study was restricted to investigating the performance of micro-finance institutions on poverty reduction specifically for low income earners who access loans from PRIDE Tanzania. The empirical study was conducted in the city of Mwanza where majority of its population live in urban areas. Since it was not possible to study the entire target population, the study was therefore delimited to only two PRIDE branches of Mwanza city with a limited sample of two categories of respondents: (PRIDE staff and loan beneficiaries).

### **1.10 Organization of the Study**

The study is presented in five chapters:



Chapter one shows briefly the general background to the study, statement of the problem and objectives of the study. Chapter two presents an intensive review of various literatures related to the study. Chapter three gives an explanation of the research process and the methods adopted for collecting and analyzing data. Chapter four deals with data presentation, analysis and discussion of findings while chapter five presents a summary of findings as well as conclusions and recommendations of the study.

## CHAPTER TWO

### 2.0 LITERATURE REVIEW

#### 2.1 Introduction

This chapter provides the review of various literatures related to the study on the performance of micro-finance institutions on poverty reduction in Tanzania. It begins with the presentation of definitions of key terms used in the study followed by a discussion on the concept and nature of micro-finance. The chapter also delineates the models of microfinance intervention in relation to their applicability in the delivery of microfinance services in Tanzania using PRIDE as a case study. It focuses more on none-banking financial institutions and their role in empowering the low income individuals. Given the international community's commitment to the goal of halving world poverty by the year 2015, it is imperative to understand the ways in which micro-finance contributes to poverty reduction through supporting and financing small and medium scale enterprises.

#### 2.2 Definitions of Key Terms and Concepts

This section provides the working definitions of the key terms and concepts used in this study. Such concepts include: Microfinance Institutions, Micro Enterprise, Poverty and poverty reduction.

***Microfinance institutions (MFIs):*** In the context of this study, Microfinance institutions refers to the organizations that deal with the provision of a broad range of financial services such as deposits, loans, money transfer, and insurance to poor and low-income people.

***Micro Enterprise:*** For the purpose of this study, the term Micro Enterprise is defined as a small scale productive activity produces or distributes goods and or services, mostly undertaken in the informal sector. A typical micro enterprise employs fewer than five workers, usually family members and has very limited fixed assets.

***Poverty:*** This refers a state of deprivation and prohibitive of decent human life caused by lack of resources and capabilities to acquire basic human needs.

***Poverty Reduction:*** This refers to the interventions which involves introduction and implementation of social and economic policies which address the issue of poverty both at national and individual levels

### **2.3 The Concept and Nature of Microfinance**

The term micro-finance has been defined in different perspective depending on varying contexts. According to the National Bank for Agriculture and Rural Development (NABARD), microfinance is defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards. On the other hand, Otero (1999) defines microfinance as the provision of financial services to low income poor and very poor self-employed people. These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. The emphasis of support MF is on the poor in “pre-micro enterprises” stage for building up their capacities to handle large resources. This view is in line with Schreiner (2001) who asserts that, microfinance is “the attempt to improve access to small deposits and small loans for poor households neglected by

banks.” It therefore involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Micro-finance is closely related to micro-credit. In most of the literature, the terms microfinance and microcredit are often used interchangeably, but it is important to highlight the difference between. Sinha (1998, p.2) states “microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc)”. Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance involves additional non-credit financial services such as savings, insurance, pensions and payment services (Robinson, 2001). Other concepts that are closely related to Microfinance are micro savings and micro insurance. Micro Savings is a microfinance service that allows impoverished individuals to safeguard money and other valuables items and even earn interest. It allows a lump sum to be enjoyed in future in exchange for a series of savings made now (Ayertey, 2008). On the other hand, Micro Insurance is also a component of microfinance which involves the provision of insurance to low income households. Poor households are especially vulnerable to risk, both in the form of natural calamities as well as more regular occurrences of illness and accidents.

### **2.3.1 Historical Development of Microfinance**

Historically, microfinance and microcredit are relatively new concepts in the field of development, first coming to prominence in the 1970s (Robinson, 2001; Otero 1999). Prior to then, from the 1950s through to the 1970s, the provision of financial services

by donors or governments was mainly in the form of subsidized rural credit programmes.

These often resulted in high loan defaults, high loss and an inability to reach poor rural households (Robinson, 2001). Robinson argues that the 1980s represented a turning point in the history of microfinance in that MFIs began to show that they could provide small loans and savings services profitably on a large scale. They received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients (*ibid.*).

It was also at this time that the term “microcredit” came to prominence in development. The difference between microcredit and the subsidized rural credit programmes of the 1950s and 1960s was that microcredit insisted on repayment, on charging interest rates that covered the cost of credit delivery and by focusing on clients who were dependent on the informal sector for credit (Robinson, 2001). It was now clear for the first time that microcredit could provide large-scale outreach profitably.

The 1990s “saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale” (Robinson, 2001, p.54). Dichter (1999, p.12) refers to the 1990s as “the microfinance decade”. Microfinance had now turned into an industry according (Robinson, 2001). Along with the growth in microcredit institutions, attention changed from just the provision of credit to the poor (microcredit), to the provision of other financial services such as savings and pensions (microfinance) when it became clear that the poor had a demand for these other services.

### **2.3.2 Models of Microfinance Interventions**

Microfinance institutions (MFIs) employ a wide variety of implementation methods to reach their clients. These methods are called Models of Microfinance Interventions (MFI). The Grameen Bank has identified fourteen different microfinance models of which the research focused on three in the literature. They are; Rotating Savings and Credit Association (ROSCAs), the Grameen Bank and the Village Banking models, as these are the most common microfinance models applicable in Tanzania.

#### **2.3.2.1 Rotating Savings and Credit Associations**

These are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle (Grameen Bank, 2000). According to Harper (2002), this model is a very common form of savings and credit. He states that the members of the group are usually neighbours and friends, and the group provides an opportunity for social interaction and is very popular with women. They are also called merry-go-rounds or Self-Help Groups (Yunus, 1999).

#### **2.3.2.2 Grameen Solidarity Group Model**

This model is based on group peer pressure whereby loans are made to individuals in groups of four to seven (Yunus, 1999). Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members. Payments are usually made weekly (Ledgerwood, 1999). According to Berenbach & Guzman (1994), solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations

such as the Grameen Bank, who use this type of microfinance model. They also highlight the fact that this model has contributed to broader social benefits because of the mutual trust arrangement at the heart of the group guarantee system. The group itself often becomes the building block to a broader social network (Yunus, 1999).

### **2.3.2.3 Village Banking Model**

Village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings (Hulme, 1999). They have been in existence since the mid-1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000). The loans are backed by moral collateral thus the promise that the group stands behind each loan (Global Development Research Centre, 2005).

The sponsoring MFI lends loan capital to the village bank, who in turn lend to the members. All members sign a loan agreement with the village bank to offer a collective guarantee. Members are usually requested to save twenty percent of the loan amount per cycle (Ledgerwood, 1999). Members' savings are tied to loan amounts and are used to finance new loans or collective income generating activities and so they stay within the village bank. No interest is paid on savings but members receive a share of profits from the village bank's re-lending activities. Many village banks target women predominantly, as according to Hulme (1999) the model

anticipates that female participation in village banks will enhance social status and intra household bargaining power.

#### **2.4 The Role of Microfinance on Economic Development**

Microfinance plays a very important role towards economic development of a nation. According to UNCDF (2004), microfinance plays three key roles in development: it helps very poor households meet basic needs and protects against risks; it is associated with improvements in household economic welfare; and finally it helps to empower women by supporting their economic participation and therefore promotes gender equity. Otero (1999) asserts that microfinance creates access to productive capital for the poor, which together with human capital, enables people to move out of poverty (1999). By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

According to Otero (1999) the main aim of microfinance is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004) argue that, the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999).



More recently, commentators such as Littlefield, Murdugh and Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of microfinance in achieving the Millennium Development Goals. Simanowitz and Brody (2004, p.1) assert that, “Microfinance is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the most poor people.” Littlefield, Murdugh and Hashemi (2003) state “microfinance is a critical contextual factor with strong impact on the achievements of the MDGs...microfinance is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale”. Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women (2003).

## **2.5 The Impact of Microfinance on Poverty Reduction**

It is commonly argued that MFIs are not reaching the poorest in society. However, despite some commentators’ scepticism of the impact of microfinance on poverty, studies have shown that microfinance has been successful in many situations. According to Littlefield, Murdugh and Hashemi (2003, p.2) “various studies...document increases in income and assets, and decreases in vulnerability of microfinance clients”. They refer to projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda which all show very positive impacts of microfinance in reducing poverty. For instance, a report on a SHARE project in India showed that three-quarters of clients saw “significant improvements in their economic well-being and that half of the clients graduated out of poverty” (2003, p.2). Dichter (1999, p.26) states that microfinance is a tool for poverty reduction.

Hulme and Mosley (1996, p.109) in a comprehensive study on the use of microfinance to combat poverty argue that, well-designed programmes can improve the incomes of the poor and can move them out of poverty. They state that “there is clear evidence that the impact of a loan on a borrower’s income is related to the level of income” as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the “middle and upper poor” (1996, pp109-112). However, they also show that when MFIs such as the Grameen Bank and BRAC provided credit to very poor households, those households were able to raise their incomes and their assets (1996, p.118). a critical analysis of the above arguments reveals clearly that microfinance institutions (MFIs) play a significant impact towards poverty reduction.

## **2.6 An Overview of Microfinance in Tanzania**

In Tanzania, the development of a vibrant microfinance industry was accelerated by the introduction of the National Micro-Finance Policy (NMFP) in 2001. Up to around 1995, microfinance was a relatively new concept, mostly linked to women and poverty alleviation. Only a few institutions and donors were involved (most notably USAID and NORAD). (World Bank & IMF, 2003). The government tried to woo commercial banks to give credit to the small and medium-scale enterprises, the so called the missing middle. They supported this process through the establishment of credit guarantee schemes, setting up credit and business development service parastatals to deliver general training, entrepreneurship training, and credit, but in all this, micro enterprises were completely left out of the equation. It was not until February 2001 that the National Microfinance Policy was launched. Since then the

Tanzanian microfinance industry has become increasingly vibrant, with key players being NMB, CRDB, FINCA, PRIDE, and SEDA. Currently, a large number of medium sized and small local microfinance institutions, such as community banks, religious groups, and NGOs, as well as several SACCOs and SACAs are operating with limited local outreach. The principal providers of financial services to the poor and low income households in the rural and urban areas of Tanzania consist of licensed commercial banks, regional and rural unit banks, savings and credit cooperative societies and several NGOs whose micro-credit delivery operations are funded and supported with technical assistance by international organizations (Randhawa & Gallardo, 2003).

## **2.7 Microfinance Policy and Poverty Reduction in Tanzania**

In Tanzania, microfinance is one of the approaches adopted by the government in recent years in pursuit of its long term vision of providing sustainable financial services to the majority of Tanzanian population (Rubambey, 2001). Before the current financial and banking restructuring in Tanzania, most of the financial services were offered by the National Bank of Commerce (NBC) and the Co-operative and Rural Development Bank (CRDB) (Chijoriga, 2000). Since 1991, the government has been implementing financial sector reforms aimed at putting in place a competitive, efficient and effective financial system.

Although the reforms have had reasonable success in bringing about the growth of competitive and efficient mainstream banking sector, it has not brought about increased access to basic financial services by the majority of the Tanzanians,

particularly the poor in rural areas (Rubambey, 2001). The realization of the above shortcoming led to the government's decision to initiate deliberate action to facilitate alternative approaches in the creation of a broad based financial system comprising of a variety of sustainable institutions with wide outreach and offering diverse financial products (Rubambey, 2001).

## **2.8 The General Profile of PRIDE Tanzania Limited**

PRIDE Tanzania is a non-governmental organization (NGO) which was incorporated on 5<sup>th</sup> May 1993 under Chap 212 as a company limited by guarantee without share ownership. It started piloting micro finance operations in January 1994 with one branch in Arusha. The main objective was to provide financial services to the low income entrepreneurs in Tanzania, and this is in line with its mission statement. The mission of PRIDE Tanzania is to provide quality inclusive financial services to contribute to the economic growth of Tanzania.

Since its inception, PRIDE Tanzania has been financed mainly by grants from the Norwegian Agency for Development Cooperation (NORAD) through a bilateral agreement between the government of Norway and the Government of Tanzania. Later on, in 2000 the programme received further funding from the Swedish Development Cooperation Agency (SIDA) to cover shortfalls in its loan fund requirements. Other sources of funds are obtained from Helen Keller International, Plan International, British Council /DFID, and the P.C. Cornell Trust.

PRIDE Tanzania's micro lending operations started with a two year pilot phase in Arusha. The pilot phase also involved two other branches located in Tanga and Dar

es Salaam. After the successful pilot phase the programme entered an expansion phase, which aimed at establishing a countrywide branch network. The target beneficiaries of PRIDE Tanzania are both men and women who are poor, but economically active. There is no client specific targeting. The main service offered by PRIDE Tanzania is the provision of micro loans to micro and small enterprises (MSEs).

PRIDE Tanzania is currently operating with a network of 57 branches countrywide, and has an outreach of over 120,000 clients and it has disbursed 1,060,000 loans with value of TSh.355 billion. The regions in which PRIDE Tanzania with the number of branches in brackets are: Arusha(4), Coastal(2), Dar-es-Salaam(9), Dodoma(2), Iringa(3), Kagera(3), Kigoma(2), Kilimanjaro(3), Lindi(1), Manyara(1), Mara(3), Mbeya(3), Morogoro(1), Mtwara(2), Mwanza(6), Rukwa(2), Shinyanga(2), Singida(1), Tabora(3),and Tanga(2),. PRIDE has branches in Zanzibar at Unguja and Pemba as well. The main four regional centers of PRIDE Tanzania are Arusha (Northern), Dar es Salaam (Eastern and Coastal), Mwanza (Lake) and Dodoma (Central and Western).

## **2.9 Microfinance Services Provided by PRIDE Tanzania Limited**

In order to achieve its main objectives, PRIDE Tanzania provides a variety of services ranging from loan and credits to insurance services. The types of loans provided include Group Loans, Premium Loan, Business Loan, Salaried Loan, ASASI Loan, and Farmers Loan. On the other hand, the insurance services include health insurance and Insurance on death or disasters. Each of the above types of services is described in details as follows:

### **2.9.1 Group Loans**

Group lending methodology is based on the solidarity group lending model adopted from the Grameen Bank model operating in Bangladesh. Under this model, loan applicants have to form a self-selected group of five people in order to qualify for a loan.

PRIDE Tanzania adopted this model due to its success in Bangladesh in reaching the poor and covering its operational costs. Some modifications were made to this model so that it could suit the context of Tanzania. Such modifications include the target beneficiaries and areas of operations. PRIDE Tanzania operates in regional, district and ward canters and targets economically poor people running micro and small scale enterprises (MSEs).

#### **2.9.1.1 Loan Size for Group Lending Methodology**

The group lending methodology loan size ranges from Tsh 200,000 (about US\$133.33) to Tsh 2,000,000 (about US\$1,333.33) as shown in Table 12. The current loan sizes were reviewed in 2010. Previously, the minimum and maximum loan sizes were Tsh 100,000 and Tsh 1,000,000 respectively.

#### **2.9.1.2 Interest Rates and Repayment Period Under Group Loans**

PRIDE Tanzania has five loan cycles in group lending methodology through which a client may graduate from small loan to a larger one. The interest charged varies with the size of the loan. Larger loans attract lower interest rates and vice versa. Interest rates range from 28% to 30% per annum. Loans offered in this category are mainly in the form of short-term working capital. Few investment loans of less than one year

maturity are offered. Immovable and movable properties are used as collateral (e.g. house, land, home furniture or equipments). These loans require collateral because a member might disappear after receiving the loan. The type of collateral depends on the MEC's decision. PRIDE Tanzania in this case acts as the custodian of that collateral. The repayment period ranges from six months for level one loan to twelve months for the proceeding loans level.

**Table 3.1: Classification of Loan Size and Weekly Repayment Schedule under Group Lending Methodology of PRIDE Tanzania**

<b>No. of Loans</b>	<b>Loan Amount (Tsh)</b>	<b>Weekly Repayment (Tsh)</b>	<b>Loan Insurance Fund (LIF) (Tsh)</b>	<b>Total Weekly Repayment (Tsh)</b>
1	200,000	9,200	2,000	<b>11,200</b>
2	500,000	12,800	2,000	<b>14,800</b>
3	800,000	20,480	2,000	<b>22,480</b>
4	1,200,000	30,720	2,000	<b>32,720</b>
5	2,000,000	51,200	2,000	<b>53,200</b>

**Source: PRIDE Tanzania Records, (2010)**

### **2.9.1.3 Loan Disbursement Procedures under Group Lending Methodology of PRIDE Tanzania Limited**

Under the group lending methodology (model), PRIDE Tanzania adheres to a process which is based on following procedures, terms and conditions:

**Formation of a group:** PRIDE Tanzania requires loan applicants to form a group of self-selected five members for guarantee purposes. The grouping is normally made at two levels. At the lower level there is a group of five clients called an Enterprise Group (EG). The second level of grouping is normally made up of ten EGs to form

one big group of fifty clients called a Market Enterprise Committee (MEC). Clients are required to form a group of five self-selected members as a prerequisite for loan consideration because they guarantee each other in their respective groups. Also in the case of default, it is even easier to make a follow up, since each group member knows each other better than the lender. The MEC meets once a week for repayment purposes. An EG is composed of a chairperson and a secretary who are elected by group members. The MEC on the other hand is led by an Executive Committee comprised of ten members, two from each EG. Their primary task is to follow up whenever repayment problems arise and build solidarity amongst the group.

***Training:*** Before the disbursement of the first loan, PRIDE Tanzania's new clients who are in an MEC group have to attend a one hour pre-loan weekly training for the first four weeks. The pre-loan training normally aims at familiarizing the clients with PRIDE Tanzania's loan terms and conditions. During the training the clients have to pay a registration fee of Tsh 1,000 each. In addition the clients are required to pay a Tsh 2,000/= per week to the Loan Insurance Fund (LIF). This LIF contribution is refundable once a client decides to quit the programme. An orientation is made within the first three weeks of the pre-loan training where the new MEC and EG group members visit each other's place of business and residence to learn about with each other. This is necessary as the EG and MEC groups serve as the second and third party guarantor respectively (after the individual recipient of the loan).

***Loan application and approval:*** When a new client joins a group of five members and after having met all the basic requirements such as attending a training and paying both registration fee and the LIF of Tsh 2,000 (about US\$1.33) and 25,000



(about US\$16.67) for the first four weeks respectively, he/she becomes eligible to apply for the first loan of Tsh 200,000 (US\$ 133.33). This implies that, on the third week, the appraisal of the first loan applicant is done and on the fourth week the first loan is issued. In other words, it takes three weeks before a new client gets the loan. Existing clients may apply for a loan after a successful repayment of the previous loan. Normally a client graduates from lower to higher stages of loan size. This is done to motivate the clients to have good repayment behaviour in order to move to a higher loan size.

Loan approval is done by the EG before seeking the approval of all MEC group members under the supervision of the PRIDE Tanzania credit officer. Loan approval is normally determined by the performance of the business and the repayment behaviour of the client. If a meeting is scheduled specifically for approving a loan and one member of the MEC group fails to attend a meeting, the loan is not disbursed at that meeting. This is based on the reason that the fellow group members of the loan applicant are his/her guarantors; hence their absence delays the whole process of loan approval.

***Weekly meetings and repayment:*** PRIDE Tanzania requires its clients to attend weekly meetings in the branch offices. Weekly meetings constitute the discussion of the loan application and approval, the loan repayment and payment of LIF, and normally take one hour. When one or more clients in a MEC group fail to repay the loan according to agreed installments, the whole MEC group is stalled until the money is raised. This is a technique for pressurizing the clients to repay the loan installments on time.

### **2.9.2 Fahari Loan**

This is the type of accessed by clients who graduated from Group lending scheme. Any loan amount can be taken depending on the business need and collaterals. Repayment period and grace period is upon the choice of the client.

### **2.9.3 Business Loan**

Business loan is accessed by any small and medium entrepreneur; the loan amount depends on the business needs up to the maximum of Tsh 50,000,000 (U\$33,333.33). Repayment period is 24 months at maximum and grace period is upon the choice of the client.

### **2.9.4 Salaried Loan**

This scheme targets permanent employee from central government, local government, government institutions and public organizations. The Maximum loan amount is Tsh. 15,000,000/= (U\$ 10,000) depending on the basic salary and balance after deductions which should not be beyond one third of the basic salary. The repayment period is 24 months paid on monthly basis.

### **2.9.5 ASASI Loan**

This loan scheme targets registered rural and urban Savings and Credits Cooperative Societies (SACCOS) with minimum of 100 members. The minimum loan is Tsh 10,000,000 (U\$6,666.66) and the repayment period is 24 months at maximum.

### **2.9.6 Farmers' loan**

This is mainly targeted to commercial farmers: the farmer should be between 18-55 years of age, having farm of not less than one acre. Also it is a group guarantee

mechanism where farmers form groups and the farm should not be more than 25 kilometers from metrology station.

### **2.9.7 Health Insurance**

PRIDE Tanzania in collaboration with Strategis Health Insurance covers clients and their families and it is being financed by the government of Netherlands through PHARM ACCESS organization by 90%.

### **2.9.8 Insurance on Death and/or Disasters**

Currently PRIDE Tanzania in collaboration with Alliance Insurance of Tanzania is compensating client's loan from death and catastrophe where the client pays a premium of 1.35% of the loan amount expecting to borrow. The premium covers the period of loan only.

## **2.10 Empirical Studies**

Studies on MFIs have been conducted in various countries all over the world. The findings from these studies are useful because some of the studies have had a significant contribution to the understanding of MFIs performance in the context of Tanzania. In this section, an analysis of various studies related to microfinance and poverty reduction is presented. The studies are categorized into two main groups: studies conducted outside Tanzania (abroad) and those conducted in Tanzania.

### **2.10.1 Review of Studies Done Outside Tanzania**

In a study on the impact of Microfinance in Addis Ababa, Mochona (2006) assessed impact of microfinance programmes in terms of outreach, poverty reduction,

managing risks, and women's empowerment. The findings of the study revealed that, there are statistically significant differences in income, business and consumption expenditures between clients and non-clients of MFIs.

However, differences observed in monthly savings, asset building, nutritional intake, women's empowerment, ability to send children to school, and access to health facilities between participants and non-participants were not statistically significant. The study recommended the provision of intensive training on business to help clients to minimize transaction related risks. On the other hand, micro-insurance scheme could be established to enable poor clients to pool risk or share losses that individuals may not withstand.

Chirwa, (2002) conducted a study on Microfinance and Poverty Reduction In Malawi to examine the factors of success and failure in the delivery of financial services to the poor and the efficacy and effectiveness of the existing institutional framework on poverty reduction. The study findings indicated that, while positive developments have taken place in the micro finance sector in the post democratization era, the existing institutions are far from satisfying the demand for such services and lack of financial resources will remain a major constraint in the expansion of micro and small business enterprises in Malawi. The study therefore recommended further systematic research on the area of microfinance programmes in order to better inform policy makers.

In another study, Mosley (2001) assessed the impact of microfinance on poverty in Bolivia. The study was conducted through small sample surveys of four

microfinance institutions: (two from urban and two from rural) using a range of poverty concepts such as income, asset holdings and various measures of vulnerability. The study findings indicated that, all the institutions studied made a considerable contribution to the reduction of poverty on all the measures of income which we considered. However, the mechanisms through which poverty reduction worked varied between institutions: those institutions which gave, on average, smaller loans reduced poverty much more by lifting borrowers across the poverty line, whereas those institutions which gave, on average, larger loans reduced it much more by expanding the demand for labour amongst poor people.

On the other hand, Chao (2000) in his study of comparative analysis of member-based microfinance institutions (MFIs) in East and West Africa, looked at member-based MFIs, and came up with the observation that, the number of members/clients reached by the MFIs in the three West African countries (Benin, Burkina Faso and Mali) is 772,000 representing 2.9% of the total population and 6% of the active population while in Tanzania, the MFIs reach only 150,000 members or 0.7% of the population.

### **2.10.2 Review of Studies Done in Tanzania**

Kessy and Urio (2006) conducted a study to examine the extent to which Microfinance Institutions (MFIs) contribute to poverty reduction in Tanzania. Following the information collected from both microfinance institutions and their clients, it was revealed that MFIs have changed the life of poor people in a positive way. MFIs' clients have increased their incomes, capital invested and therefore

expansion of their businesses. Despite these achievements it was further observed that some conditions like grace period for loan repayment, collateral and MFIs coverage have been limiting factors for poor people to access the MFI services. In his study, Chao (2000) found that only 0.7% Tanzanians out of the total population had an access to financial services. However, he didn't offer the way forward on what could be done for MFIs to reach more people.

Furthermore, the study carried out by Mang'era (2010) on the Performance of MFIs on poverty reduction in the City of Mwanza revealed that, MFIs play a significant impact towards poverty reduction. In addition, the study provided the way forward on how MFIs can reach more clients in Tanzania and suggested the attractive products that could be innovated for addressing the poor's needs on financial services. Ashe (2006), observed that an entirely different approach is required to reach a larger number of people whose savings and borrowing capacity is in the order of tens rather than hundreds of dollars, who often need a safe place to save rather than take on debt, and who live far from towns and cities.

## **2.11 Synthesis and Knowledge Gap**

The literature review highlighted the most important aspects pertaining to microfinance institutions (MFIs) and their performance on poverty reduction. The concept of microfinance has been described in details in relation to its evolution and historical development in Tanzania and it was made clear that microfinance and microcredit are two closely related concepts. However, microcredit together with other related concepts such as micro saving and micro insurance are components of

microfinance such that microfinance is a broader and more comprehensive concept. The three models of microfinance intervention: (Rotating Savings and Credit Associations, Grameen Bank and the Village Banking models) have been described and discussed in details in relation to their application to microfinance in Tanzania.

Further analysis of the literature has shown that microfinance institutions (MFIs) play a significant role toward economic development of a country especially in developing countries particularly through reducing the poverty levels of the low income earners. On the other hand, evidence from the literature review has shown that microfinance is a relatively new industry in Tanzania gained more prominence after the introduction of the National Microfinance Policy (NMFP) in 2001. However despite its significance, microfinance industry in Tanzania has very low coverage reaching only 0.7% of the total population.

It has been observed from the literature review that, a lot has been written on the area of microfinance and poverty but still access oriented problems to microfinance products persist among the low income earners in Tanzania. It is apparent that the available studies from Tanzania have not been able to identify specific mechanisms that have greater impact on access expansion to microfinance products. Many of the empirical studies cited in the literature review have only taken into account the factors related to the success and failures of MFIs on poverty reduction without proposing effective measures of addressing the problem of poor access to microfinance services among the poor people.

Studies by Chao (2000); Kessy & Urrio (2006); and Ashe (2006); although address the issues related to access and the extent of how microfinance institutions contribute

to poverty reduction in Tanzania, they don't specifically address the issues related to effectiveness of MFIs in terms of their sustainability. In addition, they don't propose the way forward on what should be done to address the problem of low coverage. In response to this gap, this study was designed to be carried out as an attempt to bridge and narrow down the gap on one hand and to examine measures and strategies for increasing access to financial services among the poor on the other hand.



## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents and discusses the methodology that was employed in conducting the study. The chapter is organized in nine sections: (1) research methodology; (2) research design; (3) area of the study; (4) target population; (5) sample size and sampling techniques; (6) methods of data collection; (7) validation of data collection instruments; (8) data analysis plan; and (9) ethical consideration.

#### **3.2 Research Methodology**

Based on the overall research objective, this study was conducted within the framework of mixed research methodology. It generally used both quantitative and qualitative methods as a means to offset the weaknesses inherent within one method with the strengths of the other method (Creswell, 2009). Thus the qualitative approach allowed the researcher to gain a deeper understanding of respondent's personal experiences and feelings while the quantitative approach allowed some specific aspects of the study to be analyzed quantitatively giving frequencies and percentages. However, based on the nature of the study objectives, the research methodology was more skewed towards the qualitative approach.

#### **3.3 Research Design**

This study adopted a case study design to assess the performance of MFIs on Poverty Reduction in Mwanza city with a special focus on PRIDE Tanzania. This design was preferred because it enabled the researcher to explore in-depth information of the

study within its real-life context while capturing the differences within and between the cases (Yin, 2003). It also enabled the researcher to obtain the research data through triangulation methods as it provides a means of integrating qualitative and quantitative methods into a single research study (Kothari, 1991).

### **3.3.1 Area of the Study**

This study was specifically conducted in Mwanza city which is located on the southern shores of Lake Victoria in North-Western Tanzania. It is the second largest city next to Dar es Salaam with a population of over 700,000. Mwanza city is composed of two districts of Nyamagana and Ilemela and it has four PRIDE branches (Mwanza, Pamba, Igoma and Kirumba). Mwanza city was purposively selected as a specific area of study because it has the largest number of small business entrepreneurs who have accessed microfinance services from PRIDE than other districts in the region. On the other hand, Mwanza and Pamba branches were the main focus of study because they have been providing microfinance services to their clients for more than five years.

### **3.3.2 Target Population**

Fraenkel and Wallen (2000) define population as a large group of people that have one or more characteristics in common on which the research is focused. In this study, the target population comprised of 6000 clients of PRIDE Tanzania, Ward Executive Officers (WEOs) from 21 wards of Mwanza City council and all 23 staff members of PRIDE Tanzania from both Mwanza and Pamba branches. Clients were selected because they are the ones who face direct impact of microfinance services. On the other hand, the PRIDE staffs were selected because they are the chief

executives of the microfinance institutions while the WEOs were involved because they form a group of government officials who are concerned with policy implementation at the local level.

### (i) Sample Size of the Study

A sample is a representative unit of an intended population. Yin (2003) defines sample as a sub-set of the population selected for observation and analysis. The sample size of this study comprised of 231 respondents which involved 10 staffs from PRIDE Tanzania, 200 small scale entrepreneurs who have accessed loans from PRIDE Tanzania and 21 Ward Executive Officers (WEOs) from Mwanza City Council. Table 3.1 shows the composition of sample for this study.

**Table 3.2: Summary of Sample Composition for the Study Respondents**

<b>Respondents Categories</b>	<b>Expected Total Number</b>	<b>Actual Respondents</b>
PRIDE officers	10	10
PRIDE clients	200	189
WEOs	21	20
<b>Total</b>	<b>231</b>	<b>219</b>

**Source: Field Data (2011)**

### 3.3.3 Sample Size and Sampling Techniques

Since it was not easy to involve the whole population in the study, the researcher had to choose a manageable sample to represent the target population (Yin, 2003). The size of the sample was determined both by the size of the population and the amount of heterogeneity in the population (Bailey, 1978).

### **3.3.3.1 Sampling Techniques**

Sampling can be done using various techniques. Kothari (2004) refers to sampling as a procedure that the researcher adopts to select items for the sample. Omari (2011) states that, to obtain a sample either the probability or non-probability approach can be used depending on the nature of the study and convenience. In selecting the sample for this study, two main types of sampling techniques were employed: simple random sampling and purposive sampling techniques.

**Simple random sampling:** This technique was used to obtain 200 PRIDE clients who served as primary respondents in the study. 100 clients were randomly selected from each of the two PRIDE branches. The use of this strategy was justified on the fact that, it was considered a fair method since every member was given an equal opportunity of being selected (Kothari, 2004). The sample was therefore more representative of the population.

**Purposive sampling:** Purposive sampling was used to obtain 10 PRIDE officers and 21 Ward Executive Officers (WEOs) who were purposively selected by virtue of their positions. The use of purposive sampling strategy enabled the researcher to gain more information pertaining to the research problem. Notably, it enabled the researcher to identify information rich participants in order to gain insights and develop a deeper understanding of a specific phenomenon (Fraenkel & Wallen, 2006).

### **3.4 Methods of Data Collection**

Data collection in this study followed triangulation process. Thus, four main types of data collection methods were employed namely: interviews, questionnaires, focused

group discussions and documentary reviews. A variety of methods were used to collect data and therefore supplement each other to ensure validity of the study. Notably, the use of many techniques was preferred so as to get the reality of what the researcher was interested to investigate (Cohen, Manion & Marrison 2007). Each of these methods is further explained below.

### **3.4.1 Interviews**

This study used interviews to collect data from the PRIDE officers and the Ward Executive Officers. Despite its weakness of being expensive, time consuming and being associated with some bias, the interview method was credited for its ability to obtain more in-depth information, being flexible, and provision of supplementary information about the respondents (Kombo & Tromp, 2006). Thus, it allowed the researcher to get first hand information by assuming that loan officers and WEOs are the best persons to describe the performance of microfinance on poverty reduction. Hence, the study used open-ended questions to obtain the general views of the respondents.

### **3.4.2 Questionnaires**

In this study, both open-ended and closed-ended questionnaires were used to collect data from PRIDE officers, PRIDE clients and WEOs. Through the use of questionnaires, a considerable amount of data was obtained from many respondents in a short period of time. This method was specifically preferred in this study because it allowed privacy to the respondents in responding to the set of questions (Kombo & Tromp, 2006).

### **3.4.3 Focused Group Discussions**

In this study, the FGDs were used to complement structured questionnaires that were earlier administered to PRIDE clients. The tool was selected because it provided an opportunity for the researcher to discuss issues in depth with a relatively large group of people in a relatively short period of time (Kothari, 2004). Six FGDs that comprised of 7-12 participants were carried in both Mwanza and Pamba branches from which clients were randomly selected making a maximum of 65 respondents.

### **3.4.4 Documentary Reviews**

The documents reviewed in this study were official documents such as PRIDE credit policies, annual reports, journals, publications and books which were used to supplement primary data. The use of documentary reviews provided the researcher with first hand information with evidence obtained from recorded documents (Kothari, 2004).

## **3.5 Validation of Instruments**

Research instruments are considered valid when they allow meaningful and defensible conclusions to be drawn from the collected data (Creswell, 2009). Throughout the process of data collection and analysis, the researcher made sure that the findings and interpretations were accurate (ibid). In this study, the researcher employed triangulation, peer review and pilot study to improve the quality of data.

### **3.5.1 Triangulation**

The study employed four methods of data collection namely interviews, questionnaires, documentary review and focus group discussions. The use of these

instruments enabled the researcher to avoid bias of the information being investigated. In data triangulation, the researcher investigates whether the data collected with one procedure or instrument confirms data collected using a different procedure or instrument (Creswell, 2009).

### **3.5.2 Peer Review**

The data collection instruments were presented to the supervisor and other research experts as well as fellow students for analytical discussions on the relevance and suitability of the items, comments and the provision of feedback. Thereafter, the items were revised in which the comments were useful in refining the instruments by adding, eliminating or retaining some of the items.

### **3.5.3 Pilot study**

The data collection instruments were subjected to a pilot study which was conducted in Mwanza branch. The information obtained from the pilot exercise was used to refine the instruments where necessary.

## **3.6 Data Analysis Plan**

In this study, the process of data analysis was categorized into two main categories depending on whether the data were quantitative or qualitative. The quantitative data collected through questionnaires were coded, categorized and ordered according to the emerged categories of the responses. The coded data were then entered into a computer software (SPSS) and were analyzed statistically using descriptive statistical techniques giving frequencies and percentages. On the other hand, the qualitative data collected through interviews, focus group discussions and documentary review

were analysed by using descriptive display matrices following the Miles & Huberman Model of Qualitative Data Analysis.

### **3.7 Ethical Considerations**

It is argued that “ethical concerns are paramount when planning, conducting and evaluating research” (Cozby, 2007, p.38). The researcher observed that the study is abided by human rights and national policies. Therefore, attention was paid on observing the rules and regulations during the process of preparation and conducting the research by considering the following;

#### **3.7.1 Observing protocol**

Before going to the field for data collection, the researcher requested for a research clearance from the Regional Director (Mwanza Center) Open University that introduced him to the PRIDE branch managers of Mwanza and Pamba branches. The branch managers then wrote a letter that introduced the researcher to the respondents in the study area.

#### **3.6.2 Informed Consent of Respondents**

After securing the research permit, the researcher introduced himself to the respondents under study. The participants were informed verbally on the aim and the significance of the study, timing of the interviews and for whom the results were intended (Cozby, 2007). The researcher also informed the respondents that participating in the study was voluntary. As such they were free to withdraw their consent at any stage during the data collection process.



### **3.7.3 Confidentiality of the Information Sources**

The researcher ensured confidentiality of the information sources such that the respondents were guaranteed that the information provided will only be used for the research purpose and will be treated confidentially. None of the participants was identified by names in the research report; instead abbreviations were used. Furthermore, all the quotations were used with the permission of the respondents.

## **CHAPTER FOUR**

### **4.0 DATA PRESENTATION, ANALYSIS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents and analyses data collected from the field regarding the performance of microfinance institutions on poverty reduction focusing on respondents' views both at household and community levels. The analysis and discussion of findings have been presented in line with specific objectives and research questions that guided the study.

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

A clear understanding of the socio-economic characteristics of the group involved in the study is of significant value in assessing the performance of microfinance institutions on poverty reduction. In light of this fact, the socio-economic background of the respondents (clients) in terms of age, gender, educational status and number of family members was investigated.

##### **4.2.1 Ages of Respondents**

Out of the total clients of microfinance services, 3.1% were between 20-30 years of age while 25.9% were between the ages of 31-40 years. The majority of the beneficiaries were between the ages of 41-50 years forming 61.3% of the total respondents. On the other hand, 9.5% of the respondents were between the ages of 51 and above. This indicates that microfinance sector in the city of Mwanza is mainly dominated by the old age group of the population. Similarly, the data reveal that majority of microfinance beneficiaries were women who comprised 64.5% of the total respondents. This is clearly shown Table.3.3.

**Table 3.3: Age Distribution of Respondent (Clients)**

Age	Frequency		Percent
	Female	Male	
<20	0	0	0
21-30	4	2	3.1
31-40	30	19	25.9
41-50	75	41	61.3
>50	13	5	9.5
<b>Total</b>	<b>122</b>	<b>67</b>	<b>100.0</b>

Source: Field Data (2011)

#### 4.2.2 Educational Status of the Respondents

Respondents were also classified in terms of their educational level because it was assumed that education can affect the way a person manages life and the household business. Table.4 below shows that, 3.5% have never attended formal education. It was further realized that, majority of the respondents (53.5%) had at least attended basic primary education, 37% had completed secondary education and only 6% had college or university education.

**Table 3.4: Educational Status of Respondent**

Level of Education	Frequency	Percent
Illiterates	7	3.7
Primary education	102	53.9
Secondary education	69	36.5
Tertiary education	11	5.8
<b>Total</b>	<b>189</b>	<b>100</b>

Source: Field Survey Data (2011)

### 4.3 Accessibility of Poor and Low Income People To Micro-Finance Services Provided By PRIDE Tanzania

This section presents data on the accessibility of low and poor income people to microfinance services provided by PRIDE Tanzania. Essentially the section provides answers to the first research question: “What proportion of the poor and low income people are able to access micro-finance services provided by PRIDE Tanzania?” Here, the researcher’s main assumption was in line with Schreiner (2001) who asserts that, the emphasis of microfinance is to improve access to small deposits and small loans for poor households neglected by banks. This objective is accomplished in three sub-sections as presented below.

#### 4.3.1 Source of Startup Capital of the Respondents

The information on the source of startup capital of the respondents collected from the field shows that 49.2% of the respondents have taken a loan from MFIs, which was used as the start-up capital of their businesses. The remainder of the respondents reported borrowing capital from friends and relatives or started business from their own personal savings. This implies that microfinance is the major source of initial capital and it plays a significant role in helping poor people to start their own business. Table 3.5 summarizes the information in detail.

**Table 3.5: Source of Startup Capital Information of the Respondent**

Source of Startup Capital	Frequency	Percentage (%)
Own Savings	43	22.7
Friends/Relatives	32	16.9
Loans from MFIs	93	49.2
Others	21	11.1
<b>Total</b>	<b>189</b>	<b>100</b>

**Source: Field Survey Data (2011)**

### 4.3.2 Value of Loans Accessed by Small Business Entrepreneurs from PRIDE

#### Tanzania

This sub-section aimed at assessing the value of loans granted to small business entrepreneurs by PRIDE Tanzania. In the Table 3.6, the study analyzed the amount of loans granted to individuals using three different scales: 2 to 5 million Tsh; 6 to 10 million Tsh; and more than 10 million Tsh. The collected data reveal that, about 55% of the disbursed loans worth more than 10 million Tsh each. On the other hand, 41.2% of disbursed loans were ranging between 6-10 million Tsh. This implies that PRIDE Tanzania has a clear sustainable programme to its clients who prove to have effective management granted loans to their businesses. Very few clients, about 3.7% got loans amounting between 2 to 5 million Tsh; This signifies the researcher's intention of collecting data from clients who have stayed with PRIDE Tanzania for more than five years.

**Table 3.6: Information on Value of Loans Accessed from PRIDE Tanzania**

Value of Accessed Loans In Million Tsh.	Frequency	Percentage (%)
2 -5	7	3.7
6-10	78	41.2
>10	104	55
<b>Total</b>	<b>189</b>	<b>100</b>

Source: Field Survey Data (2011)

### 4.3.3 Number of Loans Accessed by Small Business Entrepreneurs from PRIDE

#### Tanzania

This sub-section aimed at examining the frequencies of accessing loans among the small scale entrepreneurs. Table 4.5 shows how many times one client who

responded to this study accessed loan from PRIDE Tanzania. The result indicates that 88% of the total client respondents accessed loans more than five times, while 12% accessed between four to five times.

**Table 3.7: Information on Number of Loans Accessed from PRIDE Tanzania**

<b>Number of Loans Accessed</b>	<b>Frequency</b>	<b>Percentage (%)</b>
1-3	0	0
4-5	19	12
>5	170	88
<b>Total</b>	<b>200</b>	<b>100</b>

**Source: Field Survey Data (2011)**

Section 4.2 analysed the accessibility of poor and low income people to micro-finance services provided by PRIDE Tanzania based on examining the source of startup capital, value of loans and number of loans accessed by small business entrepreneurs. A critical analysis of the research data came up with the following key finding:

It was found that, microfinance is the major source of initial capital and it plays a significant role in helping poor people to start their own business. The information presented in Table 3.5 reveal that 49.2% of the respondents obtained loans from PRIDE Tanzania as sources of their startup capital. On the other hand, data collected through documentary reviews revealed that, PRIDE Tanzania has been providing loans to an average of about 51% of the total loan applicants in a month from both Mwanza and Pamba branches. In this aspect, it is logical for the researcher to conclude that the accessibility to microfinance services is still very low.

#### **4.4 Contribution of Micro-Finance Institutions in Terms of Income Growth and Livelihood Improvement with Reference to PRIDE Tanzania**

This section presents data pertaining to the contribution of microfinance institutions towards income growth and livelihood improvement with reference to PRIDE Tanzania. More specifically, the section attempts to answer the second research question: “What is the contribution of micro-finance institutions on poverty reduction in Tanzania?” Data were collected through the use of questionnaires, interviews and FGDs. The respondents involved were clients and WEOs. This was accomplished in four sub-sections as presented below.

##### **4.4.1 Business Education after Joining PRIDE Tanzania**

In Table 3.8, the analysis of data reveals that 76.8% of respondents have never received business education after joining PRIDE Tanzania and rest of 23.2% had received business education. This shows that a lot of clients conduct their businesses through experience and not business as a dynamic entity.

**Table 3.8: Information Regarding Business Education after Joining PRIDE**

<b>Tanzania</b>		
<b>Access To Business Education After Joining PRIDE Tanzania</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Yes	44	23.2
No	145	76.8
<b>Total</b>	<b>189</b>	<b>100</b>

**Source: Field Survey Data (2011)**

#### 4.4.2 Assets Acquired following Income Generated from the Business Funded by PRIDE Tanzania

This section aimed at analyzing various types of assets acquired by PRIDE clients from income generated from businesses financed by PRIDE Tanzania. On this aspect, the respondents were allowed to tick more than one asset. The results show that, land was the major asset invested by majority of the respondents followed by social assets such as radio and television sets. Shops and tailoring machines came to tie up probably by being income generating activities. On the hand, houses look to be very important assets probably due to settlement problems in towns or because of being collaterals in order to access higher loans. Transport facilities such as bicycle, car, and motorcycle recorded low marks as bank accounts. Table 3.9 below shows this information in details.

**Table 3.9: Information on Assets Owned From Business Funded By PRIDE TZ**

Indicator	Land	Car	House	Shop	Bicycle	Motorcycle	Bank Account	Radio	TV set	Tailoring Machine	Livestock
Frequency	154	21	99	104	37	13	21	137	133	104	91

**Source: Field Survey Data (2011)**

#### 4.4.3 How Loans Acquired from PRIDE Tanzania are being used by Clients

In this aspect, the study aimed at establishing the fact on how the loans acquired by the PRIDE clients are being used in which the respondents were allowed to tick more than one item. In Table 10 the analysis shows that, there are other uses of loans than business expansion as PRIDE Tanzania is expecting. In response to the question,



some other respondents admitted to use the loans on other things such as bride price, tours, hijjar and fellowships.

**Table 3.10: Information on the Uses of Loans Acquired From PRIDE Tanzania**

Indicator	Start new business	Expanded Business	Children education	Buying food	Medical expenses	House rent	Others
Frequency	189	191	176	190	198	187	54

**Source: Field Survey Data (2011)**

#### **4.3.4 The Degree of Personal Satisfaction of PRIDE Clients After Having Received Loans**

In Table 3.11, the study analyzed the degree of personal satisfaction of the clients after having received loans from PRIDE Tanzania on three different scales 1 to 2 (strongly disagree); 3 (undecided); and 4 to 5 (strongly agree). In each criterion the researcher picked the scale which scored the highest vote. It shows that out of 11 criteria assessed, scale 1 to 2 did not score high in any of the criteria. Scale 3 scored five times high in increase on income, increase on savings, better access to healthcare, better financial situation of the family and operational assistance. While scale 4 to 5 scored six times high on the rate of interest, procedures for obtaining loans, better access to education, role in decision-making, increase in employment opportunities and improvement in the living standard of the family.

Section 4.3 analysed data on the contribution of micro-finance institutions in terms of income growth and livelihood improvement with reference to PRIDE Tanzania based on four major aspects. A critical analysis of research data came up with three key findings:

**Table 3.11: The Degree of Personal Satisfaction of the Clients after Having Received Loan from PRIDE Tanzania**

	Strongly disagree ← Strongly agree					
	Scale	1	2	3	4	5
The rate of interest of PRIDE Tanzania is reasonable	Scale	1	2	3	4	5
	Frequency	<b>18</b>	<b>31</b>	<b>54</b>	<b>65</b>	<b>38</b>
The procedure of obtaining loans from PRIDE Tanzania is easier than conventional banking	Scale	1	2	3	4	5
	Frequency	<b>10</b>	<b>29</b>	<b>33</b>	<b>74</b>	<b>54</b>
The income has increased	Scale	1	2	3	4	5
	Frequency	<b>7</b>	<b>24</b>	<b>71</b>	<b>64</b>	<b>34</b>
The savings has increased	Scale	1	2	3	4	5
	Frequency	<b>9</b>	<b>39</b>	<b>79</b>	<b>52</b>	<b>21</b>
Better access to education	Scale	1	2	3	4	5
	Frequency	<b>14</b>	<b>22</b>	<b>63</b>	<b>69</b>	<b>32</b>
Better access to healthcare	Scale	1	2	3	4	5
	Frequency	<b>11</b>	<b>18</b>	<b>81</b>	<b>56</b>	<b>54</b>
Better Financial situation of the family	Scale	1	2	3	4	5
	Frequency	<b>13</b>	<b>19</b>	<b>79</b>	<b>58</b>	<b>31</b>
Role in decision making process has increased	Scale	1	2	3	4	5
	Frequency	<b>4</b>	<b>17</b>	<b>41</b>	<b>57</b>	<b>81</b>
Employment opportunities have increased	Scale	1	2	3	4	5
	Frequency	<b>9</b>	<b>13</b>	<b>33</b>	<b>76</b>	<b>69</b>
Improvement in the living standard of the family	Scale	1	2	3	4	5
	Frequency	<b>3</b>	<b>5</b>	<b>55</b>	<b>59</b>	<b>78</b>
Operational assistance received from PRIDE Tanzania was helpful to run the business	Scale	1	2	3	4	5
	Frequency	<b>18</b>	<b>19</b>	<b>88</b>	<b>64</b>	<b>61</b>

**Source: Field Survey Data (2011)**

Firstly, it was found that microfinance has contributed a lot towards income growth and livelihood improvement of loans beneficiaries. Research data collected from the field reveal that a number of assets have been acquired from income generated from

businesses funded by PRIDE Tanzania. Furthermore, it was found that land was the major asset invested by majority of the respondents followed by social assets such as radio and television sets.

Secondly, it was established that majority of the PRIDE clients conduct their businesses through experience. Research data reveal that only 23.2% of the total respondents had received business education before and after accessing loans from PRIDE Tanzania. This finding was contrary to the researcher's expectation as lack of business education impinges smooth development of business activity.

Thirdly, it was revealed that, the loans accessed were allocated to other uses apart from business establishment as it was expected by PRIDE Tanzania. The research data shows that some other respondents spend the money for other uses such as paying bride price and paying house rent. Probably this is attributed to the lack of effective business education to the clients.

#### **4.5 Sustainability of PRIDE Tanzania in Terms of Loans Provision**

This section presents data on the sustainability of PRIDE Tanzania in terms of loans provision to low income people. Specifically the section provides answers to the third research question: "To what extent is PRIDE Tanzania sustainable in providing loans to the needy poor and low income population in Mwanza City? In achieving this objective, the study analysed the ability of PRIDE Tanzania to provide loans in terms of specific time that a clients have to wait to collect loans after fulfilling the necessary requirements and the stability of loan provision.

#### 4.5.1 Specific Time to Collect Loan after Fulfilling PRIDE Tanzania

##### Requirements

In this aspect, the study intended to analyze the specific time interval for PRIDE clients to collect loans after fulfilling the requirements. The collected data shows that there is a specific time frame that a client has to wait before receiving the approved loan. The study aimed to examine the PRIDE commitment to meet the promise of disbursing loans after the client has fulfilled the requirements. The aim was to assess the financial stability of the microfinance since unstable financial position of the microfinance leads to unfulfilled promises. Table 3.12 shows that loan disbursement promises to clients are always fulfilled as indicated by 92.5% of the total respondents.

**Table 3.12: Information on the Ability to Meet Loan Disbursement Promises to Clients after Fulfilling the PRIDE Requirements**

<b>Fulfillment of Loan Disbursement Promises</b>	<b>Frequency</b>	<b>Percentage</b>
Always fulfilled	177	93.6
Always extended	3	1.5
Not fulfilled	9	4.7
<b>Total</b>	<b>189</b>	<b>100</b>

**Source: Field Survey Data (2011)**

**Table 3.13: Information on the Stability of PRIDE Tanzania in Loan Provision**

<b>Stability of PRIDE Tanzania in Loan Provision</b>	<b>Frequency</b>	<b>Percentage</b>
Very stable	157	83
Somewhat	20	10.5
Don't know	9	4.7
Not stable	3	1.5
<b>Total</b>	<b>189</b>	<b>100</b>

**Source: Field Survey Data (2011)**

#### **4.5.2 The Stability of PRIDE Tanzania in Loan Provision**

In Table 13, it shows that clients classified PRIDE Tanzania as a stable microfinance institution in loan provision by 79.5%.

Section 4.4 analysed data related to sustainability of PRIDE Tanzania in terms of loans provision to low income people by examining the ability to meet loan disbursement promises to clients and stability of PRIDE Tanzania in loan provision. A critical analysis of the research data reveals that the loan disbursement promises to the clients were always fulfilled as reflected by 93.6% of the respondents in table 13. On the other hand, 83% of the respondents rated PRIDE Tanzania as a stable microfinance institution in terms of loans provision.

## **CHAPTER FIVE**

### **5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This study sought to investigate the performance of microfinance institutions on poverty reduction using PRIDE Tanzania as the case study. This final chapter presents a summary of the study and the key findings, discusses the implications of the study findings for practice, provides conclusions based on the study findings and finally proposes recommendations for further research.

#### **5.2 Summary of the Study**

The main purpose of the study was to assess the effectiveness of micro-finance institutions in performing their role of reducing poverty in Tanzania as measured against the National Micro-Finance Policy (NMFP) objectives. In particular, the study attempted to accomplish three objectives which are: (1) examining the accessibility of poor and low income people to micro-finance services provided by PRIDE Tanzania; (2) examining the contribution of micro-finance institutions in terms of income growth and livelihood improvement with reference to PRIDE Tanzania; and (3) examine the sustainability of PRIDE Tanzania in terms of loans provision. To achieve these objectives, the study was guided by three research questions.

The study was conducted in the city of Mwanza. In order to gather information, the study employed a sample of 231 respondents of whom, 200 were PRIDE clients from two branches, 21 Ward Executive Officers (WEOs) and 23 PRIDE staffs. The

instruments used to collect data were questionnaires, interviews, FGDs and documentary reviews.

### **5.3 Summary of the Key Findings**

In line with the specific objectives, the study produced five key findings as presented below:

Microfinance is the major source of initial capital and it plays a significant role in helping poor people to start their own business. However, it was found that, despite its significance, the accessibility to microfinance services is still very low compared to the number of low income individuals who are in need. Evidence from the field reveals that, only 51% of the total loan applicants have been able to access loans from Microfinance organizations as a source of their startup capital.

Microfinance has contributed a lot towards income growth and livelihood improvement of loans beneficiaries. Research data collected from the field reveal that a number of assets have been acquired from income generated from businesses funded by PRIDE Tanzania. Furthermore, it was found that land was the major asset invested by majority of the respondents followed by social assets such as radio and television sets.

Majority of the PRIDE clients do not possess appropriate enterprising education to run their businesses. Research data reveal that only 23.2% of the total respondents had received business education before and after accessing loans from PRIDE Tanzania. In this case, clients conduct their businesses through experience.

Loans accessed by clients from PRIDE Tanzania have been allocated to some other uses apart from business establishment as it was expected. The research data shows that some other respondents spend the acquired loans for some other uses such as paying bride price and paying house rent. Probably this is attributed to the lack of effective business education to the clients.

By examining the ability to meet loan disbursement promises and its stability to provide loans, PRIDE Tanzania was found to be stable and sustainable. A critical analysis of the research data reveals that the loan disbursement promises to the clients were always fulfilled as reflected by 93.6% of the respondents in table 4.1.1. On the other hand, 83% of the respondents rated PRIDE Tanzania as a stable microfinance institution in terms of loans provision.

#### **5.4 Conclusions**

In light of the study findings, the following conclusions were drawn:

Firstly, it was established that, there is low accessibility to micro-finance services provided by PRIDE Tanzania among the poor and low income people of Mwanza city. However, it was noted that majority of the clients who access loans from PRIDE Tanzania do not have appropriate business education hence the need for PRIDE to enhance its access through providing enterprising education to its clients.

Secondly, it was found that microfinance institutions have a significant contribution towards income growth and livelihood improvement of the low income people. Evidence reveals that majority of the low income people who have accessed loans from PRIDE Tanzania have been able to own a variety of assets such as land and houses from incomes generated by their funded businesses.



Thirdly, it was established that based on its ability and stability to meet loan disbursement promises to its clients, PRIDE Tanzania was found to be sustainable in providing microfinance services to the low income people in Tanzania.

Generally, on the basis of the study findings, it was established that microfinance institutions were not much effective in performing their role of reducing poverty in Tanzania. This is mainly attributed to small coverage and little emphasis on the provision of business education to their clients which is very essential in managing their business and principles of financial management.

## **5.5 Recommendations**

Based on the findings of the study, the following recommendations are brought to the attention of MFIs management, the government authorities and other financial stakeholders in general:

- (i) MFIs should consider the possibility of increasing the grace period and reducing the frequency of repayment so as to provide for clients with long term loans turn to businesses such as farming.
- (ii) The poor state of the infrastructure, especially rural roads, was pointed out as the main reason why MFIs fail to operate in rural areas. In addition to improvement of infrastructure the Government of Tanzania, in collaboration with MFIs, should introduce trade exhibitions to their micro and small businesses in order to expand the MSEs' market coverage.
- (iii) MFIs should restructure their training contents to include improving their clients' business skills. They should organize regular business training for their clients and qualified training institutions should conduct this.

- (iv) Regarding the issue of small base loans, the MFIs should be flexible by raising the minimum base to reflect changes in the value of money over time.

## **5.6 Areas for Further Research**

Because of the fact that there are many poor people in Tanzania, the government seems to lack a well-functioning social welfare network. Therefore microfinance institutions like PRIDE Tanzania are needed to bridge the gap. Taking the positive development of the nation into consideration, microfinance institutions may no longer have the same importance in the future. This question at issue is something that could be addressed with further research into this aspect. Further issues of interest to look at in future are self-confidence, empowerment and transparency and accountability. The study belief is that these factors have affected PRIDE Tanzania positively. This aspect also needs further investigation.

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## APPENDICES

### Appendix I: Field Questionnaire for PRIDE Clients

#### QUESTIONNAIRE

I am studying Masters of Business Administration Program at Open University of Tanzania. I have designed the following questionnaire for the study of the performance of Microfinance Institutions on Poverty Reduction. A case study of PRIDE Tanzania in the City of Mwanza. I would highly appreciate if you fill this **four-page** questionnaire. It will take approximately 10-15 minutes. I expect your kind cooperation in this respect.

Respondent's demographic characteristics

1. Location

(a) District----- (b) Ward-----

2. What is your gender? (a) Female ( ) (b) Male ( )

3. What is your age?

(a) Below 20 years ( ) (b) 20 – 30 years ( ) (c) 31 – 40 years ( )

(d) Above 40 years ( )

4. Do you have any educational experience?

(a) Not attended ( ) (b) Primary education ( ) (c) Secondary education ( )

(e) College/University ( )

5. What is your marital status?

(a) Single ( ) (b) Married ( ) (c) Divorced ( ) (d) Widowed ( )

6. How many family members do you have?

- (a) Less than 2 members ( ) (b) (2-5) members( ) (c) More than 5 members( )

7. What is the source of your initial capital?

- (a) Personal savings( ) (b) Friends and relatives( ) (c) Loan from MFIs( ) (d) Others( )

8. Have you received any business training after joining PRIDE Tanzania?

- (a) Yes ( )  
(b) No ( )

9. What number and value of loans you took from your PRIDE Tanzania?

- Number (a) (1-3) times  (b) (4-5) times  (c) More than 5 times

10. Value in million Tsh(a)between 2-5  (b)between 6-10  (c)More than

11. Mention the assets you own following income from the business funded by

PRIDE Tanzania income (with value if possible)

- (i) Land  
(ii) Car  
(iii) House  
(iv) Shops  
(v) Bicycle



- (vi) Motorcycle
- (vii) Bank account
- (viii) Radio
- (ix) Television set
- (x) Tailoring machine
- (xi) Livestock (mention)

11. How do you use loan acquired from PRIDE Tanzania? (Tick more than one answer)

- (i) Started my new business(    )
- (ii) Expanded my business (    )
- (iii) Children education      (    )
- (iv) Buying food                (    )
- (v) For medical expenses      (    )
- (vi) House rent                 (    )
- (vii) Others.(specify).....

12. The numbers of following table indicates the degree of satisfaction or agreement level (on a scale of 1-5\*) of the person after he or she has received loan from PRIDE Tanzania. Please circle the number, which accurately reflects your opinion

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

The rate of interest of PRIDE Tanzania is reasonable	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
The procedure of obtaining loans from PRIDE Tanzania is easier than conventional banking	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
The income has increased	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
The savings has increased	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Better access to education	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Better access to healthcare	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Better Financial situation of the family	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Role in decision making process has increased	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Employment opportunities have increased	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Improvement in the living standard of the family	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Operational assistance received from PRIDE Tanzania was helpful to run the business	Strongly disagree ←————→ Strongly agree 1            2            3            4            5

**‘1’ represents the lowest level of satisfaction or high disagreement, whereas**

**‘5’ represents the highest level of satisfaction or high agreement**

14. Is there specific time to collect loan after fulfilling PRIDE Tanzania requirements

(a) Yes (b) No

15. If the answer is yes in Qn.10 above, what can you say about the promise?

(a) Always followed (b) Always extended (c) Not followed

16. What is the stability of PRIDE Tanzania in loan provision?

(a) Very stable (b) Somewhat (c) Don't know (d) Not stable

## Appendix II: Questionnaire for PRIDE Tanzania Staff

### QUESTIONNAIRE

I am studying Masters of Business Administration Program at Open University of Tanzania. I have designed the following questionnaire for the study of the performance of Microfinance Institutions on Poverty Reduction. A case study of PRIDE Tanzania in the City of Mwanza. I would highly appreciate if you fill this **two-page** questionnaire. It will take approximately 10-15 minutes. I expect your kind cooperation in this respect.

1.) What specific strategies are you using to get poor entrepreneurs?

.....  
 .....

2.) Is there any kind of business trainings provided to PRIDE Tanzania client?

(a) Yes ( )

(b) No ( )

2b.) If yes, explain when the training is conducted and coverage of training.....

.....

3) What about community awareness with regard to PRIDE Tanzania services?

.....  
 .....

4.) What are the challenges that you are facing in your day to day activities as you strive on poverty reduction?

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

5.) What is the loan repayment trend by poor entrepreneurs?

.....  
.....

6.) Are there any loan repayment defaulters?

(a) Yes ( )

(b) No ( )

6b) If yes, what are the reasons these defaults?

.....  
.....

7.) What are the strategies to ensure loan repayment?

.....  
.....

8.) Is drop out of clients a problem in PRIDE Tanzania?

(a) Yes ( )

(b) No ( )

8b.) If yes, what are the reasons for drop outs?

.....  
.....

9.) Do you think that there is a need for entrepreneurs to have business before joining PRIDE Tanzania?

(a) Yes ( )

(b) No ( )

9b.) If yes, Why?.

.....  
.....

10.) What are the challenges facing PRIDE Tanzania towards poverty reduction?

.....  
.....

11.) Any other comments about PRIDE Tanzania?

.....  
.....

### Appendix III: Questionnaire for key informant (WEO)

#### QUESTIONNAIRE

I am studying Masters of Business Administration Program at Open University of Tanzania. I have designed the following questionnaire for the study of the performance of Microfinance Institutions on Poverty Reduction. A case study of PRIDE Tanzania in the City of Mwanza. I would highly appreciate if you fill this **two-page** questionnaire. It will take approximately 10-15 minutes. I expect your kind cooperation in this respect.

- 3 Ward.....
- 2 Sex.....
- 3 Position.....
- 2 Education level
- (a)Primary ( )
- ( b)Secondary ( )
- ( c) College/University ( )

5). For how long you have been working in this position?

.....

.....

.....

6). Can you mention MFIs which extend loans to entrepreneurs in your area?.

.....

.....

7). How do you know about PRIDE Tanzania?.....

.....

(8.) What is your role as a ward leader on loans extended to entrepreneurs by MFI  
(PRIDE Tanzania)?

.....

.....

9.) Comments on loans extended to entrepreneurs by PRIDE Tanzania in your ward?

.....

.....

10.) What are your general comments about Poverty Reduction?

.....

.....