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**Topic**

**Microfinance and Poverty Reduction in Tanzania:**

**Experiences from Dar es Salaam**

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## **Chapter One: Background of the study**

### **1.0 Introduction**

The emergence of micro credit as an effective tool for poverty reduction is widely recognized in the world since the 1990s. The World Bank also values categorically micro credit for poverty alleviation (Kayunze et al 2005:80). The financial sector reform in Tanzania in 1991 emphasized the need for micro credit to the poor, in order to enable them to become entrepreneurs. It also aimed at providing household support as a mean of poverty reduction and economic growth. However, a number of constraints exist within this reform, for instance, establishing a new micro finance organization and providing credit access to poor. Therefore entrepreneurship and household income situation is not improving as it is expected by the micro finance organizations. This study aims to focus on the value of micro credit for poverty reduction and at the same time the challenges micro finance organizations face in realizing their objectives.

The research has been carried out in the region of Dar es Salaam, Tanzania. The vision of micro finance worldwide is to provide micro credit to the rural poor, particularly women. However, this study focuses on the urban poor and vulnerable groups in the region of Dar es Salaam in Tanzania. It is assumed that in general the urban poor face multi-dimensional poverty circumstances that are often ignored by both non government organizations and governments efforts in development program. Another vital reason was data availability as it is convenient for an external researcher.

This research is qualitative in nature. Data was collected empirically from the case study area. The data collecting instruments were interviews, focus group discussions and general observation. Secondary data was also collected from books, journals and research papers.

Literature review in this study shows that, efficient micro finance institutions have unprecedented impact on poverty reduction. Prior to the establishment of micro finance, the poor used to sell personal belongings due to economic hardship thus perpetuating the poverty cycle. However, it is also argued that the structure and system of operation of micro finance organizations never allow their clients to be sustainable in their business.

Research findings shows that the poor people have almost no access to Bank and other financial institutions for loan since they don't have any asset as a security for the loan. However micro finance organizations give loan to the poor without any materialistic security but they have social collateral in the form of group lending methods that guarantee repayment. Therefore this study is based on the theory of lending without collateral security.

### **1.1 Background of the study**

Poverty is inseparably linked to lack of control over resources including land, skill, knowledge, capital and social connections (Victor and Makalle 2003; 1). Urban poverty is a growing phenomenon in most of the countries particularly in developing countries due to a number of factors. Unplanned and rapid population growth, trend of migration to big cities from countryside led the overall urbanization stuck with various social, economical and political problems that increase poverty, unemployment, crime and such social tribulations. IMUP (International Meeting on Urban Poverty) in 1996 stated that,

*"Urban poverty and its attendant human cost is perhaps the single greatest challenge of our time...The centerpiece of urban policy as we enter the 21st Century must therefore be the struggle against poverty, with goals such as the integration of the informal city, the recovery and democratic use of public space, and the reversal of the trends towards the concentration of wealth and opportunities, which so often ends in a spiral of violence" (Cited in Victor and Makalle 2003; 1).*

Recent development efforts have been focusing more on poverty reduction in developing countries. For instance, the World Bank has introduced Poverty Reduction Strategy Paper (PRSP) for Highly Indebted Poor Countries (HIPC). Micro finance in contemporary development discourse has been placed as a vital tool for poverty reduction. The weaknesses of development theories in eliminating poverty, have led to an increasing demand for micro finance as a means to permit the poor to contribute in development policy discourse. The World Bank emphasizes micro credit for poverty alleviation promoting opportunities for the poor to reduce poverty by increasing their access to credit

(World Bank; 2001). The pioneer of micro credit Muhammad Yunus established the first micro finance organization namely 'The Grameen Bank' in early 1980s (Yunus and Jolis; 1998) in Bangladesh. Its successful operation attracts donor organizations and developing countries as well. The present Tanzanian development strategy also focuses on micro finance.

In 1991 the government of Tanzania initiated financial sector reforms in order to create an effective and efficient financial system in Tanzania. (URT; 2000) Since then, the emergence of micro finance for poverty reduction has been acknowledged in Tanzanian government policies. The former president of the United Republic of Tanzania (URT), Mr. Mkapa once said emphatically: "my government will further support various credit schemes which are flexible, transparent, and which can reach the rural and urban women" (Kayunze 2005; 83). His commitment was taken into action by establishing various credit schemes for the poor people in order to enable them doing income generating activities for poverty alleviation. During 2004/05, the government continued to create conducive environment to facilitate various sectors to access credit. Moreover, the government continued to improve regulatory and supervisory frameworks for microfinance banks to enable more potential borrowers' access to credit." (Kayunze; 2005)

Micro finance has a diverse impact on the poor's livelihood. The economic structure of Tanzanian society also requires micro credit to contribute in the development of scarce resources. The United Republic of Tanzania (URT) national micro finance policy 2006 emphasizes the potential of micro credit, mentioning that; "for the majority of Tanzanians, whose incomes are very low, access to financial services offers the possibility of managing scarce household and enterprise resources more efficiently, protection against risks, provision for the future and taking advantage of investment opportunities, for economic returns, for households, financial services allow higher standards of living to be achieved with the same resources base, while for enterprises and farmers, financial services can facilitate the pursuit of economic growth".

Though Tanzania is predominantly a rural country, at recent one third of the population are living in urban areas (International Food Policy Research Institute (IFPRI); 1998) Increasing unemployment and economic hardship led the rural poor especially young generation to move to big cities to look forward to a better life. Dar es Salaam is one of the largest and fastest growing cities in Africa. Although survey shows the migration rate to Dar es Salaam city about 2-3 percent per year, high birth rate increasing the population rapidly about 5 to 6 percent. (IFPRI; 1998) Average household size is 5-6 members and one of five family is headed by woman.(IFPRI; 1998) One survey in Dar es Salaam shows that income is the major problem in urban households as they have to purchase food and housing with cash (IFPRI; 1998). They are very much low paid. However with that little income, they have to support a minimum size family of about 4-5 person. Therefore people prefer to be self employed rather than to participate in wage labor. Seasonal income fluctuation throws many households vulnerable in the city for example construction laborers become jobless during rainy season. It is assumable that increasing income can sustain poor's livelihood in urban areas. However both government and private organizations in Dar es Salaam has paid little attention to facilitate the poor to be entrepreneurs. At recent micro finance organizations have been facilitating vulnerable and very poor people with micro loan and its other programs like savings and insurance to make the poor sustainable in their livelihoods.

Research findings shows that household crisis is very high in the city of Dar es Salaam due to unavoidable situations they face for instance medical, festival or ceremonial commitment (International Food Policy Research Institute (IFPRI); 1998). Besides this, natural hazards and income fall happen very often. Savings services among the micro finance program are one of the best beneficial services to face such situations. Micro finance program facilitate clients to save voluntarily and obligatorily<sup>1</sup>. During this time savings help the poor without losing important households. Savings in the micro finance institutes also contribute to provide investment credit. In this sense, micro finance organizations can claim that they are more efficient and performing better than any other

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<sup>1</sup> Microfinance organization members have to save a certain amount obligatorily to be eligible for the loan. However they can also save extra as voluntarily as much they intend to save. Microfinance organization encourages saving both so that they can use this money in their crucial time.



financial institutions to encourage and accumulate savings from poor people who are in crucial need during unfavorable time.

The Technical Audit Unit of the Ministry of Finance in Tanzania is responsible for inspecting, appraising quality of performance, ascertaining value for money directed to different development programs and advice the government on corrective actions to be taken(URT;2002). Therefore micro credit organizations in Tanzania have to follow and meet the conditions set by National Micro Finance Policy (NMP) that is evaluating their activities.

According to the National Micro Finance Policy 2000, the government of Tanzania considers Micro Finance as an integral part of the financial sector. The overall objective of NMP is “to establish a basis for the evolution of an efficient and effective micro financial system in the country that serves the low-income segment of the society, and thereby contribute to economic growth and reduction of poverty.” (URT; 2002)

National Microfinance Policy states that; a wide range of institutions will be involved in the provision of micro financial services, including NGOs. Therefore it is expected that these institutions apply ‘best practices’ to provide services effectively, efficiently and sustainably, combining commercial financial principles with a variety of ways to adapt service delivery techniques to the circumstances of low-income clients. Some of the best practices that should be applied by these institutions, particularly NGOs for the purpose of these guidelines are:

- 1 Full knowledge of its operational costs and the market they face, in order to set their lending rate and prices of other services at such levels that those costs are covered.
- 2 Adequate information systems to monitor the status of their loan portfolio, particularly in order to promptly manage delinquent clients and to recognize the cost of credit risk, by implementing an appropriate policy for provisioning and write-off of bad loans.

- 3 Transparent financial and operation information that gives a clear picture of the status of the organization, including outreach, profitability (net of the subsidy received) and portfolio quality.
- 4 lending technique and products adapted to the circumstances of low income clients, including the use of collateral substitutes and repayment incentives to protect themselves against risk,
- 5 sound governing structure

These guidelines ensure not only best practices but also sustainability of the organization. Besides this, the Bank of Tanzania has issued the micro finance companies and Micro credit Activities Regulations 2004, which contain accounting and control rules, geared towards securing the adoption of best operational practices by banks and financial organizations engaged in micro finance (ESRF;2000). There has also been a great emphasis on gender equality in development, in Tanzania. In this context micro finance organizations have been working remarkably.

## **1.2 Statement of the problem and research questions**

Since initiating financial sector reforms in early 1990s the Tanzanian government has been trying to ensure best practice for micro finance organizations that will enable the poor to access micro credit. Following this preoccupation, the Tanzanian government appointed the Economic and Social Research Foundation (ESRF) and PACE Development Limited to undertake a study that would examine optimal modalities that would lead to access of the poor to micro credit facilities (ESRF; 2000).

Research has shown that microfinance organizations are generally more rural concentrated than urban areas. However urban dwellers have to face different types of poverty that demands more attentions from both government and NGOs initiatives for poverty reduction. In the Tanzanian case, though the government introduced financial sector reform to ensure access of the poor entrepreneurs to micro credit, the reality is different. Commercial banks and non bank financial institutions(NBFIs) are more interested to lend to public sector (Parastatals) and large corporate organizations than

micro and small-scale borrowers in agriculture and small scale manufacturing sector. (ESRF; 2000)

The Human Development report 2003 on Tanzania focused on this issue and emphasized the need to direct the benefits of micro credit to the poor. The report noted that; “The outstanding concern must be to ensure that growth benefits the poor, particularly areas where most poor people reside. Besides, the apparent decline in access to credit during the 1990s must be reversed.”

Apart from this, there are other constraints facing the micro credit institutions in Tanzania. One of them include security, quite often credit officers carry large sums of money without any protection and many have been attacked and money seized from them at gun point. Another major challenge is the low rate of loan repayment. This is often attributed to unfavorable business climate. Sometimes business loans are diverted for other social activities like marriages and funerals. The third constraint is the lack of capacity by the credit officials and the lack of business skills by the beneficiary of micro credit. Considering above situation the central research questions of this study are:

- 1 How does Microfinance reduce poverty?
- 2 Who are the real beneficiaries of Microfinance organizations?
- 3 What are the major challenges of Microfinance organizations?

### **1.3 Objective of the study**

The overall objective of this study is to examine the role of microfinance in poverty reduction and its relevance in urban Dar es Salaam in Tanzania. Other objectives are as follows:

- 1 Examining the benefits of various microfinance programs such as savings, insurance for the poor’s livelihood.
- 2 Examine to what extent micro credit recipients are benefiting from the program and who is gaining more; provider or recipients.

#### 1.4 Significance and scope of the study

Tanzania is one of the poorest countries in the world (Voipio and Hoebink 1999:14). According to Kayunze et al (2005), the Government of Tanzania has addressed and developed poverty reduction strategy paper with debt relief from World Bank and International Monetary Fund. However she further states that ‘the view of Tanzanian’s national micro finance policy is to provide financial intermediation without necessarily relying on injection of external donors or government fund.’

Tanzania’s Development Vision (TDV) 2025 is determined to eradicate abject poverty by 2025 as the main objective. They have undertaken policies to halve poverty by 2010, for example the National Poverty Eradication strategy (NPES) and National Strategy for Growth and Reduction of Poverty, (Kayunze et al 2005; 83). Besides this, the United Republic of Tanzania, commissioned ESRF/PACE “to undertake a study that would lead to recommendations on the organizational structure and set-up two important funds. These are the poverty Alleviation Fund (PAF) under the Vice President’s Office (VPO) and a Women Trust Fund (WTF) under Equal Opportunities for All Trust Fund (EOTF)”

From the above discussion, it is clear that the government of Tanzania has initiated lot of policies and strategies to eradicate poverty. Credit for poverty alleviation among them has been emphasized explicitly. For example the National Poverty Eradication Strategy stipulates three policies for raising people’s income. (Kayunze et al; 2005) These are:

- 1 Creating and strengthening credit schemes to provide credit for poverty eradication activities
- 2 Increasing access of informal sector activities to loans through credit schemes to be established, and
- 3 The government encouraging investment in small scale mining as part of the efforts to eradicate poverty

Literature review shows that, though the government of Tanzania has taken initiatives for poverty reduction, very few of them focuses specifically on urban poverty. However in

urban areas poverty situation is acute and upward. People have very little income to fulfill the basic needs. Income seems a major fact in their livelihoods. It is therefore expected in this study that, it would facilitate the understanding of the importance of micro credit, both for the government and donor organizations in the world. The findings will help policy makers to develop micro finance program that will be more efficient to reach the target poor. This study will also facilitate some recommendations that could be taken into consideration for both government and donor organizations for further development initiatives.

Poverty is a multi dimensional social phenomenon. Its definition varies from person to person, country to country (Narayan et al 2002:32). To get rid of poverty various agencies including the government are trying hard. International organizations are also trying to alleviate poverty through various agencies. It is not possible to study all of them and their contribution in order to eradicate poverty. In this study I will therefore confine myself to assess the emergence of micro credit in order to reduce poverty. It is also imperative to say that Tanzania is a large country with around 39 million people (Central Intelligence Agency, World Fact book; 2008). Therefore it is not possible to study all of the regions. I selected one region that is Dar es Salaam which is recognized as the business capital of Tanzania.

### **1.5 Limitation:**

Limitation of this study can be identified theoretically and methodologically. Theoretically this Research is dealing with microfinance and poverty issues. However both microfinance and poverty have lots of definition and perspectives. In this study it is not possible to deal with all of them. Therefore this study is determined to focus on income poverty. Methodologically this study is carried out by qualitative method. However it is said that, “no scientific social research can be conducted purely by following only one method” (Hossain 2001; 22). Though I have used quantitative table and figures to some point but this study is almost purely qualitative in nature. However this study has carried out case study method. Therefore it is expected that due to the closeness of the researcher on the case study area and the people, the research findings will be reliable and authentic despite the problem of language and culture.

## 1.6 Definitions of key terms:

### **Poverty:**

Poverty is a complex phenomenon. The definition of poverty varies remarkably according to the victim's perception. The Tanzanian National Poverty Eradication Strategy defines poverty as follows:

“Poverty at its broadest level can be conceived as a state of deprivation prohibitive of decent human life. 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, illiteracy, the prevalence of disease, squalid surroundings, high infant, child and maternal mortality, housing, inadequate clothing, low technological utilization, environmental degradation, unemployment, rural-urban migration and poor communication.” (Voipio and Hoebink 1999: 28)

As following the definition it seems that scarcity of material wealth causes poverty. In that sense it can be said that income or cash by which most of the materials are bought is the major contributing factor to be poor. Therefore this study defines poverty from income perspective.

### **Micro credit and micro finance**

Micro finance organization regards as a financial institute. It is considered as one of the most effective tool for poverty reduction. According to Grameen Foundation, **“Microfinance consists of making small loans, usually less than \$200, to individuals, usually women, to establish or expand a small, self-sustaining business.** For example, a woman may borrow \$50 to buy chickens so she can sell eggs. As the chickens multiply, she will have more eggs to sell. Soon she can sell the chicks. Each expansion pulls her further from the devastation of poverty” (Grameen Foundation; 2007).

There are differences between micro credit and micro finance program. Micro credit generally give small scale of loan whereas micro finance organization provide different kind of services such as saving scheme, insurance, advocacy and so on.

## **Chapter Two**

### **Literature Review and Theoretical Framework**

#### **2.0 Introduction**

The research on poverty focuses and concentrates on the poor people in the society. However, this might be the only point where poor people are on focus. They live in society but somehow isolated. The poor are being studied as individuals, as families and households or communities, or regions. The poor are treated as a larger poverty-creating structure and economic burden in a larger society. These also lead the poor to powerlessness and being victim in the society.

Poverty is a vast concept. It is neither an economic nor a purely social problem, but is multi-faceted, with economic, social, political, cultural and demographic dimensions (Samad; 1996). Poverty can sometimes cause physical, moral and emotional pain (Narayan et al; 2002). Physical pain comes with little food and long hours work. Daily humiliation of dependence and lack of power bring emotional pain and morality goes down as the poor are forced to make choices among various needs.

Plenty of research has been done on the issue of poverty. Different scholars and organizations have given different definitions or concepts about poverty. According to Novak (1996), Poverty should be seen in the context of access to all forms of resources and facilities provided by or within a nation, and therefore socioeconomic factors ought to be taken into consideration as well. The research on poverty is concentrated on measuring the extent of poverty. However, measuring poverty is a difficult task proven by all researchers. Different organizations use different indicators to measure poverty mainly based on the income and/or cost of living of the individual and the household. Among them, some most recognized indicators have been established by some World authoritative organizations. For instance, Gross National Product (GNP), Gross Domestic Product (GDP), Human Development Index (HDI), Comparative Poverty Measurement (CPM), Population earning less than 1 \$ per day, National poverty line, Calorie intake per day.

However, poverty researchers have much criticism about the measurements and their shortcomings. According to Oyen (ibid), much poverty is located in the informal economy and on the periphery of major societal institutions, this demands an alternative measurement of poverty. There are many efforts invested to overcome the faults of different measurements to increase their validity and reliability. However, it is approved that choice of one indicator instead of another leads to different results because of the diverse nature of poverty.

The rich societies live in a different world from poorer societies. They are kept apart through differential participation in the labor market, the economy and social and cultural institutions. Mentally the two worlds are kept apart through stereotyping and false images built by tradition and the media (Oyen; 1996). Therefore, the non-poor society has very little knowledge about the world of the poor. However, since the non-poor society has autonomy in decision making, the true fact is that they give incomplete and somewhat wrong information about poverty. Therefore, measuring poverty from the data sources leads to a conflicting statement.

To give a clear picture of poverty, one has to discuss relative poverty, the hierarchy and the causes of poverty. When poverty alleviation programs are enacted, the beneficiaries are the most deprived and those living below the poverty line. However, those who are just above poverty line sink back to increased relative poverty because they do not receive the benefits going to the below poverty line people. When there is poverty in the society, different levels of poverty abound hence the concept of hierarchy of poverty. This hierarchy is developed by the non poor in the society. For their own interest, they keep custom system and such other dominant mentalities in the society.

Poverty limits people's options, according to Gans (1973) 'Poverty forces people to engage in certain activities, because no other options are available'. This in turn frees the non poor from those activities. For example, poor people do dirty and menial jobs, whereas non poor are away from those jobs. As societies are dominated by non poor, those kinds of jobs are usually lowly paid. The poor are more likely to buy second-hand goods, foods of low quality, and also go to low rated doctors and teachers. That also undermines their quality of life and ability to contribute fully in the economic life of the



society. The use of poor people as mobile, unorganized and low-income workforce, working as migrant and temporary workers allow the wealthier society to keep them under pressure and lowly paid as well. Gans (ibid) further states that non poor population uses the poor for political purposes as well. For the economic and social changes, they use the poor as a trigger. However, it does not help the poor to overcome their present situation. This is evident in the process of building physical infrastructure to help transport, industry, trade and tourism. Instead, they help to guarantee the non poor as their superior. From the above discussion, it seems obvious that if we do research on poverty, we have to study non poor and their activities as well. This is due to the fact that poverty is not only caused by the poor, the non poor society plays a vital role to keep a society under poverty for their ill interests. Oyen (ibid) holds the view that, Poverty is such a reality in our society that will never disappear. Because the existence of poverty is not only caused by the poor, the non poor equally contribute to make the poor live in poverty. Accordingly, a certain amount of poverty in a society is needed in order to secure the smooth functioning of the economy of the non-poor population.

It is mentioned earlier that poverty is seen in the individual level or family and household, community or state level. Therefore, poverty here can be discussed in three levels. They are individual, intermediate and macro level.

According to Oyen (ibid), in broader sense, poverty in individual level can be defined as lack of resources. In broader sense, resource should include access to clean water, as well as basic education, the opportunity to vote, a guarantee of a basic income, and freedom from hunger and epidemics.

Intermediate level poverty includes family and households and communities. Disempowerment both in family and community level, Customary lifestyle, religion, discrimination in the labor market, living conditions ‘stressing either a poor way of life or poor consumption standards or attitude towards living in poverty’ can be the major attributes of poverty in intermediate level (Novak;1996).

Macro level poverty deals with international societies’ view and philosophy relating to the poorer countries. Poor countries are unable to adjust with business cycles with

developed countries. Discriminatory trade relation, international politics and economic structures of any given country, make it difficult to adopt any ready-made formula for development.

Table 2.1: Levels of Poverty

Individual level	Family and Household	Community	Regional/State
lack of resources, education, food, health, access to clean water, housing	education, gender discrimination, violence, mortality, health insurance,	Exclusion, class and gender discrimination, customs, religion, economic and political powerlessness.	political dominance, economic inequality, war, discriminatory trade policy

## 2.1 Urban Poverty

Urbanization is becoming a common threat for most developing countries in the world since the past few decades. In 1970, 37 percent world population was living in cities. However, by 2005 the percentage of the world population living in urban areas is expected to rise by over 50 percent (Masika, Haan and Baden; 1997). Population growth and extreme poverty situation led the poor to migrate from rural to big cities in the hope of a better life. However, in most cases they fall into the poverty trap again with the risk of vulnerability and insecurity. Consequently overcrowding, crime, air and water pollution, unhygienic environment become the common scenario in urban areas. It is understandable that the migrant poor have to face multifaceted challenges for a healthy accommodation and employment. According to Masika, Haan and Baden (1997) ‘at least 600 million urban dwellers in Africa, Asia and Latin America live in housing that is so overcrowded and of such poor quality, with such inadequate provision for water, sanitation, drainage and garbage collection that their lives and their health is continually at risk.’

Poverty can be defined as economic difficulties that do not permit the poor persistently to fulfill their basic needs. However there is no consensus on how to define urban poverty. Most studies define urban poverty in comparison with rural poverty. Some scholars also debate whether rural poverty differs from urban poverty. However, it is seen from the

above discussion that though there are some common criteria of poverty which exist in both rural and urban areas, urban poverty differs in many ways from rural poverty.

According to Masika, Haan and Baden (1997), there are two broad complementary approaches prevalent in defining urban poverty - economic and anthropological. Conventional economic definition uses income or consumption as basic elements complemented by a range of other social indicators such as life expectancy, infant mortality, nutrition, proportion of household budget spent on food, literacy, access to health clinic, water to classify the poor groups against a common index of material welfare. An alternative interpretation is developed by rural anthropologist and social planners focusing on non-material deprivation and social differentiation.

Mingione (1996) also stated similar opinion to define urban poverty. According to him, there are two different ways to identify the poor- the first one that is most widely used for international comparison is those households or individuals living below the poverty lines. The poverty line measured by spendable income or expenditure officially fixed by government either in relation to per capita income of the population or in relation to a fixed national minimum considered indispensable for survival. However, in most cases the instrument to measure poverty is useful but not perfectly correct. This is because these instruments only measure the visible materialistic items but not the informal social resources. Besides this, there are many other vital factors which influence poverty. For example, the location of living is a vital point to be measured in order to identify poverty line. This is due to the fact that living in urban areas is much more expensive than living in village areas. Moreover, different locations in the same urban area demand varying living costs. In a related scenario, two persons earning the same but living in urban and rural areas pays disproportionate amounts for rents. However this is ignored in most researches on poverty measurement. The second method of measuring poverty is the amount of welfare provision allotted to its citizens. However that is less used due to the difficulty of international comparison in different countries.

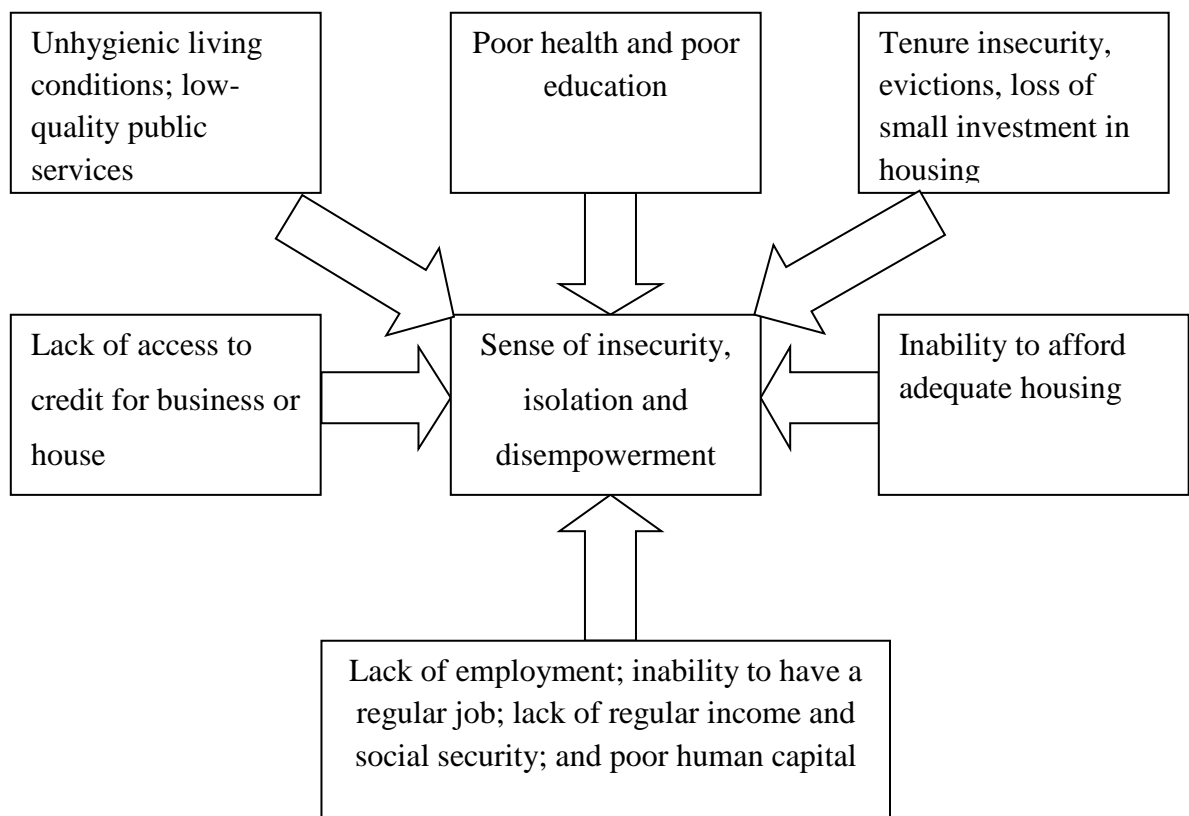
The poor are those who are unable to achieve minimum standards of physical survival. However, basic needs vary greatly at different moments of the life course and under different social and community conditions (Mingione; 1996). Therefore, this is important

to focus on individual life histories. Early dropout from school, discrimination in access to welfare services, teenage pregnancy or early marriage for females, joblessness and prison for males, need to be checked against the specific different conditions of social groups and localities. From the above discussion it is clear that poverty is dynamic. It is not possible to measure poverty through one indicator or model. It is said by Room (1990), instead of focusing only on the disposable income or expenditure of individuals or households at a moment of time, researchers have to make a three-fold shift in perspective to: 1) the many dimensions of poverty, 2) dynamic analysis and 3) from the isolated individual or household to the local community within which the household lives.

Victor and Makalle (2003) say that urban poverty is often characterized by cumulative deprivation; one dimension of poverty often causes or contributes to another dimension.

The illustration below can give a clear picture of various linkages of poverty dynamics;

Figure 2.1: Model of poverty dynamics



## **2.2 Poverty in Tanzanian perspective**

Poverty is a complex phenomenon. In its most common sense poverty is the lack of necessities. Polak (2008; 53) states that, “Poverty constitutes a denial or non-fulfillment of any kind of human rights. However the definition of poverty varies remarkably according to the victim’s perception. It varies country to country, society to society, person to person and so on. Eventually social scientists and economists like Narayan et al (2002) have been trying to define poverty from different perspectives. Traditionally poverty has been measured by monetary terms. However its other dimensions also demand to be considered. The researcher hold the view that, poverty is not only the matter of insufficient income or consumption but also lack of health services, nutrition, education, social relation, insecurity, powerlessness and others.

Following the definition, the choices of indicators have a great impact on ranking the poverty situation in Tanzania. However, the availability and reliability of data is a real and long standing problem in the description and analysis of poverty in Tanzania (Voipio & Hoebink; 1999). For example, there is no official National Poverty line for Tanzania. As a result, researchers and development institutions have developed their own poverty lines. The World Bank uses in the World Development Indicators 1997 the National Poverty Line for Tanzania by the ERB/Cornell survey of 1991. Compared to the data from the survey, 51.2 percent of Tanzanians are indicated as falling below national poverty line. (Voipio and Hoebink; 1999) Other indicators like Gross National Products (GNP) show that Tanzania is ranked one of five bottom countries in the world. The true fact is, whatever indicator is used, Tanzania is one of the poorest countries in the world.

The Tanzanian National Poverty Eradication Strategy defines poverty as follows:

“Poverty at its broadest level can be conceived as a state of deprivation prohibitive of decent human life. 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, illiteracy, the prevalence of disease, squalid surroundings, high infant, child and maternal mortality, housing, inadequate clothing, low technological

utilization, environmental degradation, unemployment, rural-urban migration and poor communication.” (Voipio and Hoebink; 1999)

Following the definition, it seems that scarcity of material wealth mainly causes poverty. In that sense it can be said that income or cash by which most of the materials are bought is the major contributing factor to poverty. Therefore this study defines poverty from income perspective.

### **2.3 Poverty Situation in the city of Dar es Salaam**

Tanzania is a predominantly rural country. Half of the GDP derived from agriculture. However a growing number - now one third of the population live in urban areas. For instance Dar es Salaam is the largest and fastest growing city in Tanzania. Unemployment and other factors led them to migrate to bigger cities in search of a better life. However, limited employment and housing facilities trapped them into diverse complexities. A research has shown that the low-income population in these areas is young. Half of the poor are under the age of twenty. The International Food Policy Research Institute (1997) research on urban livelihood challenges in Dar es Salaam found that, 10 (in densely populated areas 16) percent on average of the respondents have migrated from rural areas within the last five years.

Poor housing, unhealthy environment and deteriorating physical infrastructure are the major problems in the city of Dar es Salaam. Houses are poorly constructed and most of them are built with local products. Most of the poor people are living in very densely and crowded places. Roads are very unclean, full of dust and sands. In the rainy season most of the roads become almost inaccessible. Though malaria is rampant, there are very few houses which have protection in the door and windows to prevent mosquitoes. There is also a trend of constructing houses in densely populated areas, in order to make higher profits from very high rents. Besides this, most house owners interested in building more rooms instead of making bathrooms and toilets inside the building so that he can earn some more rent. Consequently, houses become unhealthy and spreading diseases because people have to share single toilets and other common spaces. Most of the residents build their toilets outside the building. They are not well protected and the sanitary standards are poor. Therefore in the rainy season latrines are flooded and spread diseases.

For the purposes of this study I spent four months in Dar es Salaam collecting data. Faced with the challenging housing situation mentioned above, I sought accommodation in a different neighborhood of Dar es Salaam. This provided me with a comfortable house without being judgmental of my research participants from the practical experiences, during my four months stay in Dar es Salaam the researcher found that, except on

Sundays (not even Sundays sometimes) there was no electricity in these neighborhoods by day (6.00am to 6.00pm). Generators run by fuel are the only alternative to energy supply in the offices and shops. Therefore, air pollution and noise are common phenomena in most places in this city.

Water is another big problem in the city. According to IFPRI (1997) 85 per cent residents have access to piped water or public tap. However most of them are often broken. Half of the sub urban people buy water from vendors at relatively high prices. It is estimated that about 70 per cent of semi-urban dwellers get water from unprotected wells.

Garbage disposal is a big challenge in Dar es Salaam. A limited quantity of garbage is collected from households. Most of them are thrown near the road or into the alleys from the houses. It happens not only for the lack of garbage collection but also because of the lack of environmental consciousness. Most of the garbage are buried or burned. Consequently it contributed huge air pollution.

Unemployment and under employment is the foremost problem in Tanzania especially in the urban areas. As in most places the world over, most of the necessities like housing, food, medicine have to be purchased by cash. Therefore a regular job is a much needed requirement for survival in cities. Research on Dar es Salaam household survey shows that 5-6 member's family is headed by one bread winner. If he loses his job or suddenly falls ill, the family is in big trouble. Therefore most of them try to find a regular job instead of part time or seasonal jobs though they are less paid. Most of the workers also try to find a second job so that they can fulfill the basic needs of the family. Low paid work or the temporal nature of jobs, compel the poor to become self employed. In Dar es Salaam it was found that, most poor people are engaged in small businesses such as food vending, carpentry, shoe making, tailoring, hairdressing and small shops.

IFPRI (1997) survey also showed that communicable diseases for the children are prevalent and significant. It also stated that malnutrition is a severe problem in Dar es Salaam as well as all over the country. According to the survey result, almost 40 per cent of the children are abnormally short for their age. Insufficient dietary intake results in most children being low weight and suffering from long term illness causing long term poverty in these areas.

As mentioned above, most of the household necessities have to be bought by cash. Therefore, if people fail to work for any reason, they have to face big challenges. This is due to the fact that, they don't have any other savings that might help them to overcome the difficult periods of unemployment. The researchers personal experience from the study area shows that they also have to face big challenges when there is any kind of ceremonial happenings for example marriage, funeral and religious or cultural festivals. According to IFPRI (1997), two thirds of the people are hit by a major expense per year.

The expenses can be medical bills or any ceremonial commitments. Over the same time, one third of the family breadwinners lost their job or abandoned the family or died. 10 to 20 percent of the households have been evicted from their home and 40-50 percent of workers missed some days of work due to injury or sickness.

#### **2.4 Definition of Micro Finance**

Micro finance organization regards as a financial institute. It is considered as one of the most effective tool for poverty reduction. According to Grameen Foundation, **“Microfinance consists of making small loans, usually less than \$200, to individuals, usually women, to establish or expand a small, self-sustaining business.** For example, a woman may borrow \$50 to buy chickens so she can sell eggs. As the chickens multiply, she will have more eggs to sell. Soon she can sell the chicks. Each expansion pulls her further from the devastation of poverty” (Grameen Foundation; 2007).

There are differences between micro credit and micro finance program. Micro credit generally give small scale of loan whereas micro finance organization provide different kind of services such as saving scheme, insurance, advocacy and so on.

#### **Micro credit and Microfinance; theoretical overview**

Micro credit is small amount of money to be delivered to the poor people as a loan to establish or expand a small and self sustaining business. The aim of the micro finance organization is to loans only to poor people who lack access to financial markets. The original idea behind targeting the poor was that every person has some kind of natural innovative skills but due to the lack of capital, they can't do anything productive.

Over the years the definition of micro credit has been changed or modified a lot. Primarily it started in a rural village in Bangladesh with small scale of credit as an experiment. After its success day by day it has been expanded throughout the world. In the beginning micro credit organizations used to give credit to the poor people. Now they have launched saving, insurance and such other programs. The scholars therefore began referring to these organizations microfinance instead of micro credit since it has broadened its activities in a large scale.



The basic principles of the micro finance organizations are as follows:

- Membership is restricted to those with assets worth less than half an acre of land (though I have found in my field study areas micro credit organizations which are not following the rule. But the meaning of the principal remains the same because in the Tanzanian context, land is not as fertile as in Bangladesh)
- The clients have to form a group of five people having the same economic status.
- They need to have a certain amount as savings with continuous membership.
- A maximum of two members can take loan at the same time. The loan must be repaid in equal amounts within 50 weeks. ( Now it has different installment system like 3 months, 6 months or year)
- Five percent of the taken loan has to be paid to support the group fund.
- The group is ultimately responsible for any defaulter within the group
- If there are eight groups and each group contains five members, this will make a centre. This centre is led by a chairman and a secretary elected by the members. And a micro credit officer assists them and collects loan repayment installments and savings money openly in the weekly meeting.
- Attendance in weekly group and centre meetings are compulsory.
- Each member can purchase a share in the bank.

(Khandker et al; 1995)

The World Bank has estimated that in 2003 there were over 7000 micro finance institutes serving some 16 million poor people around the world implementing this scheme. The Grameen Bank itself provided micro finance loan to five million poor in Bangladesh (Quenum: 2004).

Micro finance organization gives training and advocacy also to the poor people to start some kind of feasible business depending on the market and economic circumstances.

As it is mentioned earlier poverty is multi-dimensional. Micro finance institutions on the other hand have been working to reduce poverty with multi-dimensional perspectives. Microfinance institutions were established for the purpose of providing small amount of loan to start financial activities that can help poor people to overcome their poverty situation. Particularly savings, credit and insurance facilities (that will be discussed in the later part) enable the poor to enhance their income, manage their small businesses and secure their unusual social and natural risks. According to Kessy and Urio (2006), Micro finance institutions are useful as they

- 1) Reduce poverty through increased income and standards of living;
- 2) Empower women;
- 3) Develop the business sector through growth potentials, and
- 4) Develop a paralleled financial sector

The poor people generally have very little access to financial market. Therefore they have to depend on their self finance. Especially people who live in rural areas are mostly dependent on the agricultural product. Life goes smoothly if they can bring good harvest at home. If natural disaster like storm, flood and draught hit the harvest then they are in big trouble. Besides this, most of the time they get less price for their products since they are forced to sell to fulfill other needs.

They are also in financial trouble when they need to prepare the field for planting. They need to buy fertilizer, seeds, water, insecticides and so on. Very often, they have to buy those products by acquiring more loans that will be repaid after getting the harvest. These inputs are taken from the shop at high prices or loans from informal money lenders at very high interest. This is because the formal banks and other financial organizations do not give loans to people who can't give collateral for the loan. When they get the harvest, after repaying all debts, they have very little left to survive on for the whole year.

Poverty is more acute in urban than rural areas. This is due to the fact that, in rural areas it is assumed that most people own houses or pay very little for accommodation. On the other hand, urban dwellers spend a big proportion of their income for accommodation. If

they can't earn money, it will be difficult to survive in urban areas. Besides this, every single thing for household, they have to buy with cash. Therefore they must have a constant flow of income. However in most developing cities unemployment rate is very high. Finding a decent job is almost impossible. Low payment, inflation and upward trend of consumer products' price make the poor struggling consistently to survive.

Literature has shown that most developing countries' governments as well as international development organizations have partially failed to reach the poorest of the poor people. Their approach to development has been failing to support the poor to become entrepreneurs. Microfinance has emerged in 1990 as a new development theory in order to get rid of poverty for the poorest of the poor. The very basic idea of microfinance is to give small loans to the poor to do some income generating activities, and in this way gradually enhance their business and fulfill their basic needs. However, it is now a big issue in development discourse to ask to what extent micro finance is actually able to reduce poverty?

Dar es Salaam is one of the most developing cities among others in Tanzania. However, still 18 percent of people in this city are living below the poverty line. Other ratio is 36 per cent in rural areas and 26 per cent in other urban areas (URT; 2002). Additionally over 50 per cent people in Tanzania are categorized as poor with an annual income below the poverty line. (Frasher and Kazi; 2004)

## **2.5 Social capital – the key of micro credit**

Group formation is one of the most important criteria to be a member of micro finance institution and getting loan. Formal banks and financial institutions are reluctant to give loan to the poor because they do not have any collateral as a security for the loan. Microfinance organizations have been giving loan without any capital-based security but leaning on social capital by making groups who will be responsible for each other. Usually five members make a group. Among them, one or two clients can get loan at the same time. However, whole group is responsible for the loan. If the borrower fails to repay the loan, other members have to take the responsibility. Therefore, when they form a group, they must know each other properly and have good relations as well. That is why

this arrangement is called social capital as collateral for getting micro loan.

In contemporary development discourse social capital as a concept for development has been getting unprecedented acceptance by the scholars in different disciplines for its varieties of applications. The term social capital has been defined and discussed by scholars from different perspectives. However most of the authors generally focus on social relations that have productive benefit.

According to Coleman, “Social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: They all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure” (Coleman 1990; 302). Following the definition we can say that social capital belongs to a structure, where within that structure, there is a relation among them. This relation is called networks of relationship, reciprocity, trust and social norms. He again explained that, if there is an extensive social relation among people, there is also extensive trustworthiness that can make things easier to do. It also brings some obligations within the society because when someone within the society does something for another one, he expects feedback from the society. Through this process everybody has some obligations in the society. Therefore the society develops and crime rate also declines.

Putnam (1995) also focuses on networks, norms and trust. He said that as much people in a society engaged, trust among them develop. Therefore, his emphasis is on citizen engagement. According to him, ‘the more people connected, the more they trust each other’. He also said that, “whereas physical capital refers to physical objects and human capital refers to the properties of individuals, social capital refers to connection among individuals- social networks and the norms of reciprocity and trustworthiness that arise from them”. Therefore it can be said that social network facilitates social trust. On the other hand Norms in a society emanate from long tradition and family culture. It is believed that, if there are good norms in a society, people are more conscious and responsible to their neighbor and society.

Both Coleman and Putnam explained that in high social – capital areas public places are clean, people are friendlier and the streets are safer. Extreme poverty and crime rate are reduced. They also proved through their research that in those places crime rate is high where people don't participate in community organizations, don't supervise younger people and are not linked through networks of friends. The World Bank also agreed with their findings. A research finding by the World Bank shows that, schools where parents and local citizens are actively involved, are more effective “teachers are more committed, students achieving higher test scores, and better use is made of school facilities in those communities where parents and citizens take an active interest in children's educational well-being” (The World Bank; 2001)

In general, social capital means norm, trust and social networks between and among social groups. It also refers to the institutions, relationships and norms that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Development NGOs have been contributing to engage the people within the society in different ways for example micro finance program bringing all poor clients together. They all together take responsible for the loan repayment and loan default. Therefore they can take care of each other to improve their financial activities and make them to be sustainable.

## **2.6 Savings – Empowering the organizations and its clients**

Savings in individual or the family level is always been useful for many purposes. It can help in crucial time or accumulated savings can be useful to invest for businesses or some other productive interests. However it is true that income is the key to save. Those who have increased income, they are more willing to save. On the other hand, poor who has less income, struggling constantly to fulfill daily needs are not much interested to save. Besides this, they are less informed about the importance of saving.

Saving is another vital program in microfinance organizations. The group of clients has to save one part of the loan they receive from the microfinance organizations to be eligible for getting loan. The organizations also encourage them to save voluntarily as well. From

the field study it also became evident that the clients of micro finance organizations are very much concerned and interested to save as much possible. It is not only strengthening the poor but also strengthening the organizations because saving capital facilitates to invest more. (Otero; 1991) It is also a guarantee for the loan. The group is somewhat relieved not to take loan from outside. They can get loan among the group's savings. Savings also ensure the repayment. This is because five members are saving and only two clients among them can get a loan at the same time.

The tradition of saving is not new. However, experiences have shown that low-income people in developing countries are used to saving in informal ways. They have either little access to financial banks or not much enthusiasm to go to financial bank. Rather they are used to constituting some informal groups or association. Whatever it is, saving has a great potential for the economy. According to Seibel and Parhusip (1990) some factors affect savings. For example interest rate, distance and density of bank or the financial institute, access to financial institutions, inflations, safety, knowledge of saving benefits and so on. First of all people have to be informed about the importance of savings. Especially poor has little knowledge about the importance of saving. Besides this, they have very little access to financial banks because at the end of the day they can save very little money. From the literature, it is clear that, especially in developing countries for those reasons, the poor are used to saving money in an informal ways to some money lenders or to a leader of the community. Often it results in the loss of their money or rarely gets back after long period and hassle. Consequently they feel scared and reluctant to save. It is also found in developing countries that in the market places, those who have small businesses or are working there, make a group spontaneously. A small amount of money every day or week they save and after month or week they invest this saving money to a member of the same group they belong to with small interest. In this rotation everyone will get a loan of handsome money. It helps to rotate the money and also help every individual to increase his businesses. However sometimes risks become high if all the members are not committed and trustworthy. Thus this situation demands a lot of establishing some formal institutions that may increase the interest of individual to save more. From this point of view, microfinance organizations have been playing a great role in accumulating saving and crediting for the poor to make the local economy viable.

According to Otero (1991), financial institutions in general are ill-equipped to stimulate savings among the population because partly the existing national policies with some other factors in many countries discourage saving. Therefore well-structured and sustainable micro enterprises can fill this gap. She has provided some statistical data of different micro enterprises in different countries to show the contribution of microfinance in that country's economy. Among them the Grameen Bank (GBB) in Bangladesh, Accion International (ACCION) in Latin America, Badan Kredit Kecamatan (BKK) in Indonesia are recognized worldwide.

The Grameen Bank by 1990 had reached 712000 rural poor in 16321 villages, over 18 percent of the nation's villages. With average loans of about US\$60 paid back in weekly installments over 52 weeks, the bank has lent over US\$184 million at commercial interest rates, and has amassed over US\$21.4 million in savings. Its repayments rate on loans is 98 per cent, with some branch office reporting 100 per cent repayments. (Yunus: 1990)

There are some arguments also on obligatory saving schemes. According to Otero (1991) these should not be ignored, because it might help the poor to change their attitude to saving and the importance of saving. On the other hand it might decrease the standard of living of the poor who struggle to fulfill their basic needs. The interest rate should be competitive with the bank or other financial institution.

Debate is always chasing microfinance organization. Recently it happens in Bangladesh. The pioneer of Grameen Bank Mohammad Yunus, the Managing Director of this bank was sacked forcefully by the Government of Bangladesh. According to the government, he is not eligible to be a managing director of this bank. It has been on the court now to give a decision about the legality of his being sacked.

The researcher's personal experiences and the literature also prove that, in many places, poor depositors tend to lose their money by a gang of corrupt people. They make some kind of organization that receives money as saving with a promise that, they will give return with a high interest. After a certain period, the organization and those officials disappear. The prevalence of corruption in the administration level facilitates such crimes with bribes and other ill interests. Therefore every country's regulations on saving must

be based on important justifications which allow credible, well constituted institutions with sound financial and operational guidelines to participate in this activity (Otero 1991). Since it will take deposits, reserve requirements and other regulations, it can help the depositors from dealing with questionable institutions that could save their assets. However sometimes strict rules and regulation restrict saving programs. For example “in most Latin American countries, private non-profit organizations are prohibited by law from accepting saving deposits.” (Otero; 1991) He further stated that in many countries like Colombia, the programs are permitted to capture savings but cannot use savings for lending activities. There are many other ways most of the countries face restrictions regarding saving. Therefore it can be said that the government should change their approach to private organizations and make some suitable structures that can permit private organizations to function more efficiently and smooth, as traditional financial institutions.

## **2.7 Micro Insurance**

The term micro insurance has two parts here. One is ‘insurance’, and another one is ‘micro’. Insurance normally mean that, a group of people deposit an amount of money for sudden risk. When one of them falls in the risk, he or she gets compensation that is normally greater than the deposit. Micro’ indicates insurance products designed to be beneficial and affordable to low-income individuals or groups. (Brown; 2001)

Though the idea of micro insurance is comparatively new in microfinance institutions, it is growing fast and becoming popular. The insurance scheme protects the clients against the risks that can lead them to further poverty situation. The poor are vulnerable with variety of risks. Now a days microfinance organization have been trying to establish insurance for this low-income group of people. Insurance not only saving the poor from sudden risk, but it also helps the organization to reduce clients’ defaults, and this additional money can be useful for further loan disbursement. However there are many other factors to be considered regarding insurance for this low-income group people because low-income people have variety of needs they usually fight to fulfill. If it becomes another burden for them, then it could undermine their standard of living rather than saving from risk.



Insurance is always a risky business. So microfinance organizations need to check is there any other better alternative for the clients that can save them from such risk because micro insurance cannot afford all risks insurance. Literature has shown that such experiment can make financial institutions bankrupt. So they need to check

- what kind of risk they can insure
- Does this insurance affordable for their clients
- is there any other solution
- how it can be affordable for both clients and organization

It is very much understandable that microfinance organization cannot afford to insure all kind of risks for example flood or HIV/AIDS. If they want to insure all kind of risk, soon they will experiment that the insurance is exceeding the deposits. Therefore they have to fix the certain risk that can be affordable to give insurance to protect their clients. If it happens then next question is, whether it is interesting to the organization's clients or not. They might not be interested to get insurances for all kinds of risks. Therefore the organization is solely responsible to make the product interesting to the clients. So it should be negotiable so that both parties can be satisfied and affordable as well.

Following the discussion above, Brown's (2001) suggestions can be a potential solution for the insurance. They are discussed below;

- Large number of members should be included in the insurance group so that the insurance plan does not exceed the reserves.
- Only some specific risk should be insured so that it can be calculated.
- The specified risk insurance should be smaller portion so that it can be covered.
- Both low and high risk policy should be included so that it can make a balance.

In most cases it is found that most of the organizations are not that much skilled to design the policy that is affordable for clients and financially viable for the institutions (Brown; 2001). For that reason most of the micro finance institutions establish a partnership with

an existing insurance company to give insurance benefit to microfinance institution's clients. The organization works as an agent. Normally the agent works for both parties as an intermediary. They perform the sales and servicing activities of the insurer to improve efficiency for both the customer and the company. Microfinance organizations also work this way. They negotiate with the insurer to cover all kind of risks protection insurance needed for their clients. And at the same time they convince their clients to make insurance that is useful for them.

The discussions above demonstrate the importance of micro insurance if it can satisfy both parties. However literature and the researcher's personal experience found that in many developing countries many insurance companies are corrupted. Most of the time these kind of insurance companies intentionally delay to pay the insurance compensation or in the file process. Sometime they deny compensating even if that kind of risk protection is included in the policy. Therefore according to Brown (2001) microfinance organizations should consider some factors before dealing with the insurance provider-

- national reputation of that company
- How this company is currently financed
- What are the claims' experience of the insurer and the history of claims payouts?
- How much the insurer interested to serve the low-income market?
- Will the insurer adjust their products so that they are responsive to the needs and preferences of low-income households?
- Are they willing to make a medium or long term commitment to MFIs

And also Microfinance organization should negotiate with the insurance company to give them the responsibility to verify the client's claim. Otherwise if the insurance provider takes this responsibility, they might give the decision in favor of the insurance company. Besides this, microfinance organizations have to be conscious about its own interest as well. They have to look whether they are getting a commission from the company. Otherwise it will be costly programs from the

organizational side. For the insurance provider side, they have to predict reasonably how much claims in the future they may receive. If they fail to predict and the accuracy rate far from their prediction, it may lead them to bankruptcy. If everything works smoothly, no doubt that micro insurance has unprecedented importance for the low-income clients of microfinance organization and for this organization itself as well.

## **2.8 Rules and Regulations**

Every development program has some disadvantages as well even if its success rate is high. Micro finance is not out of this dilemma. Within a short period microfinance has attracted many developing countries and developed countries as well. Especially in developing countries it has been growing rapidly. Necessarily the governments of those countries have established some rules and regulations to operate microfinance programs smooth and transparent. The literature has shown the main reasons to establish those regulations can be the following:

- Making a legal framework so that micro finance doesn't contradict with running financial system of the country.
- Every organization is registered and permitted to run financial activities for example crediting and saving
- The target people can be protected and don't lose their asset base
- Controlling the unexpected high interest rate for the loan
- Can the Microfinance organization itself be sustainable within the financial system
- Monitoring the soundness of financial activities
- Controlling donor based programs
- Controlling government dependent programs
- Legal structure to collect the default loans by applying the law.

The benefits of rules and regulation are somewhat partial. Sometimes this is good for all parties (organization, clients, donor and government), sometimes not. The bureaucratic rules and regulations to run such small organization sometimes prevent the growth.

However under a good financial structure, microfinance institutions can be more reliable to the donor agencies, more attractive to its clients and competitive to other financial sectors in the market.

According to Christen and Rosenberg (2000), the poor who were neglected by commercial banks have been served by credit cooperatives and development finance institutions. Those organizations had legal charters that govern their financial operations and allow them access to savings or other public funding. However at recent decades, NGOs innovation microfinance operations do not have legal charter authorizing them to engage in financial activities. Therefore government, donors and practitioners have been realizing the importance of legal structure for the micro finance organizations.

The government needs to make a 'model' that can increase the efficiency to find out what kind of loan methodology is good for microfinance institutions. And also what kind of institutions is good for microfinance. However supervision of microfinance organization by the government or such regulatory board is not as easy as it is assumed because of the rapid growth of Microfinance especially in developing countries. Besides this, if one considers the expenses, it is much more expensive because microfinance institutions are generally smaller asset base but comes up in large number of accounts which are highly decentralized. (Christen and Rosenberg: 2000)

One of the main reasons to establish rules and regulations to operate microfinance is interest rate'. Though microfinance started as a nonprofit organization, recently there are plenty of microfinance institutes that have been treating it as a profitable business. The interest rate microfinance organization set for the loan is very high. Consequently microloan is becoming a debt cycle instead of helping the poor to get rid of poverty. For this reason many countries' government control the interest rate on microcredit. The birth place of microfinance, Bangladesh, where donors have supported an active dialogue with the central bank on regulation, the central bank president said at a conference that one of the main objectives of regulation ought to be to restrain the 'exploitative' interest rate charged by some microfinance institutions. In Latin America and in Africa the government had legal limit on the interest rate. However growing demand of microfinance institutions and government flexibility made the law unpracticed by the

organizations. According to Christen and Rosenberg (2000), ‘many microcredit NGOs operate where such laws are on the books but unenforced’. Though the fact discussed above is true, it is also a reality on the other hand that, Microfinance institutions are used to take interest for its operation cost, risk management and sustainability. Therefore this control according to Christen and Rosenberg (2000) can make sustainable microcredit impossible or at least discourage outreach to poorer customers.

So after all this discussion above, we found that ‘commercial banks don’t serve for poor customers, the only organization is NGOs that have been serving the poor clientele’. However since they do not have financial license, they cannot leverage their resources by capturing deposits, and they cannot provide saving services to their clients (Christen and Rosenberg: 2009). However it is also true that the requirement for a banking license is out of reach for a microfinance organization. A financial license is the government’s acknowledgement that the institution is strong enough to be a safe intermediary of commercial-source funding whether it is issued from retail depositors or institutional depositors or central bank credit lines.

To qualify as a safe depository for such commercial-cost money, a microfinance institution should be profitable enough not only to cover the costs today, but also to pay the full commercial costs of the money its license will allow it to leverage, in addition to generating a surplus to fund growth and perhaps give a return sufficient to attract high-quality investors. Except very few organizations, most of the microfinance institutions are not able to fulfill the requirements to be licensed microfinance institutions. Therefore it is needed to look for a new window that will be suitable for microfinance organizations. This is however also important in order to justify the organizations before licensing i.e. to check whether that organization is able to sustain the operation of microfinance or not. If not then the depositors will be ultimately in high risk. So there are no other alternative except licensing the microfinance organization. But it should be adjustable for the microfinance organizations.

Secondly, since it is very difficult by financial bank or other regulatory board to supervise microfinance institutions, it is needed to look for some other organizations who can keep prudential eyes on the activities and its financial soundness. Some literature has

suggested that some microfinance organization can be promoted as a commercial bank within the existing structure of the country for example BRAC bank in Bangladesh. They are the second largest micro credit delivering NGO in Bangladesh after Grameen Bank but they have been running their program within the financial structure in Bangladesh. Another possibility is to make a coalition with a licensed organization. Microfinance institute can reach the target clients by joining with a licensed organization. Ghana, Mali, Madagascar and the Philippine have such microfinance institutions (Christen and Rosenberg: 2000). Finally PKSF in Bangladesh can be a very good example. This organization is an umbrella organization for monitoring and providing loan to small NGOs to operate microfinance activities. They have built a certain rules and regulations to be eligible to operate microfinance program. The microfinance institutions have to fulfill the requirements not only to start microfinance program but also to get loan and other facilities from that umbrella organization. So depending on the situation in different countries, as Christen and Rosenberg (2000) said, the banking regulation may have to be adjusted slightly to permit microfinance organizations to operate microfinance program more efficiently and more effectively.

## **2.9 National Microfinance Policy in Tanzania**

The government of Tanzania initiated financial sector reform in 1991 in order to create an effective and efficient financial system in the country. The principal reform included; liberalization of interest rates, strengthening the Bank of Tanzania's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing entry of private banks (both local and foreign). Most of the agendas of these reform has been implemented since 1991 and has got a remarkable positive impact on the financial sectors in the country (URT; 2000).

The financial sector reform in 1991 emphasizes the importance of microfinance for the country's economic development. They have mainly admitted the necessity of micro credit and saving services for the majority of Tanzanians whose incomes are very low and have little access to financial banks services. According to the national microfinance policy, 'microcredit service can offer the possibility of managing scare household and enterprise resources more efficiently and saving services can protect them from various risk and the time of low income period like rainy season. However they have also stated that 'though micro finance programs have been exists but due to a number of factors they are still weak and slow in development comparing with other financial banking services.' The main reasons they have focused are;

- Interest rates are not set by the organizations/programs/schemes themselves. In most cases they are set at levels that are too low to cover operational costs
- Most of the organizations are donor dependent instead of building their own capacity
- NGOs and other microfinance schemes operate under different laws which render it difficult to monitor them and develop common standards.

Following the lacking national micro finance policy in Tanzania set a certain objectives to improve the quality of microfinance services. Among them, the most focusing objectives are as such;

- Establishing a framework within which microfinance operations will be developed
- Laying out the principles that will guide operations of the system
- Describing the roles of the implementing agencies and the tools to be applied to facilitate development

To carry out those principles national microfinance policy determined to widespread microfinance and other financial services throughout the country. Among the financial services, policy will ensure that microfinance is an integral part of the financial services exists in the market. And no special features are compromised for microfinance operations. However they can use different methodologies to adapt in any particular market. And as a whole microfinance program will be sustainable enough so that they don't need to rely on donor agencies or subsidized by the government. It is also perceived that credit and such services to the poor clients need to be delivered effectively, efficiently and sustainably. Variety of techniques can be used for best practices. Otherwise it is difficult to sustain microfinance operation. Keeping this in mind, national microfinance policy in Tanzania under the reform in 1991 has given the freedom to the microfinance institutions itself to set the price and interest rate instead of government or donor agencies because microfinance institutions is the only institutions that has full knowledge of its costs, market situation and its own business strategy. However though national microfinance policy has given the authority to those institutions to set their price and interest rate for the services, they have emphasizes some criteria to be followed according to the financial regulations applied for other financial institutions. These rules and regulations are applied to save the depositors and at the same time for the organizations as well so that they can control delinquency and such other harm to sustain the operations. Best practices include maintenance and active use of accurate, up-to-date information on portfolio status, delinquency management that involves prompt and active follow-up with delinquent clients. Microfinance policy also emphasizes that delinquency and loan loss should not at a level that can threaten the viability of the operation. For that microfinance institutions have to produce clear picture about the organization, outreach

of the clients, profitability and portfolio quality. National Micro finance policy also determined that microfinance institutions will maintain gender equity so that both men and women receive their services equally. After all, they have to maintain good governance in the administrative level and in the operational level.

For the policy implementation different organizations within the government of Tanzania have been playing different roles. The supervisory authority has developed a framework to regulate and supervise microfinance institutions operations. The main concern is those organizations that not only give micro credit but also take deposits from the clients because it is perceived that very small institutions like who only give small credit cannot be regulated as it will be very expensive. The loan microfinance institutions provide to their clients is comparatively insecure in a manner because they don't receive any security for the loan. Therefore it is always riskier than other financial organizations. Therefore national microfinance policy in Tanzania developed specialized regulations and methods of supervision to allow such lending to take place. And these regulations focus on overall portfolio risk rather than on legal security for each loan. The regulatory board also emphasizes the standards of performance. The standard is measured by the outreach of clients, institutional development and financial performance. Finally, it is found that most of the microfinance organizations in Tanzania operating their program in small scale. Therefore it is needed to improve their capacity building so that they can operate with large outreach, quality services and profitable operations.

The government of Tanzania, Ministry of Finance and the Bank of Tanzania are the key organizations that play a vital role to implement the national micro finance policy in the country. The government of Tanzania plays the major role. To create a supportive macroeconomic setting and a regulatory environment that allows sound financial institutions, then government of Tanzania has been working to keep inflation low, developing rural infrastructure and allowing the financial institutions free to set their interest rate. The government has also realized that political involvement either by the government itself or by the other political parties brings a negative impact on its productivity. Therefore the government has let them operate their operation free from political involvement. The government also encourages and guide donors to support microfinance institutions in building their internal capacity. Ministry of finance is responsible for all financial matters of Tanzania. Therefore ministry of finance keeps an eye to all financial activities and make sure that all institutions like microfinance programs are consistent with the policy statement and best practices. After all, the government of Tanzania will leave microfinance institutions to take its own choices about its product development, delivery methodology, loan terms and pricing, geographic location and target clients. The bank of Tanzania within the national microfinance policy will have overall responsibility to coordinate the implementation of the micro-finance policy. It will collect and disseminate relevant information, monitor the progress,



examine key technical issues relevant to service providers, and advice other governments departments on the appropriate structures for their efforts in supporting micro-finance. Finally, national micro finance policy make micro finance institutions free to develop microfinance services on the basis of their own internal objectives, whether profit, poverty alleviation, self-help or other motivations.

### **2.10 Is micro credit good? – The dark side of microfinance**

The recent world has been focusing micro finance as a panacea for poverty reduction or eradication. However there is a dark side behind it is unrevealed. According to Hulme (2000), outside of Bangladesh it has not even scratched the surface of poverty. Micro finance institutions use to offer credit and saving services. However their saving services are used as collateral for the loan and in most cases the poor did not get any interest on the savings but they have to pay high interest on the loan they receive. Microfinance institutions use the deposits for further loan disbursement to the poor. Therefore all the way microfinance institutions are benefiting more than the poor.

Microfinance institutions always use to focus and try to prove that poor have the ability to repay the loans because they have skills to make profit from the businesses. However they never show the reverse side of businesses. All businesses do not make remarkable profit. Besides this many factors contributed to make the business unstable and less profitable. In most cases poor use to do same kind of businesses because of the limited money does not allow them to make choices. Since most of them do their businesses in the same market area, they get low return from their businesses. Uncontrolled factors like sickness, flood, drought, theft and so on fall the poor in big trouble to repay the loan. Though microfinance institutions claim that they give training for their clients but it is hardly found they any micro credit clients get any training from the organization. Therefore lack of skills and knowledge, and sometime wrong decisions about starting a new business trapped them into business loss and further financial trouble. After all, the poor receive very less amount of money to start a business. Therefore if they face any mentioned or other trouble, they become failed to repay the loan. In such situation microfinance institutions do not give any special consideration. Rather they force to repay the loan by any means. Therefore poor has to sale their little assets they belong to or take loan from other borrowers. In this way they fall is further debt cycle. In most cases they can't get out from the poverty cycle because there is almost no small businesses can give dramatic profits.

Microfinance institutions claim that they provide their services to the poorest of the poor people. However there is no evidence that prove they are providing loans to the poorest of the poor. Rather it is found that many micro credit clients are non poor (Hulme ; 2000). It is logical that if the institutes want to sustain its business, it can't give loan to those who are unable to repay in time. However, when microfinance organizations have

been receiving donors' assistance to run the program, it should be clear whether they are providing their services to the poorest of the poor or better off and non poor. And they are working for poverty reduction or as a profitable business.

Interest rate on micro loan is the most discussed issues in micro finance research. Interest rate on micro loan is couple of times bigger than the normal bank loan interest. Microfinance organizations claim that, if the poor work hard and use the money for business purposes they can make profit and repay the loan. Though in some cases it is found that business run well and they are repaying the loan, in many cases it is also found that the clients failed to repay for various reasons. Slow business, unavoidable situations like flood, drought, death, sickness and such other situation force them to exploit the loan money and ultimately the business goes down for the lack of capital. In such situation, to repay the loan, they go to some other borrowers and take further loan. In most cases the poor never can get out from the debt cycle. In many research it is found that in such situation led those helpless clients to commit suicide.

Finally it can be said that an effective micro finance institutions has a great impact on poverty reduction if they truly work for poverty reduction. However now a days in many cases it is found that micro finance institutions have been working as a profitable business rather than working for poverty reduction. The government and the donor agencies need to keep a prudent eye on the micro finance organizations whether they are working for their own interest or to reduce poverty.

## **Chapter Three**

### **Methodology of the Research**

#### **3.0 Introduction**

“Social research is normally about ‘problems’ – which are themselves socially defined” (Mann 1985; 13). In other word “social research is a systematic and organized effort to investigate a specific problem that needs a solution” (Wolff K H and Pant R P; 1999). This process of investigation involves a series of well-thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Therefore social research and methodology to identify the problems vary upon the nature and social phenomenon of the problems. Punch (2005; 239) has identified six factors to be considered for taking decision which method should be applied for a specific research. First one is research question. According to him research question can guide the method or method can guide research question. Research question and method should have interaction to find out what exactly they want. Second one is the way of research. Is the researcher interested on systematic statistical research or want to study phenomenon or situation in detail? Third factor is availability and guidance of literature. Fourth one is practicality of carried out research i.e. access to situation, budget, cooperation and so on. Fifth is output of the research and last one is style researcher prefer.

The factors mentioned above have been seriously considered in this research. The main research question in this study is ‘does micro credit reduce poverty or a cycle of debt?’ This research focuses on urban poverty. Poverty is a vast concept and especially urban poverty in many cases is more diverse than rural poverty. For that reason this study needs an analytical interpretation rather than systematic statistical data collection because it is conceivable that statistical data cannot provide exact information concerning research questions and objectives. Therefore this research has carried out a case study in Dar es Salaam, a rapidly growing city in Tanzania. That is the primary source of data for this study. The city of Dar es Salaam was chosen for the case study because of the availability of data and easy access to the environment. Therefore qualitative method has been applied for this study. It is imperative to mention that a large amount of information was

collected through secondary sources as well. The following chapter will describe selection process of research method and techniques of data collection.

### **3.1 Selection of Research Methods**

The debate of micro finance is a leading issue in development discourse. Microfinance exists as a dilemma in development. Because it is proved that micro finance is essential for poverty reduction but research has found that the way micro finance services are delivered to the poor throwing them in a cycle of debt instead of get rid of poverty. Literature review shows that some leading scholars discovered the disadvantages and dark side of micro finance. Every development initiative has some negative impact. But its success or popularity depends on what extent it is useful for the target group. Therefore research on micro finance program needs a clear explanation keeping social and cultural context in mind. Qualitative research ‘explores attitudes, behavior and experiences’ that facilitate the researcher to get an in-depth opinion from the respondents (Dawson 2002; 14). Therefore this study mostly followed qualitative method to carry out this research. Punch has described qualitative method in details. According to him,

*“The qualitative approach deals more with cases. It is sensitive to context and process, to lived experience and to local grounded-ness, and the researcher tries to get closer to what is being studied. It aims for in-depth and holistic understanding, in order to do justice to the complexity of social life. Samples are usually small, and its sampling is guided by theoretical rather than probabilistic considerations. Prestructuring of design and data is less common, and its methods are less formalized than those in the quantitative approach. They are also more multidimensional, more diverse and less replicable. It therefore has greater flexibility (Punch 2005; 238)”*

This research is empirical in nature. A case has been studied in study area that is described on the following text. Therefore primary data is the main source for this research. However secondary data has also been collected for theoretical clarification. Marshall and Rossman (1989; 35) said that *“literature review refines and redefines the research questions and related tentative hypotheses by embedding those question in large empirical tradition.”* Books, journals, government reports, scientific journal, articles,

research documents and world wide web has been used for analyzing key concepts like microfinance, poverty, social capital and so on. It is also used for preparing research proposal and background information of case study area.

### **3.1.0 Case Study Method**

Micro finance emerged in Bangladesh in the 1980s. With its success, it has spread in many developing and developed countries as well. Success rate of microfinance is not same in every country. Keeping this idea in mind, this study demands an empirical case study<sup>2</sup> of qualitative method because one of the major strength of case study data collection is the opportunity to use many different source of evidence (Yin 1994; 91). The researcher has selected a micro finance NGO in the study area, Dar es Salaam, Tanzania. The name of the micro finance NGO is Youth Self Employment Foundation (YOSEFO). This NGO has launched microfinance programs among three districts in the region of Dar es Salaam in the beginning of 90s. Using different data collection technique, the researcher collected data from all of the three district micro credit clients of YOSEFO, officials and other related sources.

The logic behind selecting case study method for this research is enormous. In most developing countries access to financial sector is very hard for poorest of the poor people. Consequently very often they use their households for basic and sudden needs. Such situations throw them into more poverty circle. Micro finance organization facilitates poor people with micro loan to overcome the situation by self employment or entrepreneurship. This study aims to find out to what extent it is effective for the poor in urban area in Tanzania. For a deeper understanding of poor people's situation and study area as whole case study method seems to the researcher indispensable for this study. Punch (2005; 144) said that case study in qualitative research understand the case in

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<sup>2</sup> In qualitative research, case study is a method in which one or a small number (Punch; 2005) of cases has been studied using different techniques (Goode and Hatt in Punch; 2005) to collect data in details within a complex social context. According to Miles and Huberman (1994) cited by Punch (2005; 144), a case can be defined as a phenomena of some sort occurring in a bounded context. Therefore it can be an individual or a small group to an organization or even a nation.

depth, and in its natural setting, recognizing its complexity and its context. It also has a holistic focus, aiming to preserve and understand the wholeness and unity of the case.

The case study often faces criticism of generalizability. This case study is intrinsic<sup>3</sup> in nature. Therefore this study does not aim to generalize, but rather to understand the case in its complexity and its entirety, as well as in its context (Punch 2005; 146). Punch argue that properly conducted case studies can make valuable contribution especially in situation where our knowledge is shallow, fragmentary, incomplete or nonexistent in three main ways. First one is what we can learn from the study of a particular case, in its own right. The case being studied might be unusual, unique or not yet understood, so that building an in-depth understanding of the case is valuable. This might cover all of the three types of case study<sup>4</sup> described by Stake. Second, only the in-depth case study can provide understanding of the important aspect of a new or persistently problematic research area. This is particularly true when complex social behavior is involved. Third, the case study can make an important contribution in combination with other research approaches (Punch 2005; 148)

### **3.2 Data collection Technique**

Data was collected following the research questions and overall objectives. Interview, focus group discussion are the main techniques to collect data. However some other techniques for instance informal discussion, participant observation techniques was also used in different situation. Those techniques are described briefly below.

#### **Interview**

In qualitative research, the interview is recognized as a main way of data collection. According to Mann (1985; 107), interview is basically a form of human interaction and may range from the most informal chat to the most carefully pre-coded and carefully

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<sup>3</sup> The intrinsic case study, where the study is undertaken because the researcher wants a better understanding of this particular case (Punch 2005;144 cited from Stake; 1994)

<sup>4</sup> Stake (1994) distinguishes three main types of case study. 1) The intrinsic case study, where the study is undertaken because the researcher wants a better understanding of this particular case. 2) The instrumental case study, where a particular case is examined to give insight into an issue, or to refine a theory. 3) The collective case study, where the instrumental case study is extended to cover several cases, to learn more about the phenomenon, population or general condition.

systematized set of questions and answers laid out on an interview schedule. For a better understanding of a situation, social context, personal interview make valuable contribution. Punch (2005; 168) said interview as a good way of accessing people's perception, meanings, definitions of situations and constructions of reality.

For qualitative research different types of interview methods are used for data collection. Dawson has emphasized three main categories of interview. They are 1) Unstructured 2) Semi-structured and 3) Structured. Patton (1980), Minichiello et al. (1990), Fielding (1996b) all of them describe almost same type of interview in different name. (Punch; 2004)

These three categories of interview techniques are identified below describing its merits and demerits briefly.

### **Unstructured Interview**

Unstructured interview is also recognized as in-depth interview or life history interview. In this type of interview, the researcher attempts to achieve a holistic understanding of interviewees' point of view or situation (Dawson 2002; 27). The interviewer ask very little question and allow the interviewees to speak freely what s/he think important. Therefore it is said that this kind of interview is easiest among others. However, in-depth interview is sometimes difficult if the interviewer produce huge unnecessary information and that make the researcher unable to analyze them. Besides a successful interview depends on the interviewer skill to find out authentic insight (Silverman 1993; 91) and exploratory information (Mann; 1985)

### **Semi-structured interview**

Semi structured interview is considered as the most used and common type of interview in qualitative research. In this kind of interview, the researcher determines to know some specific information which can be compared and contrasted with other interview information (Dawson 2002; 28). In this regard, interview question should be same for all interviews. However, the interview can be flexible for further valuable information.

## **Structured interview**

Structured interview often used for market research (Dawson 2002; 29). This type of research used mostly for quantitative research (Punch; 2005, Dawson 2002). This type of interview produces a well structured questioner that determines short answer for example yes or no type. Therefore bringing out of detail information from the interviewer is quite hard.

Different types of interview have different strength and weaknesses. Therefore interview type should be selected aligned with the strategy, purposes and research questions (Punch 2005; 170). I have therefore used semi-structured interview technique for collecting data from the field. Because semi structured interview facilitate a set of structured questioners to facilitate an in-depth interview. It is also important to mention that, the interview was mostly open-ended as it is a usual nature of case study method (Yin 1994; 84). Interviewers are facilitated to express their opinion from their point of view. In-depth or unstructured interview technique was applied for interviewing micro credit officials and other participants because expected information was different from one group to another. For the micro loan holders, most of the questions were their income, livelihood, advantages and disadvantages of loan, and such related information based while micro credit officials were asked about performance of the credit program, their personal view, and future of this program and so on. The interview questioners are attached in appendix 1. Interview of both group and findings are discussed widely in data collection and analysis chapter.

## **Focus Group Discussion:**

Focus group also called discussion group or group interview where a number of people come together in a group to discuss a certain issue. The discussion is led by a moderator or facilitator who introduces the topic, asks specific questions, controls digressions and stop break-away conversations (Dawson 2002; 30). Morgan (1988; 12) pointed out that, “the hallmark of focus groups is the explicit use of the group interaction to produce data and insights that would be less accessible without the interaction found in a group” cited by Punch (2005; 171). The advantages of focus group discussion are that, they are



inexpensive, data-rich, flexible, stimulating, recall-aiding, cumulative and elaborative. However group culture and dynamics, balance in the group is crucial to bring out necessary information (Fontana and Frey, 1994 in Punch 2005; 171).

The researcher had the advantage of an internee in the case study NGO. Therefore it became easier to conduct focus group discussion. Micro credit clients are obliged to attend group meeting once in a week, a particular day. Forty clients consist a community where five members make individual group. The case study NGO has ten communities within three districts in Dar es Salaam region. He attended all communities in different days and discussed with them with the help of micro credit officer as an interpreter.

For this study it was necessary to obtain collective opinion about micro finance, its impact on their livelihood, challenges, attitude of micro credit officers and so on. Though same type of but precise and specific questions were asked in individual interview session but focus group discussion highlighted and produced more information. Focus group discussion therefore became supportive information for analyzing data collected from interview for this research because focus group discussion was applied to same category of participants in the same area.

### **3.3 Selection of study area**

Dar es Salaam is the largest and fastest growing city in Tanzania. This busy port city is the country's commercial and administrative centre. It is also one of the twenty one administrative of Tanzanian mainland. The region is divided into three municipals. They are Temeke, Kinondoni and Ilala. It also has a total of 10 divisions, 73 wards, and 103 villages. The region has a total area of 1,393 square km of which 448 square km are urban settlements. Dar es Salaam is bordered by the costal line stretch of 124 km of the Indian Ocean water mass to the east and by coast region to the South West and North.

In the 1988 census indicate a total population of 1,360,790 people at annual growth rate of 4.3 percent. Since 90s many people migrated from rural area to Dar es Salaam searching for jobs. 2002 population and housing census demonstrated that increased population scenario. In 2002 Dar es Salaam population was 2,487,288. Table below shows the 2002 census of National Population and Housing Department.

Table: Geographical Summary of the Dar es Salaam Region

District	Area (sq/km )	Area (%)	Population Males (2002)	Population Females (2002)	Total Population (2002)	Divisions	Wards	Villages
Kinondoni	531	38	547,081	536,832	1,083,913	4	27	14
Ilala	210	15	320,408	314,516	634,924	3	22	27
Temeke	652	47	387,364	381,087	768,451	3	24	62

Source: Regional reports (2003), 2002 National Population and Housing Census report.

Dar es Salaam plays major economic role in the country as it is the administrative, financial and transportation hub of the country and centre for agricultural processing and manufacturing. People are engaged in varieties of profession; industry, trade, agriculture, livestock keeping, fishing, transport etc. A substantial number of traders in the region operate informal businesses i.e. micro and small business such as food vending, carpentry, shoe making, tailoring, hairdressing, small shops etc. (Fraser & Kazi 2004; 6-7)

Dar es Salaam is the most attractive city for the country side poor for seeking job and better life. Huge migration proved the trend. Therefore it is obvious for migrated people as well as for the government to manage the situation and challenges. Migrated and existing people as well have to face lots of challenges for surviving. Therefore for this current study Dar es Salaam has been selected as the best place for doing the research. Other favorable factor for the researcher was communication, safety, data availability and accessibility to the information.

### 3.4 Selection of Respondents

Mainly two categories of respondents were selected from the study area for collecting their views on microfinance and poverty reduction and related issues. The main categories of respondent are the beneficiaries of micro credit. They are the basically highlighted group in this study as the research concern their livelihood and impact of micro finance in their deprived circumstances. The second group of people were micro credit officers dealing with micro loan in the field. They are selected to get information about organizational performance, sustainability of the organization, attitudes concerning clients and organization as well and such related issues. Besides these two groups, some other individual situation was also included as data collection technique for example discussing with fellow university students at the University of Dar es Salaam, some development NGO officials, etc. The table below shows the participants list and status:

#### Categories and Number of Respondents

Category of Respondents	Total Number
Micro Credit Clients	34
Micro Credit Officers	15
University Students	7
Other NGO Officials	3
Total Respondents	59

#### Selection process of sample size

According to Dawson (2002; 47), if the sample is chosen carefully, it is then possible to generalize whole of the research population. Respondents were selected from ten communities in the study area for generalizing the population. As an intern in the case study organization, I visited the field often with micro credit officers. Sometimes the manager of that organization accompanied me to visit my intended community if his

schedule allowed him. I used to visit different community in different days and select up to 4 respondents each day depending on the length of interview time from each community. Thus it made me possible to collect data from all over the study area. Besides this, I found that micro credit clients are not gender based as it is in Bangladesh (94 percent micro credit clients are female as mentioned in literature review). Therefore I selected both of the sex group though partially female were prioritized because proportion of female clients are more than male clients. Therefore it can be said that by nature sampling was a combination of purposive and probability sampling<sup>5</sup>. Second group of respondents (micro credit officers) were interviewed during my stay as an intern to that organization. It was more than three months. I used to discuss with microfinance officials whenever some data related questions arose in my mind. I had got a chance to enroll in the University of Dar es Salaam under the faculty of Development studies. I took a course that was development issue related. I selected some fellow students for interviewing who were interested on microfinance issues. Besides this I knew that they have some experience or somehow well known about microfinance. I met an Executive Secretary of one Umbrella organization in Tanzania name Tanzanian Council for Social Development (TACOSODE) in Helsinki. I selected her as an interviewee because I found that she has in-depth knowledge about micro finance. She had also facilitated me with many microfinance related books and research papers.

### **3.5 Time table of the field study:**

As a student of Masters in Development and International Cooperation, Internship was a compulsory part of the degree. Since I am writing my thesis on ‘microfinance and poverty reduction in Tanzania’ and Dar es Salaam was selected as my case study area, I did my internship in a microfinance organization in Dar es Salaam, Tanzania. The organization gave me their operating manual to update and make changes if needed. I therefore had a great chance to gather in-depth knowledge about their full operational motives of microfinance programs. I have stayed there over three months. I have

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<sup>5</sup> In probability samples, anyone within the research population can be selected. These types of sample are used if the researcher wishes to explain, predict or generalize to the whole research population (Dawson 2002; 48). Purposive sampling means sampling in a deliberate way, with some purpose or focus in mind (Punch 2005;187)

collected my data until I depart from Tanzania. I had a great flexibility to work upon my own research as it was also related to the organizational task I was given. The table below shows the detail schedule of my data collection.

### Time Framework for Field Study

Serial Number	Techniques used for data collection	Period	Location	Respondent
1	General observation	September 2-20	Case study NGO, University of Dar es Salaam and residential areas	Micro credit officer of case study NGO, fellow students
2	Unstructured/ In-depth Interview	September 5-4 December	Case study NGO, another NGO(TACOSODE) and University of Dar es Salaam in Dar es Salaam	Micro credit officer of case study NGO, Director and Accountant and another colleague of TACOSODE and fellow student
3	Semi-structured interview	October 1-30 November	Ten communities among three district in Dar es Salaam	Micro credit clients from three district of Dar es Salaam
4	Focus group discussion	September 2-30 November	Ten communities among three district in Dar es Salaam	Micro credit clients as group of 20 to 40 clients
5	Visiting	September	University library,	Micro credit

	Libraries and other NGOs	2-30 November	NGO's library	officer of case study NGO, fellow students
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## Chapter Four

### Data Analysis and Research Findings

#### 4.0 Introduction:

The main purpose of data analysis is to change it from an unprocessed form to an understandable presentation (Wolff and Pant 1999; 127). This study is qualitative in nature. Qualitative data is often collected using different techniques depending on the nature of research. For this study case study method was employed as the main technique using semi-structured interview, focus group discussion and general observation. Qualitative research is descriptive in nature. This study also demands a description and interpretation of situations of the respondents in the study area. Therefore Miles and Huberman's coding and memoing technique is followed to analysis the data (Punch; 2005). Finally it will produce research findings and conclusion.

#### 4.1.0 Basic profile of key respondents

##### 4.1.1 Interview Respondents

Respondents	Male	Female	Total
Micro credit recipients	9	25	34
Micro Credit Officials	6	9	15
University Students	7	0	7
Other NGO Officials	2	1	3
Total	24	35	59

This research is carried out to find out how micro finance affecting micro credit recipients income situation to get rid of poverty. Therefore micro credit recipients are the

most highlighted and key respondents in this research. All 34 micro credit recipients from all of the three district of Dar es Salaam were interviewed using a semi-structured questionnaire. The researcher was doing his internship in the same study organization. Therefore he was privileged to collect microcredit recipient’s personal credit history beforehand. Therefore he selected interviewees with conscious mind. For example he selected more female micro finance clients than male because in average female are the most credit recipients. The researcher also categorized the clients depending on their membership age and loan performance. The researcher found the rationality of selection process during the interview. He found that comments and views about micro finance is different from different categories of clients. 15 Micro credit officers were interviewed as they are related in different ways with micro credit clients and organization as well. Seven students and three NGO officials were interviewed using the unstructured interview method. Last two groups were interviewed to flourish and authenticate the data concerning microfinance and poverty issues rather than collecting their basic information for instance age, marital status and so on.

#### 4.1.2 Age Group

Respondents		20-30	31-40	41-50	51-
Micro credit clients	Male	0	5	3	1
	Female	3	14	4	4

Age group is divided into four categories. 31-40 age groups are counted as middle age. According to data most of the micro credit clients are middle age group. Therefore it is perceived that most of the micro credit clients are middle aged. It is however imperative to mention that though according to the micro finance regulation, micro credit client’s age should be between 18 to 50 years, I have found 5 clients among 34 are over 50 year ages. Two of them are over sixty years old.



### 4.1.3 Marital Status

Respondents		Single	Married	Divorced	Widow	Single Mother
Micro credit clients	Male	1	8			
	Female		22	1	2	

Among 34 clients only one is still single. 30 clients are married. One is unmarried and two are divorced. This statistics demonstrates that most of the credit recipients are belongs to a family. And it is assumable that for the family concern they get credit to take some initiative for the family.

### 4.1.4 Educational Background

Respondents		Did not attend school	Up to primary 1-7 years	Up to high school viii-xii	College/University
Micro credit clients	Male	1	8		
	Female		22	1	2
Credit officials					15
Students					7
Others					3

Education can allow someone to be self conscious, self confident and understanding of financial transactions. The researcher has realized that this is very essential for the micro

credit clients to understand calculation of money. If they don't understand calculating, they might not realize whether they are benefiting from micro finance or not. Therefore data concerning respondent's educational background was collected. Among 34 micro credit clients only one did not go to school. Thirty clients have up to primary level education and one attended up to high school. Two of them have college degree. Every other group of respondents has university degree.

#### 4.1.5 Profession

Respondents		Wage labor	Petty business	Grosser	Entrepreneur	others
Micro credit clients	Male		2	2	5	
	Female		5	3	17	

Description about their profession is a bit critical in a sense that most of them have small businesses. The definition of entrepreneurship is different by scholars as the two Nobel laureate mentioned in their Nobel lecture (cited by Katz; 2007) According to Mr. Phelps entrepreneur definition, entrepreneurship is market oriented using technological advancements. On the other hand Yunus's entrepreneurship is market based but without using technology. (See details in literature review). I have selected those respondents as entrepreneur who are better off and own larger business than petty business.

#### 4.1.6 Family members

Family members		None	one	two	three	four	five	six	More
Micro credit recipients	Male	1		2	1	2	2	1	
	Female	0	2	5	6	4	3	4	

Members in a family are an important issue in this research. Incomes and expenditures of a family depend on the numbers of members in a family. If a large family belongs one earner then it is difficult to survive. In this situation how credit recipients manage the family with her little income is an important finding for this research. Categorizing family members is bit difficult here because except none or 1 child, all groups are almost same. However it can be said that most of the micro credit clients have more than one child. In average they have 3-4 children. In most cases it is found that interview respondents have been sending their children in school. Though this is a good sign for development, it is a financial pressure for the family as well. The respondents use to complain that they have to spend a big portion of their income to send their children to school. Some interviewee admitted that they could not send their children to school due to financial problem. The children are helping their businesses instead of going to school.

**4.1.7 Micro credit recipients’ daily income (in Euro):**

Daily income	Before loan		After loan	
	Male	Female	Male	Female
Less than 1 Euro	4	13	0	1
1-5 Euro	4	10	3	16
6-10 Euro	1	2	3	7
11-more Euro	0	0	3	1

Income information is one of the vital data for this research. However, while interviewing the researcher has realized that micro credit recipient clients are not good enough in counting. In the beginning the researcher asked them about their monthly income. He found that most of them can’t count properly. Therefore later the researcher asked them about their daily income. Here in first couple of interviews he found that their answer about their income is confusing because there were big differences between and among

same kind of business holders. The researcher realized the reason later that some of them told their net profit and some of them told about their daily sell. Therefore the researcher chose only net profit as daily income. The researcher asked them two questions about their income. One is before getting the loan how much they could earn and second after getting the loan how much they earn now. As the table demonstrates, there is a big income differences before and after loan. Before getting credit, within 34 credit recipients, 17 of them had less than one euro income while after getting loan only one of them has same situation. The rest have improved their income to 1-5 euro or further higher income. 14 clients were 1-5 euro income group before loan and after getting loan almost all of them increased their income to 6-10 euro or further. Before loan only 4 clients had 6-10 euro income while getting loan they improved to 11-15 euro income. It is also important to mention that though the income seems higher compared to poor economy, the expenditure is also very high due to high inflation and other related factors. Therefore it can be said that the indicator of one dollar per day does not categories the poverty situation in Tanzania. The researcher found that those respondents who earn around five euro per day and the family members are two- three, they can manage to survive with basic needs. If a family is bigger like five members, they need to earn around ten euro to meet the family's daily expenditure.

#### 4.1.8 Ownership of Land

Landless	8
Less than 1 acre	11
1-2 Acre	8
3-4 Acre	2
5-6 Acre	0
7-more	3
Total	34

In many countries owning a piece of land is very demanding. If the land is fertile to produce crops, it is very useful. Besides this, if someone owns a piece of land in the market areas, he can be benefitted a lot by renting or beginning some small businesses. Therefore the researcher tried to find out the respondents land ownership situation. However in Tanzanian case the researcher found that though the respondents own some lands, it has been giving very little output. Couple of respondents own big size of lands but it is almost useless. Due to infertility the land has almost no productive value. Besides this draught and flood is a common threat for producing crops. Eight respondents among 34 stated that they are landless. However three of them said that they have land in country side but they are not benefiting from that land since they are not there. Only two clients among 34 said that they produce nuts. It is also important to mention that among all clients only four own one and two rooms or small houses.

#### **4.1.9 Institutional Training received**

Respondents	Public	Private	No training
Male	2	4	5
Female	3	10	12

Many microfinance institutions demand that they provide training for their clients. The credit recipient respondents were asked whether they receive any training either from government or from any private organization. Among 9 male clients, two had received public training. One of them was working in a hospital. Therefore he got professional training for his job. Five members got private training from different NGOs or civil society organizations. Among 25 female respondents, only 13 respondents got some training from public and private organization. Two clients who got public training were working as nurse. Therefore they got nursing training from hospital. But for the business they are doing now, had no effect from that training. Altogether 17 respondents among 34 did not receive any training to establish business or be an entrepreneur. The most

remarkable point here is no credit clients got any training from the organization the received credit for businesses.

#### **4.1.10 Micro credit for poverty reduction**

In contemporary development discourse micro credit has been discussed as a panacea for poverty reduction. However the researcher found in his literature review that there is lots of debate about its success. Therefore the researcher felt obligation to learn empirically from the respondent whether it is useful for poverty reduction or not. All of them admitted that micro credit is very useful for poverty reduction. The respondents were asked a follow-up question that how it is useful. They explained generally their miserable past life history and suffering for cash needed for various needs. According to them micro credit is a blessing for poor people. However when the researcher asked that if microfinance organization stop giving loan can they sustain their business? In most cases they said 'no'. Some of them explained that they could survive but the progress and expansion of business may decrease.

#### **4.1.11 School going**

Education acknowledged as the backbone of a nation. Most of the development researchers for example David Hulme (2000) emphasize an effective education system for poverty reduction. The poverty indicators also emphasize on children's schooling. Micro finance organizations demand that they are insisting credit clients to send their children to school. The researcher asked the respondents whether their children are attending school or not. Almost all of them said that their children are going to school. They admitted that micro credit enable them to expand their business and increase their income. Therefore they could send their children to school. They also explained that when they receive credit, they keep one proportion of that money to give their children's school fees, books and other purposes. According to them "though it harms the business growth, we have to send our children to school for their better future." Therefore it shows that micro credit clients are very conscious about their children. However few respondents said that they could not send their children to school due to unfavorable

business situation or lack of helping hand in the business. The children help them in their business instead of going to school.

#### **4.1.12 Earning member**

Literature and the researcher's personal experiences show that some micro credit clients loan repayment history are very good. They repay the loan in time. On the other hand some credit clients default many times even if the loan size and repayment system is same for both customers. The researcher found couple of reasons for these differences. One main reason is business situation. Some businesses run well and those customers able to repay the loan in time. If the business does not run well, they become defaulter. Other important reason is more than one earning members in the family. If there are more earning members in the family, they can get help from them when the business does not run well. This is the main reason the researcher asked the respondents about earning members in the family. Data shows that in general every family has more than one earner. Those credit recipients' loan repayment histories are good who have more than one earner in the family. They said that when they face problem to repay the loan installment, they get support from their husband or other earner. It is also found that most of the family is headed by male. Therefore female credit clients have less responsibility to expend money for family needs. It was also found that some women customer receive the money but her husband does business or expand his business using his wife's received credit. For the defaulter case it is found that they are the only earner in the family. Therefore it becomes harder to repay the loan after meeting family needs. It becomes crucial when the business does not run well.

#### **4.2 The use of micro credit**

This is one of the major finding in this study as it brings out the real picture of the use of micro credit. Within 34 credit recipient respondents, I did not find anyone who uses the credit solely for his or her business. They have varieties of household needs that are unavoidable. Therefore they use a certain amount of money for business and rest of the money they use for family needs like children school fees, medicine, foods and so on. Consequently they cannot establish a good business that may give a good profit. If the

credit recipients have running business, growth is hindered and sometimes crumbled due to the exploitation of this credit. Consequently they get private loan using social networks for repaying the installments. In general in such situation they get loan from neighbors or family earners and repay the loan to become qualified for further higher loan. Sometimes it makes the situation very crucial especially if they fail to make profit within expected level due to market failure or some other reasons. It was also found that some clients are member of more than one microfinance organization. Though it is forbidden to be a member of more than one organization, they hide that they are registered with other organization so as to qualify for loan. Therefore when they have financial problem and fail to pay, they receive loan from different organization and repay the loan. Consequently they can't stabilize their business rather depending on a loan cycle.

### **4.3 Interest rate**

Interest is the top and most discussed criticism against micro credit. However surprisingly I have seen that credit recipients are ignorant about interest rate. The researcher asked them how much interest they give for the loan. Surprisingly nobody could answer clearly how much the interest rate is. They only know how much and how many installment they have to pay. Microfinance organization gives a certain loan and they return it as installment system with a certain interest. The researcher further asked them that did the credit officer explain how much the interest rate is and how the installment should be paid. They could not answer it clearly. They said that *'probably s/he told something about it but when I receive money, I use to ask how much the weekly installment is. And it is also mentioned in the pass book (book keeping). So I just follow the pass book and return the money'*. Therefore it can be said that their attitude shows that they are forced to receive the money even if the interest rate is very high. It happens for many reasons. First of all they don't have any other alternative to get credit with less or without interest. Secondly they have many household needs that influence them to receive the credit as it is coming without any bureaucratic hassle. However they are not conscious about using and making profit from the credit.

The researcher asked the credit officers about this issue. They all claimed that *'we use to inform our clients about the interest rate. However since most of our clients are less*



*educated or illiterate, we explain how much they have to pay as installment*'. Here it is clear that most of the clients are not experts in calculation. Therefore they just ignore the interest rate and keep in mind the installments they have to pay. It was also found that the trend of credit recipients is just receiving the money rather than fix a goal to sustain their business. Therefore they are rotating in a debt cycle and depending more and more on microfinance organization.

#### **4.4 Loan size**

Amount of loan is a vital issue to establish or expand a business. According to the micro credit clients, the amount of loan they receive from the organization is very small. Especially in the beginning, microfinance organization use to give very small amount to check out the client's ability and willingness of repaying. However with such small amount they can't manage to start any business. Therefore they consume the money for their household needs in many cases. It was also found from empirical observation that microfinance organization is concern about it. Therefore they only provide their services to the take off poor rather than poorest of the poor because they believe that poorest of the poor cant return the loan and may consume the money for their basic needs. The researcher asked the credit recipient clients whether the amount of loan is enough for business or not. Most of the respondents said that the amount is not enough to make a significant change in their business. They further claimed that they have to repay a good amount of money as installment per week. Therefore it's very tough to expand business after paying installments and expenditures of daily life. Thus it is seen that though the flow of money as micro loan apparently helping the poor, it is rather throwing them into debt cycle instead of sustaining the business.

#### **4.5 Loan receiving and repayment history**

Micro credit clients are rotating in a loan cycle. Among 34 respondents I found all of them received loan more than once. The first loan is comparatively smaller. Therefore they repay the loan as shortest installment possible to get further higher loan. The loan amount increased gradually and depending on the record of individual performance. For

that reason credit recipients repay the loan by any means so that they qualify for higher loan.

*“I have different types of businesses. If one business fails and I can’t produce installment money, I get it from charcoal business. If I can’t manage from both, I do physical work and repay the installment.”*

Among 34 respondents 22 respondents were defaulter as to repay the loan. Most of them default more than once even 10 or more times. I asked them why and how. In general they said that due to fluctuation of business they become unable to repay the loan. Some of them said that due to sickness or taking care of sick members in family they failed to attend the meeting place where they repay the loan. Other reasons are social for instance funeral, traveling and other inconvenient situation. It is also mentionable that I found some clients hide information as they were defaulter. They thought I am a representative of the organization. I had access to the system in the organization where I could find the records of individual clients. Therefore I search those clients information from official database and found at least four clients lied as they were defaulter.

#### **4.6 Interests on savings**

Although it is one of the basic principal of microfinance organization to give a certain interest on clients’ savings, I found in the case study organization that they don’t give any interest on saving. In the operating manual of the case study organization it was mentioned that members of the organization will save a certain amount and they will get certain amount of interest. However in practical they are not getting any interest. I asked the respondents about it and they complained that though it was a promise but they are not implementing it. In my previous experiences from Bangladesh I have seen that micro credit clients get interest on their savings. However in Tanzania particularly in the case study organization I found that they do not apply this basic principle. I asked the credit officers concerning this issue. They could not make any logical answer. They said that this decision comes from upper level. And they claimed that interest on saving is not profitable for organization. Inflation is another reason. Some respondents said that keeping record for interest is also difficult and costly for the organization. For all factors

organization are reluctant to give interest on clients' savings. Thus here it proves the motives of microfinance organization. They are more profit oriented than assisting poor to be entrepreneur and sustainable in their business.

#### **4.7 Supports and needs**

I asked them about their needs concerning business and any support they expect from the organization. All respondents said that they need further support from the organization to expand their business. They claimed that the money they receive from the organization is not big enough for establishing or bringing a big change in the business thus they can earn good money. I found most of the clients who have small restaurant or beverage business, they don't have refrigerator. They said that if they can buy a refrigerator, it will bring a big change in their business. They further explained that since they cannot cool their drinks, the customer go to bigger shop that has refrigerator. Every client has this kind of needs for improving their business. Therefore it is assumable that micro loan can bring very little change in the Poor's livelihoods because they have varieties of needs. However if they can run a business properly they can sustain it and expand it.

#### **4.8 Weekly meetings and repayment system**

A question was asked about weekly meetings and weekly repayment system. I got mixed comments about weekly meeting. Some of them said it is good. Some of them said that, it is time consuming that is bad for business. Those who said in favor of weekly meeting claimed that weekly meetings are good in many ways. They explained that *'weekly meeting is good for maintain punctuality. Besides, if we meet regularly we can know market situation. And we can know about our group members as well'*. However some clients said that weekly meetings affect their business since the meeting last for few hours. Some clients have to come on foot from long distance. Even if they have transport, it takes same time due to traffic jam. Therefore almost full day they have to spend just for attending the weekly meeting. Consequently it harms their business. Some respondents said that he or she is the only person who can open the shop. If they attend the meeting, they have to keep the shop closed. One customer said that,

*“If I keep the shop closed, it harms many ways. It not only affects my income, I have to loose many customers as well. When customer find the shop closed, they buy from nearest shop. They usually start buying from that shop and don’t come back to me.”*

About weekly repayment I got mixed comments. Some said that weekly repayment is alright and some of them said monthly or half monthly is better. Those who said weekly repayment is good, explain that weekly repayment is good because it is easier to maintain installments.

*“If we want to repay after one month or more, we must fail to repay in due time because then the installment will be big money. And we have so many needs. I am sure I will spend my money for other purposes. It’s better to give small amount per week rather than giving big amount in once”*

However most respondents argue that half monthly or monthly repayment is good because then they can plan how they use the money. Otherwise they have to use the money for instant income that seems very difficult. Some respondents said when they receive loan they keep one part of that money just to pay next couple of weeks installment rather than using for business and profit.

*“When I receive loan, I run to make money. Sometimes I keep half of the money I received just for coming installment because it’s quite impossible to make profit instantly as you see I make furniture and I have to wait sometimes even few months for customer. When I can sell them I have good money in my hand but credit officer does not care about it and force me for repayment”*

#### **4.9 Group formation**

To be eligible for a loan micro finance members must form a group. Usually five members consists a group. Among 34 micro credit respondents eight said that they don’t like group method. They said that it is disturbing and for individual one the whole group has to suffer. Some of them said that it’s very common and often happen that someone or couple in a group are defaulter. And for them we have to suffer. For that reason I like to

be individual so that I can manage my situation. Other respondents who like group formation said that it is good because we can share information and we have common interest. Some of them said that the most important thing to form a group is trust and responsibility.

*“I am happy with my group. If you trust your group members, it will not be problematic. Then all members are responsible and repay regularly. Otherwise it is really problematic. Only for one, four other members have to suffer”*

#### **4.10 Microfinance and poverty reduction: Organizational perspective**

This study followed case study qualitative method. Therefore I have collected data from a microfinance organization namely ‘Youth Self Employment Foundation (YOSEFO)’ where I was appointed as an internee for Four months. This research concerns the role of microfinance organization for poverty reduction. Here I will focus on some relevant issues that concern organizational sustainability and its relevance or contradiction with its objective; poverty reduction reviewing the operating manual.

Microfinance program in YOSEFO is ‘based on the solidarity group model with savings and credit being the core activities. Other services offered are business, entrepreneurship and technical training’. However I have not seen any technical training supported by this organization for their clients during my stay with them. Besides this I asked the credit recipients who were respondents whether they receive any training for their business or not. Only 4/5 recipients answered that they receive some training from this organization.

According to the manual, micro credit members selected ‘must have’ small business and business premises. It is also restricted to support micro project by those following regulations -

- The projects will be on-going. Hence start-up projects where the borrower has no experience will not be funded,
- They will have demonstrated viability,
- The operator has the necessary skill to run and manage the project.
- Support will be in the form of working capital.

The above rules and regulation clearly demonstrated that poorest of the poor are totally excluded from being members of microfinance organization. Besides microfinance organizations are only providing loan to those who already have businesses but not for the beginner. Moreover, though the organization claim that they provide technical training, but I have not seen any technical training for the clients. Therefore it is crystal clear that microfinance organizations are more concern with commercial basis than helping the poor. It can be further claimed that it is more business and profit oriented than assist the poor and poorest of the poor to overcome from their poverty situation. To make the program formally 'sustainable' but in practical for profit they follow these principles with other principles-

- The rate of interest charged will be commercial,
- Beneficiaries of the scheme will meet part of the costs of the scheme

Though it mentioned 'part of cost' but it was observed that almost all costs are distributed to clients in different way, for example, when a member receive a loan s/he has to give certain amount as operating costs. Other examples are, clients have to give 20% of installment as penalty if they are late to pay an installment, they are fined if they come late to weekly meetings and such way that are often happen and sometimes unavoidable situation for the poor. The credit officers even neglect those unavoidable situations and make fine. In such situation, credit recipients feel helpless and they can't even protest since they are afraid about getting further loan. Therefore they always try to make the credit officer happy.

The rate of interest is quite higher than that in regular public and private banks. Normal interest rate in this organization is 30%. Loan starts with 50,000 Shillings up to 200,000 shillings. Loan installments for clients are flexible. According to the rule, first loan has to be repaid by 25 weeks. After then they can choose within how many installment they want to repay; three months, six months, nine months or a year but not more than year. The interest rate increases depending on the length of installment time they chose. Unfortunately it was observed that credit clients are not much conscious about interest

they give, rather they enjoy the cash they never received from any other financial institution before.

The members in this organization save sometimes voluntarily. A certain amount of money (25% of each loan they receive) they have to save to be eligible for a loan. Microfinance organization encourages them to save voluntarily as much as they can. I have found many credit recipients especially whose business run well save voluntarily. This trend of saving shows that poor people are becoming conscious about the importance of savings. This sounds a great contribution of microfinance organization for the poor people to become conscious and encouraged for savings. However this microfinance organization is not giving any interest on their savings which contradicts with basic microfinance principle. Therefore it can be said that all microfinance organizations' goals and objectives are not same. In many cases small institutions start financial business just for making profit in a shape of microfinance organization to get donation from aid organizations and loan from government. The study NGO receives a large amount of interest free loan from abroad.

According to the regulation, every client has to give a certain amount as insurance money. This insurance is useful for both organization and credit clients. If a client dies, insurance company will provide funeral costs and the clients' due installments. Thus microfinance organization does not get any loss. About failing to repay their policy is as mentioned below-

- *"If a borrower defaults on payment, the borrower is asked to explain the delay and reminded by word of mouth to repay the loan promptly.*
- *If the loan payment is overdue by two installments, the borrower is reminded by his/her solidarity group to repay the loan with a penalty of **20%** of the overdue amount. If the borrower cannot pay, then the solidarity group is asked to take the responsibility of paying the over-due amount and to ensure the defaulting borrower either resumes the weekly installments or repays the balance of the loan (including interest) in full.*

- *If a loan is over due by three installments, the CENTRE where the borrower belongs is asked to take the responsibility of pressing for the overdue loan installments with penalty.*
- *If the borrower defaults by four installments, the savings of the borrower will be taken to meet the loan repayment in full, and if it is not enough, the savings of the group will also be taken. Notice is given to the CENTRE to meet the loan repayments or else part of the savings of the CENTRE will be taken to meet the loan of the defaulting member.*
- *Capital assets purchased through credit will be repossessed.*
- *The borrower will be struck of the list, and borrowing by the group will be suspended until all over debts have been met.”*

These policies ensure the repayment. However these policies also reveal that for one or two defaulters the whole group has to suffer financially that seems inhuman. Many respondents also expressed their disappointment about group formation due to such frequent default situation of one or more group member.

After all discussion above it is clear that microfinance organizations are well structured in the sense that they ensure loan repayment by any means. Though apparently microfinance organizations don't take any collateral for loan, they do it by peer pressure and community pressure. Besides this, there is a rule that all members have to save 25% of their expected loan and maximum two members within the group can take loan at the same time. Therefore if we count mathematically it is seen that credit clients are receiving their own money. When a group member fails, other members have to take that defaulter's responsibility. If he fail totally then his savings money will meet the costs. If his saving is not enough to meet the costs, all group members' savings will be seized to repay the money. This way if a group fails then the whole community will be responsible. Therefore microfinance organization experience very little risk of repayment. It can be said that microfinance organizations are able to build their capacity to be sustainable. On the other hand, though poor people are led to a viable economic activity, they often become the losers and fall into debt circle. High interest rate and other costs received



from credit recipients making the organizations profitable and letting poor to be poorer that is apparently invisible since poor people are in a circle of debt but apparently they have cash for household needs. Rapid growth of microfinance organizations also proves the scenario. All of my experiences and observation never let me see a micro credit recipients become sustainable in his or her business or become able to get out of loan circle except being thrown by the organization treated as a defaulter.

#### **4.11 Microfinance and poverty reduction: Poor's perspective**

Surprisingly almost all respondents admit that microfinance is good. They express “it is a blessing for us”. Most of the credit recipients told their past life history of sufferings due to lack of capital. However though they feel their gratefulness to microfinance, they have lots of complain against it as well. Most of the complain regards loan size. They said that loan size is too small to run a business. Sometimes especially when business goes bad they feel helpless because though they can't earn money, they have to repay the loan. Therefore they have to ask loan from their family or neighbor. Otherwise they have to sell their household goods. They complain that sometimes credit officers are very rude and they seized their belongings to meet the loan. They are therefore thrown to the street. Such situations discourage them to be member of microfinance organization.

*“I was much better before getting the loan. I did not have any pressure. Though sometimes I had to struggle, but I was relaxed. Now every moment loan repayment pressure keeps my mind busy. Sometimes I feel tired. After paying this loan completely, I will withdraw my membership.”*

During my field visit I have seen that most of the credit recipients are running same kind of businesses. It happens due to their lack of business skill and as they have little scope of choice for other business due to limited amount of money. Consequently those businesses are not profitable and dependable as the only source of income.

Savings is the most important part both on the organizational and members side. Savings is ensuring repayment for the organization's side and helps the organization not face any financial threat for its sustainability. At the same time saving is helping the poor to save their household goods during crucial financial needy situation. Most clients said that

saving is very good. They can use this money when big occasion comes. Most of them said that it helps in the beginning of the year when we have to pay a big amount of money for school fees and some other occasions. Insurance money also helps them as the family doesn't need to spend funeral costs. All cost is borne by the insurance company. In a follow-up question about interest on savings and insurance most of the clients said that it would be more than their expectation.

As I mentioned earlier, they don't have a clear idea how much interest they pay for their loan. However, when I explained to them that they are paying more than 30% interest against their loan. They became unhappy and argued that the organization should reduce the interest. They said that they have to run every moment just for making money to repay the loan. They can't save or expand their business buying new goods for sell because they have to pay every week a certain amount of money as installments.

After all discussion it can be said that the goals and objectives of microfinance are noble. However their present activities and much more concentration on organizational interest have been turning their eyes from poor people's interest. The economic viability is a good sign for the poor. However since they are not well educated, they often become looser consciously and unconsciously as they have little scope of alternatives. The trend of saving is a big success of microfinance organization. Interest following formal banks interest can encourage the clients more to save spontaneously. So at last it can be said from Poor's perspective that though they have complains against the activities of microfinance organization, they are benefiting from microfinance organization as well. They have improved their living standard since they have cash for buying household goods. At least they enjoy economic activities that are facilitated by microfinance organization.

## **CHAPTER FIVE**

### **Conclusion and Recommendation**

In a qualitative research the researcher has to play a vital role in describing the fact. Therefore the researcher should be rationale and ethical as well. In this study the researcher found some contradictory findings. For data collection the researcher use to take his microfinance institution colleagues for interpreting while interviewing the microfinance clients. During that period the researcher found that all microfinance clients praising microfinance because they might fear that bad comments about microfinance can make trouble to get loan. However when there are no microfinance officials around them, they use to have many complains about repayments system, weekly meeting, group system and so on. Those contradictory opinions make an impression to the researcher that no doubt micro credit is very essential for the poor but the system of microfinance, interest rate, the delivery system, and target people undermining the usefulness of micro credit.

Target people are a vital concern in microfinance research. Micro finance institutions especially those institutions supported by donor organizations claim that they are providing their services to poorest of the poor. However there is no evidence prove that micro finance institutions have been reaching the poorest of the poor. Besides this, microfinance institution's operational guidelines contradict with this acclamation because Most of the micro finance institutions around the world use to follow the 'Grameen Bank model' type of microfinance (Wright and Dondo; 2001). Grameen Bank operational rules show that they provide their services only to the better off poor who have potential feasibility to improve their financial situation through some small businesses. And it is also a pre-requirement for a loan that a client must have ongoing business or a minimum amount of land or assets (depending on the location) to be qualified for being a member and to get a loan. This conditions eventually not fulfilled by the poorest of the poor. Ultimately they are remained out of the target group of microfinance institutions. The researcher had been working with the study microfinance organization and found that this organization is almost a replication of Grameen Bank model. Therefore it is assumable that this study microfinance organization has been also providing their services only to

the better off or those people who are financially sound. There is no argument that it is also useful to help better off poor for poverty reduction. However, for poverty reduction or eradication from a society or a country, it is essential to reach the poorest of the poor. Therefore the system needs to develop so that they can reach the poorest of the poor group.

If microfinance organization can reach the poorest group, next question arise that 'does this group of people afford to start a business? If they can start business, can they make enough profit to repay the loan in installment every week? The answer unlikely be 'no'. So we need to think other alternatives because credit is not the highest priority for the poorest of the poor. 'Relief' can be a good solution because this is cost-effective and appropriate to deliver. BRAC's (one of the largest NGOs in Bangladesh) IGVGD (Income generation for the Vulnerable Group Development) program can be an example (Wright and Dondo; 2001). The IGVGD program provides wheat for the vulnerable women as a payment for working on the roads and embankments of Bangladesh. At the same time BRAC helps the women save part of the funds generated when they sell the wheat and provide training in income generation scheme like poultry farming or sericulture.

Poor use to have a number of needs in the households for example children's school fees, medicine, food, housing and so on. Therefore when they need to fulfill emergency family needs, they pretend that they need microenterprise loan (Hulme D; 2000). In most cases the researcher has found that just after receiving the loan, they use big proportion of that money to fulfill their basic family needs instead of investing for business purposes. The micro finance officials even cannot investigate the true intentions of their clients because it would be expensive for such small organization. Besides this, from the empirical study it is found that micro finance institutions in the beginning provide very small amount of loan. With such small loan the poor clients divide the money for family needs and for business purposes. This is obvious that with such small investment they don't get big return from the business. However the clients have to repay installments in every week. The installment money of the loan becomes high with high interest rate. But whatever the business make profit or loss, clients have to pay the installments. Therefore the

installment money becomes a big burden for the poor clients. The researcher has found that for the availability of microfinance institutions, those clients use to go to another institution and get further loan because if a client able to repay first loan, they qualify for further bigger loan. In this cycle they become involved in many loans. If the business does not run well, they fall in big financial trouble and cannot get out from the loan cycle. At the end of the day, they start selling their little assets they belong to. Most of the time microfinance officials are very brutal to get the loan back. When a customer fails to repay the loan, they use to seize every single thing the house belongs to like furniture, roof iron, dishes and so on. This is a very common and practical scenario of microfinance. Poverty does not go away from the poor rather it strikes them more brutally. When they can realize it, they lose every single thing they had. At present this is a common scenario for the micro finance clients all over the world not a fact only for Tanzania. The researcher has found that everyday there are some news in daily newspaper that micro finance official's brutality or committing suicide of the poor for their helplessness to survive in such debt situation.

Such situation happens not only for the institutions but also for the clients. From the microfinance side, the loan amount is too low to start a business. Secondly no business can become a profitable business unless it gets enough time to be stable. From the client's side, they should not exploit the money for household needs because they get the money for business purposes. They need to understand the market situation so that before starting a business they can decide what kind of business is good for them. The microfinance organization can give comparatively bigger loan so that they can survive in competitive market. And they can make flexibility for a certain period to start repaying the money so that by that time they can make the business stable. Islamic Bank in Bangladesh can be an example. This bank is interest free. Rather if the creditor makes loss in the business, the bank shares the loss. If the creditor gets profit, the bank gets a percentage of the profit. This bank is one of the most profitable and leading bank in Bangladesh. The researcher's personal inquiry found that the success become possible because before investment the bank investigate very efficiently how prospective that business is. They also keep an eye on the creditors so that they cannot misuse the money for other purposes.

The interest rate is very high for micro credit. It is couple of times more than the bank loans. If the microfinance organizations main objective is reducing poverty, they should reduce the interest rate or make it interest free like Islamic Bank in Bangladesh. They can charge a certain amount of money for the operational costs. National micro finance policy in Tanzania permitted microfinance institutions to set their cost and interest rate. Therefore there is no limit on micro credit interest. Besides this, in the National Micro Finance Policy, section 5.2 it is clearly mentioned that micro finance institutions are free to develop micro-finance services on the basis of their own internal objectives, whether profit, poverty alleviation, self-help, or other motivation. The government's intension might be to develop microfinance system in Tanzania without any interfere of government or any political party. However this freedom is also giving microfinance institution to exploit poor clients. Micro finance institutions trend has been becoming a profitable business rather than poverty reduction. Poor have no alternative to get financial support. When they find that micro finance institutions are giving them loan without collateral, their desperate family needs force them to take the loan. They cannot think about the interest rate or future problem. Besides this most of the poor either illiterate or have very basic education. Therefore they cannot calculate how much they are paying back against the loan. Surprisingly the researcher found that almost all micro credit clients do not know how much the interest rate is. They only know how much they have to pay per week as installment. These experiences give an impression to the researcher that it might be a business technique for micro finance institution. This can be also a evil truth that those organization that are running microfinance program as a business, they are targeting the poor as good customer because except the helpless poor no one will take loan from those organizations with such high interest. So if microfinance institutions truly work for poverty reduction, it has to develop many systems within the program. For example the interest rate can be removed and charge a certain amount as operational cost. Weekly meetings can be transferred to monthly or quarter monthly because according to the most clients it is time consuming. It spoiled almost full of the day and they have to keep the shop closed. They rather prefer to do the business so that they can earn some money instead of attending the meeting. Finally training can be a very essential support for the poor. The researcher found that most of the microfinance clients have been doing

same kind of business like cassava nut selling in the same place. If they get proper training, they can be innovative and able to do varieties of businesses with small capital.

In conclusion it can be said that microfinance is a very essential tool for poverty reduction but not cure all. Poverty is so dynamic that microfinance itself cannot give solution for all diverse poverty situations. It can only be a part of poverty reduction strategy. However at recent in development discourse there is hype created by donor and microfinance institutions that microfinance is a cure for poverty. However according to Hulme (2000; 157), 'it might distract attention from the fact that poverty reduction requires action of many fronts –social safety nets for the poorest and most vulnerable, an effective education system, low-cost and reliable health services, governments that can provide social inclusion (and thus maintain law and order) and sound macroeconomic policies and many other issues'.

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## Appendix 1. Interview Questionair

Region: Dar es Salaam

District:

Community name and number:

Credit Officer's Name and educational qualifications:

Date:

### 1. Personal of Informant

- a) Name (optional):
- b) Sex & Age:
- c) Marital status:
- d) No. Of Children:
- e) School going or not (statement):
- f) Educational status
- g) Profession:
- h) Total family members:
- i) Earning family members:
- j) Prior income:
- k) Land ownership:

### 2. Enterprise details:

- Type of business:
- Starting date:
- History of launching own business (Statement of reasons):

- Any institutional training received to run the business
  - Public
  - Private

### **3. Micro Credit:**

#### **Loan receiving history**

- How many times:
- Interest rate:
- How do you use the loan:
- Loan receiving from informal money lenders/Time:

#### **Loan repayment history:**

- Problems to repay:
- Other ways to repay:
- Default history and cause:

### **4. Savings:**

- Obligatory savings:
- Volunteer savings:
- Interest obtained from the savings:

### **5. Economic conditions:**

#### **Daily income:**

- After getting loan
- And before getting loan:

#### **Daily expenditure:**

- Before loan:
  - After loan
6. Needs- own/family:
  7. Further support needed?
  
  8. Self independence through self entrepreneurship (statement):
    - a. Decision making over the family/business/society
  9. Further plan to expand the business? (Statement)

**General Statement:**

10. Comments on weekly repayment:
11. Approach to save in general:
  - a. Important?
  - b. Difficult to save after repayment?
  - c. Volunteer savings:
12. Group meetings
  - i. Like/dislike:
  - ii. Distance:
  - iii. Good to maintain and discipline?
  - iv. Or time consuming?
13. Group formation (statement):
14. Loan size? Good enough to bring change in business or...
15. Difficulties of getting loan:

16. Attitude of credit officer towards the clients:
17. Loan terms and condition and installment system?
18. Difficulties faced/facing ever since the business started?
19. Concerns of the family and other social cultural issues:
20. General opinion regarding micro credit and business prosperity:



