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The Contribution of Microfinance Institutions to Poverty Reduction in Tanzania

Severine S. A. Kessy
&
Fratern M. Urio

RESEARCH ON POVERTY ALLEVIATION

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Abbreviations

CGAP	Consultative Group to Assist the Poorest
CRDB	Cooperative and Rural Development Bank
DFID	Department for International Development
EG	Enterprise Group
FFI	Formal Financial Institution
GB	Grameen Bank
GDP	Gross Domestic Product
HBS	Household Budget Survey
IFC	International Finance Cooperation
ILO	International Labour Organisation
LIF	Loan Insurance Fund
MEC	Market Enterprise Committee
MFIs	Microfinance Institutions
MSEs	Micro and Small Enterprises
NBC	National Bank of Commerce
NGO	Non-Governmental Organization
NMFP	National Microfinance Policy
NORAD	Norwegian Agency for Development Cooperation
NPES	National Poverty Eradication Strategy
PRIDE Tz	Promotion of Rural Initiative and Development Enterprise (PRIDE) Tanzania
SACCOS	Savings And Credit Cooperative Society
SIDA	Swedish International Development Cooperation Agency
SIDO	Small Industries Development Organisation
SMEDP	Small and Medium Enterprises Development Policy
SPSS	Statistical Package for Social Sciences
TDF	Tabata Development Fund
URT	United Republic of Tanzania

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Severine S. A. Kessy

Fratern M. Urio

ABSTRACT

Microfinance can be a critical element of an effective poverty reduction strategy especially for developing countries. The services provided by microfinance institutions can enable the poor to smoothen their consumption, manage their risks better, build their assets gradually, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. This paper examined 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.

Key words: Microfinance Institutions, Micro and Small Enterprises, Poverty Reduction

1. INTRODUCTION

1.1 Background Information

Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, gradually build their asset base, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life[1]. Researchers argue that the Microfinance Institutions (MFIs) are useful as they

i) reduce poverty through increased income and standards of living;
ii) empower women;
iii) develop the business sector through growth potentials, and
iv) develop a parallel financial sector.[2]

It is generally accepted that without permanent access to institutional microfinance, most poor households would continue to rely on meagre self-finance or informal sources of microfinance, which limits their ability to actively participate and benefit from development opportunities.

The proponents of credit approach[3] argue that people who live in developing countries might improve their living standards by becoming micro entrepreneurs and that financial institutions should support their initiatives with small loans. This is true because well established and sustainable micro and small enterprises in many societies contribute to the growth of national income, more employment opportunities, better standard of living and hence to the reduction of poverty. However, according to the International Finance Corporation[4], 60% to 69% of the population in many African countries have no access to conventional financial institutions.

Due to the decline of the public sector, the role of Micro and Small Enterprise (MSEs) in promoting economic growth and development, offering increased employment and reducing income disparities has been widely recognised[5]. In Tanzania, Micro and Small Enterprises contribute 12% and 34% of rural and urban employment respectively as well as up to 32% of the GDP[6]

The increased participation and contribution of MSEs has led to an increased need for financial services. Credit has been recognised as one of the tools for promoting the development of MSEs[7]. Loans enable the individual member or enterprise to enjoy both benefits of economies of scale and those of new high-value technology.[8]

Recognising the importance of financial services to MSEs, during 2000 the government of Tanzania developed the National Microfinance Policy in line with the overall financial reforms initiated in 1991[9]. The policy aims at enabling low-income earners to access financial services. Microfinance Institutions (MFIs) have became alternative sources for financing MSEs in place of Formal Financial Institutions (FFIs), which regarded MSEs as too poor to save, having low borrowings and carrying a

[1] Pilipinas, 2002
[2] Hulme and Mosl6ey, 1996a; Hashemi et al, 1996; and Buckley, 1997
[3] Yunus, 1984
[4] IFC, 1994
[5] Bagachwa 1994; Bendera 1997
[6] Wangwe and Semboja 1997;Toroka and Wenga, 1997
[7] Chijoriga, 1997; Chijoriga and Cassimon, 1999
[8] Grande, 1984
[9] URT (2000): National Micro Finance Policy

default risk[10]. The policy further aims at raising the income of both households and enterprises, by facilitating savings, payments, and insurance and credit services[11]

Despite the recognition of the dynamic role of credit to small enterprises, few business owners and the poor in rural Tanzania have access to, and benefit from, the available financial services. MFIs activities remain centred around urban areas. Operational performance demonstrates low loan payment rates and the capital structure reveals a high dependence on donor or government funding[12].

1.2 Problem Statement

The introduction of MFIs is seen as the best alternative source of financial services for low income earners in rural areas as a means to raise their income, hence reducing their poverty level. However evidence has shown that these MFIs have limited coverage, poor organisational structures and some are donor driven.[13] These findings stimulated research to investigate if the coverage of MFIs is as stipulated in the National Micro Finance Policy (NMFP) that is, covering small business owners and the poor rural population.

1.3 Research Objectives

1.3.1 General Objective

This study aims at finding out the extent to which Microfinance Institutions (MFIs) contribute to poverty reduction in Tanzania, and whether they meet the objectives of the policies that led to their establishment.

1.3.2 Specific Objectives

The study centred on the following specific aspects:

- To assess whether MFIs direct their services to the poor population and micro and small businesses (particularly in rural areas) and whether conditions and procedures for credit favour these target groups.
- To assess whether the customers reached by these schemes improved their general performance in terms of growth, creation of employment and generation of income.

1.4 Research Questions

- Do the conditions and procedures set by MFIs favour the poor and low-income earner clients?
- Do the target groups receive adequate MFIs services?
- To what extent do MFIs services contribute to poverty reduction? (This means an increase

[10] Chijoriga, 2000
[11] URT, 2000
[12] Chijoriga, 2000).
[13] Chijoriga M. M. (2000): "The Performance and Sustainability of Micro Finance Institutions in Tanzania." (Working Paper)

in MFIs' customers' wealth, i.e. generation of more income, increase in investments, creation of more employment opportunities, etc.)

1.5 Significance of the Study

This study will be of benefit to MFIs, policy makers, MSEs and the community at large. The study explores and recommends potential areas that MFIs need to put more efforts when delivering their services. On the other hand, policy makers will also benefit in the sense that, the findings provide informed suggestions on how policy can be improved. With improved and easy to implement policies, more MSEs and the community at large will be able to access and benefit from the services of MFIs.

2.0 REVIEW OF LITERATURE ON THE IMPACT OF MICROFINANCE

2.1 Preamble

2.1.1 Microfinance Institutions (MFIs)

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfer, and insurance to poor and low-income households and their micro enterprises[14]. Microfinance does not only cover financial services but also non-financial assistance such as training and business advice.

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 donors[15].

2.1.2 Micro and Small Enterprises (MSEs)

There is a wide range of definitions for MSEs, but for the purpose of this study, a MSE is defined as a productive activity either to produce or distribute 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.

A small enterprise on the other hand, employs more than five workers and most of them are in a formal sector with much higher fixed assets compared to micro enterprise. According to the Small and Medium Enterprises Development Policy[16], small enterprises are formal undertakings engaging between 5 and 49 employees, or with capital investment ranging from Tshs. 5 million to Tshs. 20 million[17].

2.1.3 Definition of Poverty

Poverty at its broadest level can be conceived as a state of deprivation prohibitive of decent human life[18]. This is caused by lack of resources and capabilities to acquire basic human needs as seen in many, but often mutually reinforcing parameters which include malnutrition, ignorance, prevalence of diseases, squalid surroundings, high infant, child and maternal mortality, low life expectancy, low per capita income, poor quality housing, inadequate clothing, low technological utilisation, environmental degradation, unemployment, rural-urban migration and poor communication[19].

Poverty is caused by both internal and external factors. Whereas the internal causes can be clustered into economic, environmental and social factors, the external causes relate to international trade, the debt burden and the refugee problem.

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[14] Pilipinas, B. S., (2002) Notes on Microfinance http://www.bsp.gov.ph/archive/Regulations_2002/Circulars/notes.htm
[15] Randhawa and Gallardo, (2003), Microfinance Regulation in Tanzania, Implications for Development and Performance of the Industry, http://www.worldbank.org/afr/wps/wp51.pdf
[16] SMEDP (2003)
[17] URT, 2003
[18] URT, 1999
[19] URT(1999): National Poverty Eradication Strategy, Vice-President's Office, Dar es Salaam

2.1.4 Prevalence of Poverty in Tanzania

Poverty is not uniformly distributed geographically or within the population. Distinctions can be noted between rural and urban poverty, gender and along agro-ecological zones. According to the Tanzania Household Budget Survey (HBS) of 2000/01[20], the widest gap is between urban and rural populations. At one extreme, Dar es Salaam is substantially better off than the rest of the country; at the other, rural households are much poorer than their urban counterparts in almost all respects[21].

Differences in poverty between men and women are smaller than geographical differences. Poverty is a result of many and often mutually reinforcing factors including lack of productive assets to generate material wealth, illiteracy, prevalence of diseases, natural calamities such as floods, drought and man-made calamities such as wars[22].

2.1.5 Poverty Eradication in Tanzania

Tanzania, as with other developing countries, has been struggling to reduce poverty. One of the interventions has been the introduction and implementation of social and economic policies which address the issue of poverty both at national and individual levels. This involved State intervention in education and other social services, and the creation of an enabling environment for private sector investment in productive sectors.

During the World Social Summit held in Copenhagen in 1995, Tanzania joined other nations in their commitment to eradicate poverty. Following this commitment, Tanzania has developed plans for poverty reduction which are outlined in the *Tanzania Development Vision: 2025*, the *National Poverty Eradication Strategy, Poverty Reduction Strategy Paper (2000,) and the National Strategy for Growth and Reduction of Poverty (2005)*. All these stress the importance of equitable, sustainable economic growth and improvement of people's welfare[23].

The Government of Tanzania recognises the role of the private sector in poverty reduction. The private sector has a role of creating employment opportunities by increasing investments. Also, private sector investment in social services will create effective and efficient environment for poverty reduction.

2.1.6 Microfinance Policy

Microfinance in Tanzania is one of the approaches that the government has focused its attention in recent years in pursuit of its long term vision of providing sustainable financial services to majority of Tanzanian population[24]. In Tanzania, before the current financial and banking restructuring took place, most of financial services for rural, micro and small enterprises were offered by the National Bank of Commerce (NBC) and the Co-operative and Rural Development Bank (CRDB)[25].

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

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[20] URT, 2002
[21] URT (2002), Household Budget Survey 2000/01, Key Findings, Dar es Salaam http://www.tanzania.go.tz/hbs/Key_Findings_HBS_Eng.pdf
[22] URT (2004) Poverty Eradication: http://www.tanzania.go.tz/poverty.html
[23] URT (2002), Household Budget Survey 2000/01, Key Findings, Dar es Salaam http://www.tanzania.go.tz/hbs/Key_Findings_HBS_Eng.pdf
[24] Rubambey, 2001
[25] Chijoriga, 2000

has not brought about increased access to basic financial services by the majority of the Tanzanians, particularly those in rural areas[26].

The realisation 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 (ibid). The government's choice of microfinance was influenced by the conviction that, given adequate attention, microfinance has the potential to contribute considerably to the economic development of the country because it is more adapted to the needs of the low-income population which makes up the majority of Tanzanians.

2.1.7 The Link Between Micro Finance Institutions and Poverty Alleviation

MFI schemes were initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards, offering financing to the poor[27], women's empowerment[28], and the development of the business sector as a means of achieving high standards and reducing market failure[29]. Empirical evidences and surveys give mixed results on the performance of MFIs. In some cases debacle stories have been reported, yet there have been success stories. In other cases the reasons for failures or successes have not been well documented.

Recent studies show that, linking MFIs with other interventions such as poverty alleviation often complicates the functioning of MFIs by pushing them to areas not considered sustainable. This implies that there is a conflict in measuring financial performance and poverty alleviation. Most of sustainability indicators focus on the MFI as a profitable institution (loan repayment, profitability and degree of subsidisation). Thus for an MFI to meet the microfinance best practices, as given by Consultative Group to Assist the Poorest (CGAP), and be financially sustainable, it has to regard itself as a business venture. As a consequence of this and especially in the rural areas, very few people qualify for a business loan.

2.2 Review of Studies Done Outside of Tanzania

Studies on MFIs have been conducted in various countries all over the world. The findings from these studies are useful to new researches on microfinance. Some of the studies, which had a significant contribution, include the study by Mosley (2001). In his study on Microfinance and Poverty in Bolivia, Mosley assessed the impact of microfinance on poverty. The study was conducted through small sample surveys of four microfinance institutions, two urban and two rural, using a range of poverty concepts such as income, asset holdings and diversity, and various measures of vulnerability.

All the institutions studied had on balance, positive impacts on income and asset levels, with income impacts correlating negatively with income on account of poor households choosing to invest in low-risk and low-return assets. This study revealed also that in comparison with other anti-poverty measures, microfinance appears to be successful and relatively cheap at reducing the poverty of those close to the poverty line. However this was also revealed to be ineffective, by comparison with labour-market and infrastructural measures, in reducing extreme poverty. The study further proposed actions that appear to be promising for the further reduction of poverty in Bolivia which can also be

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[26] Rubambey, 2001
[27] Harper et al, 1999
[28] Rahman, 1999
[29] Chijoriga and Cassimon 1999

useful for other developing countries. These actions include stronger efforts to mobilise rural savings, removal of lower limits on loan size, and the introduction of appropriate insurance mechanisms.

Despite this contribution, the study by Mosley[30] has some weaknesses. The first problem is on the sample size which was only four microfinance institutions, this sample size might not be adequate for the generalisations made above. Also the poverty concepts considered excluded the number of employees, this is very important to measure, as it indicates whether the microfinance institution has created capacity to employ more people or not.

Hassan and Renteria-Guerrero[31] made another empirical contribution in this area. In their work "*The experience of the Grameen Bank (GB) of Bangladesh in community development*", they examined the GB experience with a purpose of understanding the essential elements of its operations and the factors that enabled GB to reach the poor. This study revealed that the GB has established its credentials as an institution that aims at providing credit to the landless and asset less poor in rural areas. GB credit gives the recipients the power of entitlement to society's productive goods and services with immediate effect, unlike most of the other programmes for the poor that tend to create the unintended negative effect of dependency on the service providers. However, it was observed the credit by itself is an insufficient factor to improve poverty conditions, and thus the GB devotes a substantial amount of resources to the improvement of the social wellbeing of its members.

The GB uses an unambiguous eligibility criterion which ensures that only the poor or very poor can participate. It motivates their clients to organise themselves into groups of five like-minded members. Each group elects one group leader among themselves. Every six groups form a "centre" which serves as the basic operating unit of the GB. It is at the centre that weekly meetings are conducted to openly discuss loan applications proposals and to accept weekly repayments and compulsory savings deposits. While the loans are made to individual members, the group as a whole is expected to be responsible for the regular repayments of the loans of all their members. This form of grassroots organisation not only promotes solidarity and participation among the members, at the group and centre levels, but also promotes mutual support and peer pressure to ensure that the loans are properly utilized and repayments made promptly.

In concluding their work, Hassan and Renteria-Guerrero assert that the GB's approach seems to be an effective tool for rural poverty reduction despite minor criticism that has never given alternative solution for poverty alleviation. The programme supplies credit to improve the physical productive capacities of the poor and in addition, it provides the disadvantaged with human development inputs to improve their overall productive and living standards. The success of the GB is not free from the influence of external factors. To be effective and sustainable, a credit delivery system also needs a supportive national policy framework for it to remain autonomous and free from political influence. Despite the fact that this work was just an experience and not a research work, we acclaim its contribution in the area of microfinance practices.

2.3 Review of Studies Done in Tanzania

Recent studies have shown that, there are over 50 registered MFIs in Tanzania but their overall performance has been poor[32]. In her study Chijoriga evaluated the performance and financial sustainability of MFIs in Tanzania, in terms of the overall institutional and organisational strength,

[30] 2001
[31] 1997
[32] Chijoriga, 2000

client outreach, and operational and financial performance. In the study, 28 MFIs and 194 MSEs were randomly selected and visited in Dar es Salaam, Arusha, Morogoro, Mbeya and Zanzibar regions.

The findings revealed that, the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives, or a strong organisational structure. It was further observed that MFIs in Tanzania lack participatory ownership and many are donor driven. Although client outreach is increasing, with branches opening in almost all regions of the Tanzanian mainland, still MFIs activities remain in and around urban areas. Their operational performance demonstrates low loan repayment rates and their capital structures are dependant on donor or government funding.

In conclusion, the author pointed to low population density, poor infrastructures and low house hold income levels as constraints to the MFIs' performance. Many of these MFIs have no clear mission and objectives. Also their employees lack capacity in credit management and business skills. Among the questions which arise out of these research findings is whether these MFIs whose performance is questionable will have any impact on poverty alleviation.

Other studies on microfinance services, in Tanzania were carried out by Kuzilwa (2002) and Rweyemamu et al, (2003). Kuzilwa examines the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of businesses that gained access to credit from a Tanzanian government financial source. The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that the enterprises whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses.

Rweyemamu et al evaluated the performance of, and constraints facing, semi-formal microfinance institutions currently providing credit in the Mbeya and Mwanza regions. The primary data, which were supplemented, by secondary data, were collected through a formal survey of 222 farmers participating in the Agricultural Development Programme in Mbozi and the Mwanza Women Development Association in Ukerewe. The analysis of this study revealed that the interest rates were a significant barrier to the borrowing decision. Borrowers also cited problems with lengthy credit procurement procedures and the amount disbursed being inadequate. On the side of institutions, the study observed that both credit programmes experienced poor repayment rates, especially in the early years of operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-payment.

It was further revealed that poor infrastructure of the MFIs led to high transportation costs, which increased the transaction costs in credit procurement, and disbursement and this ultimately hindered the effectiveness of the credit programmes. This happened because most of borrowers lived in rural areas, far from credit offices. The coverage by Kuzilwa was on the National Entrepreneurship Development Fund only, while Rweyemamu et als' study was on assessing the micro-finance services for the agricultural sector only.

From the above evidence the researchers found that there was a strong need to study the schemes existing in Tanzania and see to what extent their operations contribute to poverty reduction in the country. From of this study, recommendations were made to policy makers so as to find alternatives through which financial services could be offered to the low income earning population or rather restructure the existing schemes for poverty reduction.

3.0 RESEARCH METHODOLOGY AND DESIGN

The design of the methodology for this study was greatly influenced by the works by Mosley[33], Hassan and Renteria-Guerrero[34], Kuzilwa[35] and Rweyemamu et al[36]. Our research was executed in three stages. In the first stage, a pilot study was undertaken to pre-test the questionnaires. This was followed by a survey, and in the third stage a case study was undertaken. The study used both quantitative and qualitative data. Primary and secondary sources of data were also used in this study. For primary data generation, respondents were drawn from both MFIs and MFIs' customers. The respondents comprised MFIs' officers, owners/managers of enterprises financed by these MFIs and other stakeholders who in one form or another are involved with microfinance and poverty reduction.

The information gathered from MFIs, included the distribution of their clients (major cities, towns and rural areas), lending mechanisms, types of clients and financial products offered. Further inquiries were made on other services given to supplement loans, rate of client turnover etc. From the side of the clients (MSEs), the questions were based on ease of accessing loans and technical support from the MFIs, and changes to their welfare as a result of the MFI loan.

3.1 Sampling Procedures and Sample Size

The study covered four regions of Tanzania that have a high concentration of MFIs. These regions include Dar es Salaam, Zanzibar (Urban West Region), Arusha and Mwanza. The distribution of surveyed MFIs in the four regions was as shown in table 3.1.

Table 3.1: Sample Size Distribution

Region	Number of MFIs	Percent
Dar es Salaam	24	64.9
Zanzibar-Urban West	3	8.1
Mwanza	5	13.5
Arusha	5	13.5
Total	**37**	**100.0**

In these four regions the study covered a total number of 352 MSEs supported by the selected MFIs. The MSEs were selected by random sampling (using the appropriate table).

3.2 Data Collection and Instruments

The study employed different methods of data collection, whereby both primary and secondary data were collected. Questionnaires were administered to both MFIs and MSEs to collect the primary data. In addition to this method, interviews were conducted in order to gather relevant additional information.

The study also used secondary data, and the main sources were various official documents and reports

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[33] 2001
[34] 1997
[35] 2002
[36] 2003

relevant to the research problem. Other sources of secondary data were the Ministry of Finance, the library of the University of Dar es Salaam, the Demographic Unit of University of Dar es Salaam, and the National Bureau of Statistics. Questionnaires were first administered to few respondents from both MFIs and MSEs as a pre-test and appropriate adjustments were made.

3.3 Data Analysis

The descriptive and statistical analysis was conducted basing on data and information collected from primary and secondary sources on both MFIs and MSEs. The information analysed on MFIs included general profile, clients' outreach and the market, product and services provided, impact assessment, and future plan and constraints. On the side of MSEs, the issues analysed included general profile, types of services received from MFIs, conditions for service accessibility, and future plan and constraints for growth.

Quantitative data were analysed using the Statistical Package for Social Science (SPSS) software to compute percentages, tabulation and cross-tabulation of responses. SPSS was chosen because it can take data from almost any type of file and use them to generate tabulated reports, charts, perform descriptive statistics and conduct complex statistical analyses.

4.0 RESEARCH FINDINGS AND OBSERVATIONS

This section covers the general profile of MFIs and MSEs, types of clients, market outreach and types of services provided by MFIs. It also presents the findings of MFIs impact assessment, conditions for service accessibility and the contribution of MFIs to poverty reduction. Furthermore, the findings of the case study of Promotion of Rural Initiative and Development Enterprise PRIDE Tanzania Limited (PRIDE Tz) which was conducted to get more insights of microfinance contribution to poverty reduction are presented. The chapter concludes by giving the summary and implication of the results.

4.1 General Profile of MFIs and MSEs

4.1.1 Types of MFIs Surveyed and Lending Methodologies Used

The study covered various types of MFIs, which range from merger, self finance/informal sources of finance to formal sources like credit/savings institutions, microfinance bank, and private commercial banks. Among the surveyed institutions the majority (43.2%) were credit and savings institutions, 18.9% credit only (not-for-profit organisations), 8.7% microfinance banks and 5.4% private banks. The survey also included some other institutions such as faith-based organisations, the Presidential fund, parastatal organisations and government institutions supporting MSEs (23.8%).

The findings revealed that, MFIs used various lending mechanisms. Some of these observed included "solidarity group" (individual lending with cross guarantorship), individual lending, and village bank lending. During the survey it was observed that the most used method was solidarity group, with individual lending and village bank lending supplementing the solidarity group method.

4.1.2 Profile of the MSEs

Both urban and rural MSEs were covered. The majority (98%) were located in cities and towns compared to 2% located in rural areas. MSEs covered were those established between 1980 and 2003. Most of them (64.7%) were established by capital obtained from other sources and later received a loan from a MFI. Few of them, 35.3%, were established through capital from a MFI. Among the surveyed MSEs, 59.8% were formal registered enterprises and 40.2% unregistered ones. It was further observed that most of the surveyed MFIs (73.5%) started microfinance operations between 1990 and 2001.

4.2 Types of Clients and Market Outreach

The findings show that most of clients served by MFIs were in the informal sector as shown in Table 4.1. Among the surveyed MFIs, 89.7% dealt with informal/unregistered businesses with less than 5 employees, while 34.8% of MFIs dealt with registered business and only 17.4% of MFIs dealt with registered businesses with more than 5 employees.

Table 4.1: Status of MFIs' Clients

Types of Clients	MFIs' Coverage
Informal Sector/Unregistered businesses	89.7%
Registered Businesses with less than 5 employees	34.8%
Registered Businesses with more than 5 employees	17.4%

Source: Field data

Most of the MFIs concentrated their activities in either town centres or major cities. On average it was observed that 37.6% of MFIs operations are based in major cities, 48.0% in town centres and only 14.4% of MFIs are based in rural areas. The poor state of the physical infrastructure was an obstacle in reaching remote areas.

4.3 Types of Services Provided by MFIs

The survey revealed that, MFIs provide two types of services: financial services and non-financial services. The financial services provided by MFIs are mainly in the form of loans and savings. 89.3% of MFIs offer short-term working capital loans, of which 56% offer an investment loan of more than one year's duration in addition to the working capital and 33.3% offer different types of loans. None of the MFIs offered insurance services.

The non-financial services provided by MFIs are business advice and business training. Of the 37 MFIs surveyed, 16 (43.2%) offered business advisory services to their clients, of which only 12 offer in addition business training to their clients. However, it was observed that, the trainers were not experts or practitioners in small business operations; they were only credit officers.

On the other hand the results revealed that only 17.8% of surveyed MSEs have received business and entrepreneurial training (Table 4.2). In addition, the findings showed that the majority (41.8%) of the respondents who received business and entrepreneurial training had ordinary level secondary education (Appendix C, Table 8).

Few clients accessed the technical support offered by MFIs. Out of the 352 surveyed MSEs only 38.7% received technical support (Table 4.2). The results further revealed that the majority (43.4%) of clients who received technical support had attained an ordinary level of secondary education (Appendix C, Table 7).

Table 4.2: Percentage of Clients who Attended Business Training and Received Technical Advice

Client attended any business or entrepreneur training	Yes	17.8%
	No	82.2%
	Total	**100%**
Client received any technical support from MFIs	Yes	38.7%
	No	61.3%
	Total	**100%**

Source: Field data

Of those clients who had received technical support, 21.5% were clients of PRIDE Tanzania. Another institution which offered technical support was SIDO, with 11.5% respondents receiving technical support. Beneficiaries of other institutions had received technical support but at a very minimal percentage (Appendix A, Table 1). The pre-loan training offered by most of MFIs was not considered as technical support training by most MSE owners.

4.4 Impact Assessment by MFIs

Of the 37 MFIs surveyed, 75.8% conduct an impact assessment of their services on clients' activities and performance. The methods that are commonly used to measure impact include assessment on loan application, individual client interviews, and staff/loan officer observations. The important factors that MFIs consider in measuring impact are job creation, business profitability, change in business assets, and product/business diversification. The reasons for assessing the impact of the services include whether clients are meeting their objectives, to provide client level information for managerial decisions, and to chart the way forward.

4.5 Conditions for Service Accessibility

It was observed that most MFIs use solidarity groups as a methodology for issuing small loans while collateral is demanded for clients who seek big loans. The definition of small and big loans varies from one MFI to another, however, for many MFIs, loans start from Tshs. 50,000 (about UD$50, which was also close to statutory monthly minimum wage at the time of this study). Any amount greater than Tshs. 500,000, (about US$500), is regarded as a large loan. A new client is required to start with a small loan and after repayment of this loan the client graduates to receiving the next higher loan amount. This process has been observed to be a limiting factor, especially for new clients who seek large loans.

Among the 352 clients surveyed, 52.6 % had applied for big loans and had to offer collateral to secure the loans. This condition had hindered some small business owners from accessing large loans and which lead to their being unable to expand their business. The kind of collaterals required include houses, cars and some expensive durable assets like TV and refrigerators, which most low income earners cannot afford.

4.6 MFIs' Contribution to Poverty Reduction

4.6.1 Micro and Small Enterprises Achievements

To a large extent MFIs operating in Tanzania have brought about positive changes in the standards of life of the clients who received MFI services. 81.3% of the surveyed MSEs revealed that their profit had increased after receiving the loan. Most of the clients (54.6%) who experienced an increase in profit after receiving the loan were in the age group of 25 to 39 years (Appendix B, Table 5). With regard to the level of education, the majority, 37.6% of respondents who had achieved a positive change in their profit after the loan had attained an ordinary level of secondary education (Appendix C, Table 5).

A t-test was conducted to test if there was any significant difference in employment status before and after receiving the loan. Results of the test revealed that there was a significant difference ($p = 0.00$) between before and after receiving the loans. The value of t-test was positive (Table 4.3), indicates that, the number of employees increased. These results suggest that MFIs assisted their clients to create more employment opportunities.

Table 4.3: t-Statistic Test for Total Employees After and Before Loan

Mean	Std. Deviation	Std. Error Mean	t	df.	Sig. (p)
1.42	2.992	0.220	6.463	184	0

Source: Field data

4.6.2 Constraints and Future Prospects of MSEs

Regarding future prospects, 83.5% of surveyed MSEs indicated plans to expand their business in the future, of which the majority (98.3%) mentioned MFIs to be their prospective source of capital. Despite the achievements, MFIs' clients urged MFIs to make improvements like improving the training/ technical advice, increasing time for repayment and grace period, and reducing interest rates. It was further observed that most (54.8%) of these clients who wished to expand their business in the future were in the age group of 25 to 39 years (Appendix B, Table 7). Also a significant proportion (44.7%) of these respondents had completed an ordinary level of secondary education (Appendix C, Table 7).

With regard to the constraints in running a business, 92.5% of respondents cumulatively pointed out lack of continued business support and training as the major constraint (Table 4.4). Even with the training provided by MFIs in some cases, it did not meet expectations of recipients. As the case of one MFI, PRIDE Tz:

"*The pre-loan training normally aims at familiarising the clients with the PRIDE's loan terms and conditions*".[37]

Table 4.4: Lack of Business Support and Training as a Constraint

Response	Percent
Very serious constraint	15.3
Serious constraint	27.5
Constraint	29.0
Partial constraint	20.8
No constraint at all	7.5
Total	**100.0**

Source: Field Data

The loan amount and time of repayment were also observed to be additional problems. 52.6% of the clients reported that the financial support they received was not effective in terms of the amount and time frame for repayment. The grace period of only one week was considered to be too short.

Generally, clients felt that some conditions, including interest rate set by MFIs, did not favour low-income earners. The interest rates were claimed to be too high up to 48% per year and where interest rate was moderate, there were other non-refundable fees to pay before securing the loan. Among the 352 clients surveyed, 93.8% argued that the interest rate and loan amount were constraints to their businesses. All these constraints made it difficult for MSEs to generate enough profit for rapid growth.

[37] Interview with PRIDE official

4.7 Case study of PRIDE Tanzania Limited

This case study was mainly aimed at providing insights into the operation of MFIs in Tanzania. PRIDE Tz was chosen because it is considered to be among the MFIs with the best practices for administering microfinance services. Interviews were conducted with PRIDE managers as well as employees. In addition PRIDE Tz clients were also interviewed to gain more insights on how PRIDE Tz had assisted them to raise their income and expand their business activities.

4.7.1 Profile of PRIDE Tz

PRIDE Tz is a non-governmental organisation (NGO) which was incorporated on 5th 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 management and technical assistance of PRIDE Tz is provided by PRIDE Management Services Limited Africa, which is based in Nairobi, Kenya.

The main objective is to provide financial services to the low income entrepreneurs in Tanzania, and this is in line with its mission statement. The mission of PRIDE Tz is to create a sustainable financial and information services network for small and micro-entrepreneurs in order to promote their business growth, enhance their income and create employment[38].

Since its inception PRIDE Tz 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. Late 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 Tz'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 Tz are both men and women who are poor, but economically active. There is no client specific targeting. The main service offered by PRIDE Tz is the provision of micro loans to micro and small enterprises (MSEs).

PRIDE Tz is currently operating with a network of 26 branches countrywide, and has outreach of over 63,000 clients[39]. Regions with PRIDE Tz branches are: Arusha, Tanga, Dar es Salaam, Moshi, Dodoma, Morogoro, Iringa, Mwanza, Shinyanga, Mbeya, Mara, Tabora, Kigoma, Singida and Ruvuma. PRIDE has a branch in Zanzibar as well. The main four regional centers of PRIDE Tz are Arusha (Northern), Dar es Salaam (Eastern and Central), Mwanza (Lake) and Dodoma (Central and Western).

4.7.2 PRIDE Tz's Lending Methodology

PRIDE Tz's 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 Tz adopted this model due to its success in Bangladesh in reaching the poor and covering its operational costs. Some modifications were made to this model so that it could suit the context

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[38] PRIDE Tz Newsletter, 2002

[39] Message from PRIDE Tz General Manager on the 10th PTZ Anniversary, June 2004

of Tanzania. Such modifications include the target beneficiaries and areas of operations. PRIDE Tz operates in regional centres and targets economically poor people running micro and small scale enterprises (MSEs). The following are the lending conditions, terms and procedures of PRIDE Tz.

4.7.2.1 Formation of a Group

PRIDE Tz 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.

4.7.2.2 Training

Before the disbursement of the first loan, PRIDE Tz'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 familiarising the clients with PRIDE Tz's loan terms and conditions. During the training the clients have to pay a registration fee of Tshs 1,200 each. In addition the clients are required to pay a Tshs 1,500/= 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 four 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).

4.7.2.3 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 Tshs 1,200 (about US$1.2) and 9,000 (about US$9) for the first six weeks respectively, he/she becomes eligible to apply for the first loan of Tshs 50,000 (US$ 50). This implies that, on the fifth week, the appraisal of the first loan applicant is done and on the sixth week the first loan is issued. In other words, it takes six 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 a 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 Tz 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.

4.7.2.4 Weekly Meetings and Repayment

PRIDE Tz 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 instalments, the whole MEC group is stalled until the money is raised. This is a technique for pressurizing the clients to repay the loan instalments on time.

4.7.2.5 Interest Rates and Repayment Period

PRIDE Tz has eight loan cycles 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 24% to 30% per annum. Loans offered by PRIDE Tz are mainly in the form of short-term working capital. Few investment loans of less than one year maturity are offered. Immovable property is used as collateral (e.g. house or land). The loans which require collateral are Tshs 3 million (US$3,000) to Tshs 5 million (US$5,000). These loans require collateral because a member might disappear after receiving the loan. The type of collateral depends on the MEC's decision. PRIDE Tz in this case acts as the custodian of that collateral. The repayment period ranges from six months for smaller loans to twelve months for large loans.

4.7.2.6 Loan Size

The PRIDE Tz loan sizes ranges from Tshs 50,000 (about US$50) to Tshs 5,000,000 (about US$5,000) as shown in Table 4.5. The current loan sizes were reviewed in 1996. Previously, the minimum and maximum loan sizes were Tshs 50,000 and Tshs 600,000 respectively. The higher loan sizes have been reviewed upwards overtime while the minimum loan size has not been reviewed since inception of the programme.

Table 4.5 Classification and Weekly Repayment of PRIDE Tz Loans

No. of Loan	Loan Amount Tshs	Weekly Repayment Tshs	Loan Insurance Fund (LIF) Tshs	Total Weekly Repayment Tshs
1	50,000	2,300	1,500	**3,800**
2	150,000	5,400	1,500	**6,900**
3	300,000	9,300	1,500	**10,800**
4	500,000	14,000	1,500	**15,500**
5	1,000,000	27,100	1,500	**28,600**
6	2,000,000	51,100	1,500	**52,600**
7	3,000,000	52,700	1,500	**54,200**
8	5,000,000	69,500	1,500	**71,000**

Note: Approximately Tshs. 1,000 = US$ 1

Source: PRIDE Tz records, 2003

4.7.3 *Performance of PRIDE Tz*

Generally, the performance of PRIDE Tz is regarded as good. Table 4.6 below demonstrates the historical performance of PRIDE Tz from 1996 to June 2004.

According to the Consultative Group to Assist the Poorest (CGAP) MFIs Best Practice (2001), an MFI is said to have a good performance if it has attained among other things, a minimum annual repayment rate of 95%, 154 clients per staff member and at least 88.8% operational self-sufficiency.

Referring to Table 4.6 PRIDE Tz has managed to maintain an impressive annual repayment rate of 100% from 1996 to 2000. There was a slight decrease in the repayment rate from 100% in year 2000 to 99.8%, 98.9%, 99.8% and 99% in 2001, 2002, 2003 and 2004 respectively. The decline was identified as being due to problems such as socio-economic and harassment from local government authorities (the majority of MSE owners operate in undesignated premises and often have their businesses demolished by these authorities).

Table 4.6 PRIDE Tz's Performance in Terms of Client Outreach and Loan Portfolio

Performance Indicator	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of Branches	8	13	22	22	22	22	21	24	26
Number of Outlets	-	-	-	23	3	3	3	5	5
Number of Clients	6,506	14,600	24,156	38,177	48,605	50,522	56,228	59,566	63,000<
Repayment Rate	100%	100%	100%	100%	100%	99.8%	99.89%	99.8%	99%
Loan Disbursed (Tshs M)	461	1,769	3,885	6,954	8,236	11,019	-	17,000	-
Self-sufficiency	29.8%	53%	61.5%	82.3%	90%	100%	-	-	100%
Number of staff	61	102	144	185	225	232	236	250	264
Clients per Staff	107	143	168	206	216	217	238	238	238

Key: - = Data not available

Source: PRIDE Tz records, 2003/2004

Operational self-sufficiency is referred to as the degree to which operating income covers operating expenses. PRIDE Tz's operational self-sufficiency was very low (29.6%) in 1996. However it started to increase from 53% in 1997 to 100% in 2001. The increasing trend was due to the increased operating income which is partly contributed by interest from the loan.

The number of clients per staff member in PRIDE Tz as shown in Table 4.6 increased from 107 in 1996 to 216 in 2001, above the minimum requirement of CGAP which is 154 clients per staff member. The disadvantage of many clients per staff member is failure to monitor and supervise them effectively. Despite this shortcoming, PRIDE Tz has managed to reach a large number of clients in the country by increasing the number of branches in various regions in Tanzania, making it one of the few MFIs which covers large parts of the country.

The success of PRIDE Tz in reaching a large number of clients while achieving operational sustainability is explained by excellent management team, use of the Grameen Bank model, funding from external donors and management support from experiences of PRIDE Africa.

4.7.4 Experiences of MSEs Supported by PRIDE Tz

Further discussions were conducted with 18 PRIDE Tz clients to get more information on how PRIDE Tz assisted their MSEs. The respondents had MSEs which operated in different types of businesses (Table 4.7). Of these interviewed respondents 44.4% were male and 55.6% were female. In addition to the individual interview, a focus group discussion was conducted to obtain views of clients as a group. This subsection presents the findings of the interview and focus group discussion of MSEs supported by PRIDE Tz.

Table 4.7: Types of Business of PRIDE Tz Clients

Type of Business	Percent
Restaurant and Bar	22.1
Grocery	16.7
Animal Husbandry	16.7
"Mama Lishe" (food vending)	27.8
Carpentry	5.6
Tailoring	11.1
Total	**100.0**

Source: Field Survey

4.7.4.1 Overcoming the Problem of Collateral

The beneficiaries of MFIs are poor people who engage themselves in micro or small scale business. Most of them have low value assets thus limiting their access to credit in formal financial institutions such as commercial banks, which require them to pledge collateral. These conditions for borrowing under individual lending mechanism are strict for majority of poor people than for those in the group lending model.

The formation of groups helps a number of poor people to get access to credit from MFIs than borrowing as individuals from commercial banks (i.e. group lending guarantees each other). Those who are still at low stages of business growth find it easy to borrow in groups. This also makes it easier for MFIs to reach as many people as possible. In an interview with some clients it was revealed that the group lending mechanism was good for people who are still in the early stages of business growth and do not have any other alternative source of income to rely on. Others have been able to register their businesses, to open new businesses and to increase the capital of their business.

4.7.4.2 Building Business Relationships

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

4.7.4.3 Building the Savings Culture

PRIDE Tz requires clients to pay Tshs 1,500/= each week as compulsory savings. These compulsory savings are for the Loan Insurance Fund (LIF). According to the terms and conditions of PRIDE Tz's loan delivery, once a client is registered as a member, he/she has to pay weekly savings until he/she quits the programme. When a client decides to quit the programme all the accumulated savings are refunded.

It is also important to note that even those who remain as clients of PRIDE Tz benefit from this procedure because the savings help them expand their working capital. Also compulsory savings builds the tendency for saving among poor people such as owners of MSEs. The LIF provides a bonus which is given to the clients. The amount of the bonus depends on the market rate of savings. There is no interest earning in those savings apart from the bonus.

4.7.4.4 Income Increment and Business Expansion

All clients consulted declared that loans have increased their income in many different ways. PRIDE Tz provides working capital loans, and using these loans, they were able to invest in their businesses, make profit and expand/open new businesses. Explaining the advantage of the loan available, one PRIDE Tz client said:

"The money I got from PRIDE Tz has assisted me to expand the restaurant and to open a new hotel business. I am now returning the loan of 1,000,000/= Tshs and I believe I will keep on expanding"

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

4.7.4.5 Employment

An increase in income is not automatically related to an increase in the number of employees. Clients explained that an increase in the number of employees depends on many factors and not income only. Most clients still have retained the same number of employees as when they started accessing MFI's services. Explaining why there is no an increment in the number of employees, one respondent said that:

"I run this business as a family business, my children are enough in assisting me in the business and so there is no need of increasing employees. I will think of doing that may be when I am in a stage of getting 3,000,000/= Tshs, but not now. And by then I will have to open another business."

Although this client had not employed someone outside of the family, the observation that some of the family members assist is an indication of employment creation.

4.7.4.6 Capital Invested

When asked to compare their capital when they started business and after accessing PRIDE services, clients reported to have increased their capital compared to before they received the loan. It was revealed that other clients of PRIDE Tz are also clients of other financial institutions. When asked about that one client said:

"PRIDE Tz is assisting me in this one business but I have to find other sources of financing other business so that every business can have its own source of finance. Capital of my business has risen from 2,000,000/= to 3,500,000/= Tshs because of getting loan from various institutions, I am also a beneficiary of Akiba

Commercial Bank and Trust Bank."

Figure 4.1: Evidence of Successful PRIDE Tz Clients

Anna Setoko, Grain Trader, Arusha, Tanzania

Anna Setoko was 24, when her husband died. She was left with eight dependants and a small maize plantation, but not enough money to clothe her children, let alone buy seeds for her shamba. Today Anna has moved into wholesale trading and has a flourishing business selling maize to traders in Arusha's main market. She also runs a small bar in Mererani, a mining town 50 km north of Arusha where she spends half her time, leaving an employee to run her business in Arusha. Anna, a native Maasai from northern Tanzania, says her fortunes changed when she became a member of PRIDE's inaugural Arusha branch in June 1994.

"Since I started buying maize with my first loan from PRIDE," she said, *"my business has doubled. When I started this business, I would never be able to afford more than 10 bags. Now I regularly buy 20 bags and I have moved into wholesale business, selling to other traders in the market."*

Her family's life has improved tremendously, she says. *"We eat more regularly,"* she says, *"and better quality food. Perhaps the best thing is that I can afford medical treatment, which was almost impossible before. My children now dress well and I even manage to keep their clothes clean!"*

Mohammed Malipura, Owner, Electronics Repair Shop, Dar-es-Salaam, Tanzania

After 25 years in business, you would think Mohammed Malipura was pretty well established and earning a comfortable living. He would agree with you but nothing puts a smile on a businessman's face like increased success. *"I am able to manage my life much better now,"* said the 55-year-old electrician from Dar es-Salaam, Tanzania. *"Before I joined PRIDE it was difficult. Now it is much easier to meet my family obligations."*

Mohammed said he has more than doubled his net profits since he joined PRIDE in 1995. He has used his four loans to broaden the variety of electronics parts in his store and branch out into new areas of business. Before he had the capital to expand, Mohammed could only get along by doing same simple repairs he always had.

"Being a member of PRIDE," he said, *"has given me the first opportunity in 25 years to update myself and my shop with new technology."* He also said his business growth not only makes it easier to pay his children's school fees but increased profits have improved his son Madna's prospects of taking over the business some day. Mohammed said he is creating more for Madna, *"Everything is moving much faster now,"* he said.

Source: http://www.PRIDEafrica.com/PRIDE%20Tanzania%20Clients.htm

4.7.4.7 Constraints Faced by MSEs

4.7.4.7.1 Too Small Loan Sizes

PRIDE Tz starts lending at Tshs 50,000/= for new borrowers. This rate was set in 1993 when PRIDE started its operations in Tanzania. The value of Tshs 50,000/= in 1993 is not the same today, given the devaluation of the shilling against the US dollar. Most of the visited MSEs indicated that source of funds is a big problem and when asked why, as there are institutions offering loans, one client responded that:

"When I joined PRIDE Tz I thought I will be able to get any amount I needed, but that was not the case, as a new member has to start from the stage of 50,000/= and keep graduating until the level of 5,000,000/=. This takes so long to get enough funds for big loan seekers."

4.7.4.7.2 High Interest Rates

This was indicated by the clients of PRIDE TZ saying that the available funds were too expensive. As well as the interest rates that the borrower has to pay the lender, there are other direct and indirect costs incurred by the clients. These costs include registration fees, weekly compulsory savings and the loan application fee. All these add to the cost of obtaining the loan.

4.7.4.7.3 Repayment Period

The repayment period ranges from six months for small loans to twelve months for large loans. This is indicated by MSEs as a short period especially for those who are supposed to pay within six months. Also the weekly repayment of interest and part of the principle of the loan limits many MSEs from growth.

4.7.5 Summary of the Case Study

PRIDE Tanzania is playing a significant role in fighting poverty. PRIDE Tz is rated as the best MFI in Tanzania. PRIDE Tz has proved that poor, as well as illiterate micro business owners in the informal sector can borrow money and sustain an organised system of financial management. PRIDE Tz also has moved from donor dependency to an institution that is able to meet all its operational costs using its own internally generated resources over the past three years.

Clients visited have proved that they are benefiting from the services offered by the institutions and that is why they are still PRIDE Tz clients. Sometimes clients quit and then come back to PRIDE Tz. When asked why they do that, one client responded that:

"Sometimes I just get tired of the weekly meetings and compulsory savings, or I am in need of money and I know I have my savings, so I quit and get my savings back. After sometimes I rejoin the group and start afresh"

4.8 Summary and Implications from the Results

Generally it has been observed that, MFIs have changed the life of poor people in a positive way. MFIs' clients have increased their incomes, increased the capital invested and therefore expanded their businesses. These are the indicators of achievements in their business activities.

MFIs impact surveys indicate that they are having an impact on poverty reduction in Tanzania. However, most of MFI operations are based in major cities and towns while most poor Tanzanians are concentrated in rural areas. Collateral was also observed as a condition for obtaining large loans from MFIs. With such a condition it is only those with immovable assets who can access a large loan. Clients operating businesses in rented houses will not be able to access larger loans for expanding their businesses.

The result revealed that, most of the clients of MFIs are in the age group of 25 – 39 years. This is a group that employs large proportion of workers among the surveyed MSE owners. The respondents of this age group are also observed to be strong in participating in various business and entrepreneurship trainings. Regarding the level of education, it was observed that the clients with ordinary level secondary education are more prosperous in many aspects followed by clients with primary school education.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

To a large extent MFIs operation in Tanzania has brought about positive changes in the standard of living of people who access their services. Although some of the clients have not benefited, most MFIs clients have benefited positively. Despite the achievements of MFIs clients, most of them complained that, the interest rates charged by MFIs were very high.

The findings reveal that the process of application for loans starts with small amount and after repayment the client can apply for next higher amount. This process was observed to be a limiting factor for those customers who needed a large amount right from the beginning. This is true because it takes an unnecessarily long time for those seeking a large loan to obtain enough funds to meet their needs. In addition to the time taken to receive large loans, the clients also raised concerns about the time frame from the receipt of the loan to the time of starting repayment, which is just one week after the disbursement of funds in most cases.

The surveyed MFIs conducted a pre-lending training programme, but it was further observed that, the training was provided by loan officers who were not experts or practitioners in the area of small business. The training concentrated more on familiarising the clients with loan terms and conditions rather than providing small business skills. This practice may build up the spirit of loan repayment but does not influence business growth. Clients also mentioned that, the required weekly reporting to the MFIs office was very high (i.e. one day in every week where they spend almost the whole day). This consumed a lot of productive time and hence reduced the time they could concentrate on other productive activities.

5.2 Recommendations

The following recommendations are put forward in order to improve operations of MFIs.

1. The interest rate should be lowered to a level that would cover MFIs' operating expenses and at the same time facilitate the growth of their clients' business.
2. 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.
3. 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.
4. MFIs should restructure their training contents to include improving their clients' business skills. They should organise regular business training for their clients and qualified training institutions should conduct this.
5. 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.

5.3 Areas for Further Research

- As the interest rates have been observed to be a serious problem, there is a need to conduct a study to determine rates that would cater for the operating expenses of MFIs and at the same time facilitate the growth of their clients' business.
- There is a need to conduct a comparative study between member based MFIs Savings and Credit Cooperative Societies (SACCOS) in rural areas and MFIs operating in urban areas. This would delineate the rural-urban structure of MFIs operations.

APPENDICES

APPENDIX A

Table 1: Percentage of Clients who Received Technical Services from Specified MFIs

	Have you received any technical support and training from microfinance institutions?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
Akiba Commercial Bank	1	0.8%	13	6.3%	**14**	**4.2%**
Benki ya Watu wa	3	2.3%	3	1.5%	**6**	**1.8%**
CARITAS	4	3.1%	0	0%	**4**	**1.2%**
Center Financial Programme (CFC)	1	0.8%	0	0%	**1**	**0.3%**
Changamoto Life Preservation Funds	1	0.8%	2	1.0%	**3**	**0.9%**
CREW Tanzania	2	1.5%	9	4.4%	**11**	**3.3%**
Dar Community Bank	3	2.3%	2	1.0%	**4**	**1.5%**
FINCA	2	1.5%	1	0.5%	**3**	**0.9%**
HANANASIF CDA	8	6.2%	2	1.0%	**10**	**3.0%**
Ilala Development Fund	0	0%	9	4.4%	**9**	**2.7%**
MEDA	1	0.8%	1	0.5%	**2**	**0.6%**
Mwanza Women Development Association	5	3.8%	1	0.5%	**6**	**1.8%**
NMB	8	6.2%	47	22.8%	**55**	**16.4%**
Other Institutions (Not mentioned)	3	2.3%	8	3.9%	**11**	**3.3%**
Poverty Africa	6	4.6%	0	0%	**6**	**1.8%**
Presidential Trust Fund	1	0.8%	15	7.3%	**16**	**4.8%**
PRIDE Tanzania	28	21.5%	20	9.7%	**48**	**14.3%**
SACCOS	8	6.2%	56	27.2%	**64**	**19.0%**
Savings and Finance	2	1.5%	2	1.0%	**4**	**1.2%**
SCULLT MTAJI FUND	0	0%	1	0.5%	**1**	**0.3%**
SEDA	1	0.8%	1	0.5%	**2**	**0.6%**
SIDO	15	11.5%	1	0.5%	**16**	**4.8%**
Tanzania Postal Bank	7	5.4%	4	1.9%	**11**	**3.3%**
Tabata Development Fund TDF	10	7.7%	0	0%	**10**	**3.0%**
Temeke Municipal	10	7.7%	0	0%	**10**	**3.0%**
Youth Self Employment Foundation	0	0%	8	3.9%	**8**	**2.4%**
Total	**130**	**38.7%**	**206**	**61.3%**	**336**	**100.0%**

APPENDIX B

Table 1: Total Number of Employees X Age Group Cross Tabulation

Number of Employees	Age of Clients								Total	
	15-24		25-39		40-55		Above 55			
	No.	%	No.	%	No.	%	No.	%	No.	%
1 to 4	7	3.0%	143	60.9%	79	33.6%	6	2.6%	**235**	**100.0%**
5 to 9	0	0%	10	33.3%	20	66.7%	0	0%	**30**	**100.0%**
10 to 14	0	0%	1	20.0%	2	40.0%	2	40.0%	**5**	**100.0%**
Above 14	1	1.4%	33	44.6%	32	43.2%	8	10.8%	**74**	**100.0%**
Total	**8**	**2.3%**	**187**	**54.4%**	**133**	**38.7%**	**16**	**4.7%**	**344**	**100.0%**

Table 2: Expansion of Existing Business X Age Group Cross Tabulation

Expansion of Business	Age of Clients								Total	
	15-24		25-39		40-55		Above 55			
	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	1	0.5%	101	51.5%	87	44.4%	7	3.6%	**196**	**100.0%**
No	0	0%	3	33.3%	6	66.7%	0	0%	**9**	**100.0%**
Total	**1**	**0.5%**	**104**	**50.7%**	**93**	**45.4%**	**7**	**3.4%**	**205**	**100.0%**

Table 3: Start Up of a New Business X Age Group Cross Tabulation

New Business	Age of Clients									
	15-24		25-39		40-55		Above 55		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	5	5.0%	66	66.0%	28	28.0%	1	1.0%	**100**	**100.0%**
No	0	0%	7	41.2%	10	58.8%	0	0%	**17**	**100.0%**
Total	**5**	**4.3%**	**73**	**62.4%**	**38**	**32.5%**	**1**	**0.9%**	**117**	**100.0%**

Table 4: To Cover Family Issues X Age Group Cross Tabulation

Cover Family Issues	Age of Clients									
	15-24		25-39		40-55		Above 55		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	1	2.6%	12	30.8%	21	53.8%	5	12.8%	**39**	**100.0%**
No	0	0%	4	50.0%	4	50.0%	0	0%	**8**	**100.0%**
Total	1	2.1%	16	34.0%	25	53.2%	5	10.6%	**47**	**100.0%**

Table 5: Compare Profit Before and After Loan X Age Group Cross Tabulation

Profit	Age of Clients									
	15-24		25-39		40-55		Above 55		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Greater	4	2.0%	107	54.6%	79	40.3%	6	3.1%	**196**	**100.0%**
Less	0	0%	4	66.7%	2	33.3%	0	0%	**6**	**100.0%**
Same	1	2.6%	28	71.8%	10	25.6%	0	0%	**39**	**100.0%**
Total	**5**	**2.1%**	**139**	**57.7%**	**91**	**37.8%**	**6**	**2.5%**	**241**	**100.0%**

Table 6: Have You Received any Technical Support and Training From Microfinance Institutions X Age Group Cross Tabulation

Technical Support	Age of Clients									
	15-24		25-39		40-55		Above 55		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	1	0.8%	63	48.8%	62	48.1%	3	2.3%	**129**	**100.0%**
No	7	3.5%	120	59.7%	62	30.8%	12	6.0%	**201**	**100.0%**
Total	**8**	**2.4%**	**183**	**55.5%**	**124**	**37.6%**	**15**	**4.5%**	**330**	**100.0%**

Table 7: Do You Expect to Expand Your Business in the Future X Age Group Cross Tabulation

Expect to Expand	Age of Clients									
	15-24		25-39		40-55		Above 55		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	6	2.3%	142	54.8%	103	39.8%	8	3.1%	**259**	**100.0%**
No	1	1.9%	31	59.6%	17	32.7%	3	5.8%	**52**	**100.0%**
Total	**7**	**2.3%**	**173**	**55.6%**	**120**	**38.6%**	**11**	**3.5%**	**311**	**100.0%**

Table 8: Have You Had the Opportunity to Attend any Business or Entrepreneur Training X Age Group Cross Tabulation

Training	Age of Clients									
	15-24		25-39		40-55		Above 55		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Yes	3	5.4%	28	50.0%	23	41.1%	2	3.6%	**56**	**100.0%**
No	5	1.9%	143	54.8%	99	37.9%	14	5.4%	**261**	**100.0%**
Total	**8**	**2.5%**	**171**	**53.9%**	**122**	**38.5%**	**16**	**5.0%**	**317**	**100.0%**

APPENDIX C

Table 1: Education Attainment X Total Number of Employees Cross Tabulation

Education	Total Number of Employees								Total	
	1 to 4		5 to 9		10 to 14		Above 14			
	No.	%	No.	%	No.	%	No.	%	No.	%
No formal schooling	3	1.3%	0	0%	0	0%	1	1.4%	**4**	**1.2%**
Primary school (7 years or less)	79	34.2%	4	13.3%	0	0%	20	27.8%	**103**	**30.5%**
Vocational or technical training	14	6.1%	1	3.3%	0	0%	3	4.2%	**18**	**5.3%**
O-level education	91	39.4%	15	500%	2	400%	26	36.1%	**134**	**39.6%**
A-level education	18	7.8%	5	16.7%	1	200%	5	6.9%	**29**	**8.6%**
Post secondary education	12	5.2%	3	100%	2	400%	8	11.1%	**25**	**7.4%**
University degree	10	4.3%	1	3.3%	0	0%	7	9.7%	**18**	**5.3%**
Advanced degree (Master's, PhD)	4	1.7%	1	3.3%	0	0%	2	2.8%	**7**	**2.1%**
Total	**231**	**1000%**	**30**	**1000%**	**5**	**1000%**	**72**	**1000%**	**338**	**1000%**

Table 2: Education Attainment X Expansion of Existing Business Cross Tabulation

Education	Expansion of Existing Business					
	Yes		No		Total	
	No.	%	No.	%	No.	%
No formal schooling	2	1.0%	0	0%	**2**	**1.0%**
Primary school (7 years or less)	61	31.6%	0	0%	**61**	**30.3%**
Vocational or technical training	9	4.7%	1	12.5%	**10**	**5.0%**
O-level education	82	42.5%	2	25.0%	**84**	**41.8%**
A-level education	17	8.8%	1	12.5%	**18**	**9.0%**
Post secondary education	11	5.7%	1	12.5%	**12**	**6.0%**
University degree	8	4.1%	2	25.0%	**10**	**5.0%**
Advanced degree (Master's, PhD)	3	1.6%	1	12.5%	**4**	**2.0%**
Total	**193**	**100.0%**	**8**	**100.0%**	**201**	**100.0%**

Table 3: Education Attainment X Start Up of a New Business Cross Tabulation

Education	Start Up of a New Business					
	Yes		No		Total	
	No.	%	No.	%	No.	%
No formal schooling	2	2.0%	0	0%	**2**	**1.8%**
Primary school (7 years or less)	26	26.5%	3	18.8%	**29**	**25.4%**
Vocational or technical training	6	6.1%	1	6.3%	**7**	**6.1%**
O-level education	46	46.9%	3	18.8%	**49**	**43.0%**
A-level education	8	8.2%	4	25.0%	**12**	**10.5%**
Post secondary education	7	7.1%	1	6.3%	**8**	**7.0%**
University degree	2	2.0%	3	18.8%	**5**	**4.4%**
Advanced degree (Master's, PhD)	1	1.0%	1	6.3%	**2**	**1.8%**
Total	**98**	**100.0%**	**16**	**100.0%**	**114**	**100.0%**

Table 4: Education attainment X To Cover family issues Cross tabulation

Education	To Cover Family Issues				Total	
	Yes		No			
	No.	%	No.	%	No.	%
Primary school (7 years or less)	8	21.1%	1	12.5%	**9**	**19.6%**
Vocational or technical training	2	5.3%	0	0%	**2**	**4.3%**
O-level education	8	21.1%	3	37.5%	**11**	**23.9%**
A-level education	7	18.4%	2	25.0%	**9**	**19.6%**
Post secondary education	6	15.8%	0	0%	**6**	**13.0%**
University degree	5	13.2%	2	25.0%	**7**	**15.2%**
Advanced degree (Master, PhD)	2	5.3%	0	0%	**2**	**4.3%**
Total	**38**	**100.0%**	**8**	**100.0%**	**46**	**100.0%**

Table 5: Education Attainment X Compare Profit Before and After Loan Cross Tabulation

Education	Compare Profit Before and After Loan							
	Greater		Less		Same		Total	
	No.	%	No.	%	No.	%	No.	%
No formal schooling	3	1.5%	0	0%	0	0%	**3**	**1.3%**
Primary school (7 years or less)	67	34.5%	3	60.0%	11	29.7%	**81**	**34.3%**
Vocational or technical training	12	6.2%	0	0%	3	8.1%	**15**	**6.4%**
O-level education	73	37.6%	2	40.0%	17	45.9%	**92**	**39.0%**
A-level education	17	8.8%	0	0%	4	10.8%	**21**	**8.9%**
Post secondary education	12	6.2%	0	0%	0	0%	**12**	**5.1%**
University degree	7	3.6%	0	0%	2	5.4%	**9**	**3.8%**
Advanced degree (Master, PhD)	3	1.5%	0	0%	0	0%	**3**	**1.3%**
Total	**194**	**100.0%**	**5**	**100.0%**	**37**	**100.0%**	**236**	**100.0%**

Table 6 Education Attainment X Have You Received any Technical Support and Training from Microfinance Institutions Cross Tabulation

Education	Have You Received any Technical Support and Training from Microfinance Institutions					
	Yes		No		Total	
	No.	%	No.	%	No.	%
No formal schooling	3	2.3%	1	0.5%	**4**	**1.2%**
Primary school (7 years or less)	40	31.0%	61	31.3%	**101**	**31.2%**
Vocational or technical training	6	4.7%	12	6.2%	**18**	**5.6%**
O-level education	56	43.4%	77	39.5%	**133**	**41.0%**
A-level education	6	4.7%	22	11.3%	**28**	**8.6%**
Post secondary education	10	7.8%	11	5.6%	**21**	**6.5%**
University degree	7	5.4%	7	3.6%	**14**	**4.3%**
Advanced degree (Master, PhD)	1	0.8%	4	2.1%	**5**	**1.5%**
Total	**129**	**100.0%**	**195**	**100.0%**	**324**	**100.0%**

Table 7: Education Attainment X Do You Expect to Expand Your Business in the Future Cross Tabulation

Education	Do You Expect to Expand Your Business in the Future?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
No formal schooling	2	0.8%	1	2.1%	**3**	**1.0%**
Primary school (7 years or less)	75	29.2%	23	47.9%	**98**	**32.1%**
Vocational or technical training	16	6.2%	1	2.1%	**17**	**5.6%**
O-level education	115	44.7%	11	22.9%	**126**	**41.3%**
A-level education	19	7.4%	7	14.6%	**26**	**8.5%**
Post secondary education	15	5.8%	5	10.4%	**20**	**6.6%**
University Degree	10	3.9%	0	0%	**10**	**3.3%**
Advanced degree (Master, PhD)	5	1.9%	0	0%	**5**	**1.6%**
Total	**257**	**100.0%**	**48**	**100.0%**	**305**	**100.0%**

Table 8: Education Attainment X Have You had the Opportunity to Attend any Business or Entrepreneur Training Cross Tabulation

Education	Have You Had the Opportunity to Attend any Business or Entrepreneur Training					
	Yes		No		Total	
	No.	%	No.	%	No.	%
No formal schooling	1	1.8%	2	0.8%	**3**	**1.0%**
Primary school (7 years or less)	17	30.9%	73	28.5%	**90**	**28.9%**
Vocational or technical training	2	3.6%	15	5.9%	**17**	**5.5%**
O-level education	23	41.8%	103	40.2%	**126**	**40.5%**
A-level education	3	5.5%	26	10.2%	**29**	**9.3%**
Post secondary education	4	7.3%	20	7.8%	**24**	**7.7%**
University degree	4	7.3%	11	4.3%	**15**	**4.8%**
Advanced degree (Master, PhD)	1	1.8%	6	2.3%	**7**	**2.3%**
Total	**55**	**100.0%**	**256**	**100.0%**	**311**	**100.0%**

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