

# Impact of Micro Finance on Poverty Reduction in Tanzania: A Case Study of Sido in Ilala District

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## Abstract

This study sets out to investigate the Impact of Micro Finance on Poverty Reduction in Tanzania, using a case of Small Industries Development Organization (SIDO) in Ilala District. This organization disburses loans to small and medium enterprises throughout the Country. Data for study were collected from Ilala and Temeke district between January to July, 2017 and a sample of 90 respondents was involved. These were business entrepreneurs who had loans from SIDO and others had not taken loans. The finding of the study indicates that business growth needs more capital, training, lower interest rates and a reduction of different charges as well as conducive environment for business operations. Moreover, it was noted that SIDO loans was meant for poor people lacking tangible assets for security, but this rule was not adhered and the disbursed loan amount were too small to boost clients business. Therefore the study suggests that the organization should acquire more seed fund in order to increase its disbursement capacity and a change in programme's operation should take place for the benefits of the loan borrowers because a comparison of SIDO loan borrowers and non-borrowers indicated that there is no significance difference. This indicates that the loan did not help much and something was needed to supplement the loan. If changes would be made, SIDO loans would be a more effective tool in the effort to alleviate poverty.

**Keywords:** Microfinance, poverty reduction, Impact, Small Industries Development Organization (SIDO) and SMEs

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## INTRODUCTION

Microfinance is hailed as a sustainable means of poverty alleviation and leading to holistic development. It provides financial tools to poor people who cannot access conventional banking by removing collateral requirement and creating a banking system which is based on mutual trust, strict supervision, accountability, participation and creativity. Yunis (2003) argue that if financial resources can be made available to the poor people at terms and conditions which are appropriate and reasonable, these millions of small people with their millions of small pursuits can add up to create the biggest development wonder. In addition, it is asserted that credit is a powerful weapon and is a fundamental human right in the society for development and generally, creates entitlement to resources and is the basis for the economic emancipation of the poor.

In respect to the Microfinance role, Small Industries Development Organization (SIDO) established in 1972 in Tanzania changed its focus in 1994 from small industries development to revenue generation from services rendered and mostly is credit to Small and Medium enterprises. Initially SIDO aimed to develop Small industry sector in the country, through policy formulation, direct support to industries and involvement in the actual establishment of enterprises. Its best-known activities included industrial estates, common facility workshops, training cum production Centre's, hire purchase schemes for equipment, technology development, technology transfer through twinning arrangements and exchanges with industries in Europe and direct marketing (GTZ Report, 2000). However, a profound change through economic structural adjustment Programme (SAP) of 1980s, has gradually introduced the framework necessary for the development of the market economy. Hence, the government has withdrawn from direct involvement in the economy, and the private sector has grown rapidly. Thus, SIDO's role as the government's instrument for small-scale industrialization has become less relevant and some services that SIDO used to offer, such as the supply of machines, spare parts production, marketing, and business premises have been taken over by the private sector as a result of the changed economic and political reality.

As a result of change, SIDO as a national Institution changed its role from small industries development to promotion of Small and Medium Enterprises in the area of technology, finance, consultancy, management and training. In this regard, the main function of the organization turned to be provision of credit to SMEs on softer terms and establishment of financial facility specialized in financing SMEs (URTMIT, 1996). This earmarked service was considered to have a high demand and had a strong developmental impact on the community to address the problem of poverty eradication and thus, the organization had broadened the organization's client group to all enterprises instead of just small industries.

Moreover, the organization restructuring and provision of these services was to develop small industries, create employment, generate income and improve the living standard of people in the Country (SIDO Strategic plan, 2000). Being spread all over the country within the region headquarters, its implementation strategy for assisting small industries and incorporate all business entrepreneurs it was considered could resolve poverty

problem in rural and urban areas of the country through provision of credit as working capital, development of entrepreneurship skills and management, provide training and advocacy to support all the groups, which had been neglected during the launch of the organization. The slow development of entrepreneurs and the increase in the extent of poverty among individuals in the society ignite a debate whether the organization solves the problem or not.

Through SIDO, more entrepreneurs were expected to arise as result of their services, and hence decline of poverty level. Olomi (2003) define entrepreneurship as the act of people to create or realize income generating activities. This arises as a result of credit provision and encouragement of self-employment for income generating activities for the poor, as opposed to consumption. This was initiated as a challenge to the conventional banking system which rejects the poor by classifying them as ‘not creditworthy’. Therefore the micro finance system rejects the basic methodology of the conventional banking system and has created its own methodology (Gallardo, Joselita, Bikki Randhawa and Orlando Sacay, 1997). Emphasize that, poor people need and use a variety of services, including deposits, loans and other services. They use financial services for the same reasons as anyone else; to seize business opportunities, improve their homes, deal with large expenses, and cope with emergencies (Elizabeth, Rosebenberg; 2004). Therefore, in view of microfinance, the study aim to evaluate the impact of microfinance in poverty eradication; using a case of SIDO Ilala, in Dar-es Salaam region.

## RESEARCH METHODS

The research was conducted in Dar-es salaam region (Tanzania) taking a case of SIDO located in Vingunguti area along Nyerere road in Ilala district. A total sample of 90 respondents was picked from two districts, namely Ilala and Temeke through different sampling strategies. SMEs owners were selected through simple random sampling while loan officers from SIDO were selected through purposive sampling technique. Both SMEs served and not served by SIDO were included in the study to determine the impact of microfinance.

Methods of data collection were through in questionnaires and documentary review. It employed qualitative and quantitative design in order to counter the effect which could be caused by the use of a single design. To ensure validity and reliability of information gathered, field work was conducted by the researcher himself to avoid some misunderstanding which would have been caused by the data collector.

Data obtained through questionnaire were coded, summarized and entered into computer software. Chi-square test used to establish significant relationship between borrowers and non-borrowers while data obtained through in depth interview and documentary review were coded and analyzed descriptively according to the specific objectives of the study. Data were presented using simple frequency tables and bar charts.

## RESULTS AND DISCUSSION

This section provides data analysis and discusses major findings from the study. The fieldwork comprised interviews and documentary review. The rate of response to the administered questionnaires was very high ranging from 100% for SMEs clients to 80% for SIDO staff. This indicates that respondents understood the purpose of this study and its value to them. Table 1 shows questionnaires administered and the response rate.

**Table 1: Status of the distributed and collected questionnaires**

Questionnaires	Number Of Respondent	Collected	% Of Total
SIDO Staffs	5	4	80%
SIDO Clients(SMEs)	45	45	100%
SMEs not finance by SIDO	45	45	100%
Total	95	94	97.1%

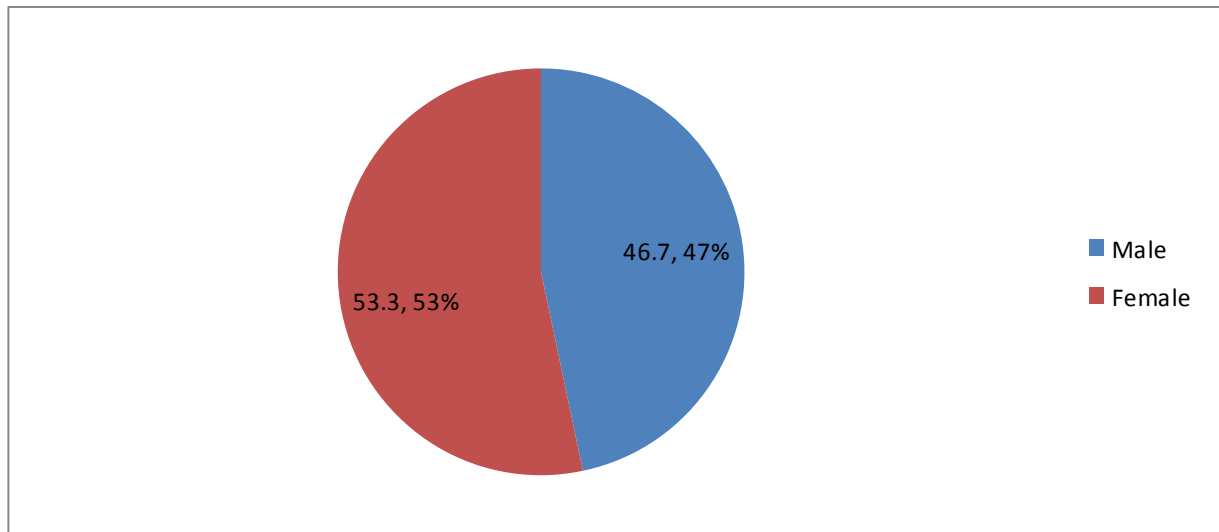
Source: Field data 2017.

### Respondents Characteristics

#### Age, Gender and marital status of respondents

The results of the study show that the mean age of the business respondents who enjoy a loan from SIDO is 33 years. The respondents’ age ranged from 19 years to 55 years. The distribution by gender is 53.3 percent female while 46.7 percent is male. The result shows that most of the respondents were married and they run small business to sustain their families although some had employment while others did not have alternative means of living. In addition, it was found that more of female were self-employed compared to male counterpart.

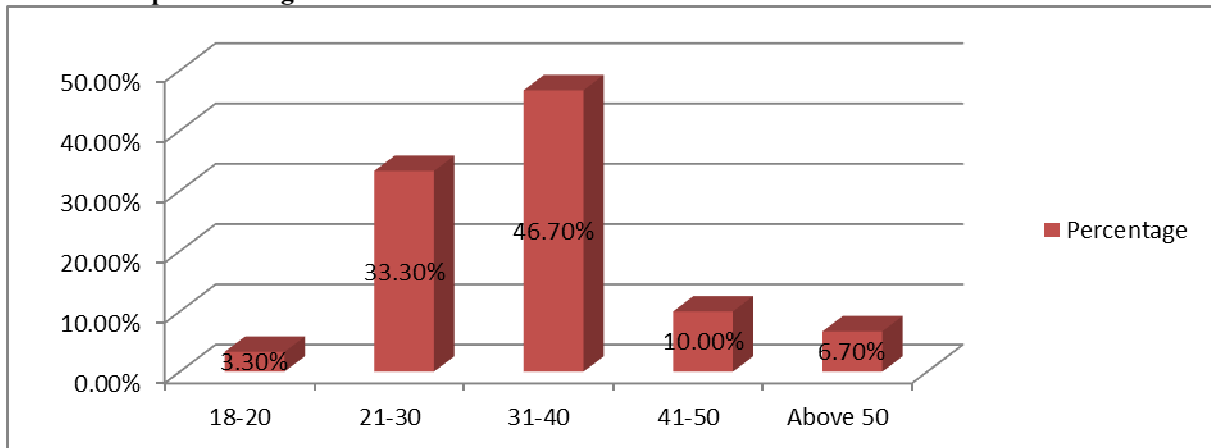
**Chart 1: Gender Results**



**Source:** Field data 2017

The ages of the respondents were grouped into five categories: those below 20 years were 3.3 percent, those between 21 and 30 years 33.3 percent, those between 31 and 40 years 46.67 percent, those between 41 and 50 years 10 percent while those over 50 were 6.67 percent. The results show that people between 31 years and 40 years old are more represented in SME business and enjoy the SIDO loan facilities. And it is suggested that may be people at that age level, have obligations to care for the child hence therefore have to find means under which they can earn income and Small and Medium Enterprises were the solution for this group.

**Chart 2: Respondents Age**



**Source:** Field data 2017

Out of the total number of respondents (90), 53.3 percent were female while 46.7 percent were male. The majority of females were engaged in small businesses and a half of them had received a loan from SIDO. According to the sample studied, 56.67 percent were married, 6.67 percent were divorced, 20 percent were single while 16.67 percent were widows/widowers. In surprise more of the married group were engaged in business, compared to the other groups. May be the married had more obligations compared to the other group as they had to feed their kinds and pay school fees and therefore found business as the only means for earning income for the purpose described.

**Location of the respondents**

The study sample was 90 respondents and hence respondents interviewed were equal from each district and by surprise the response rate was almost 100%. The study revealed that 50% of respondents come from Temeke while the other 50% come from Ilala district. Most of the respondents were found at SIDO office some coming to repay their loans and others coming to make follow up of their loan application. However, to confirm whether they had businesses, we had to make follow up with a loan officer to assess the business needs according to the amount applied. This gave us a confirmation or proof that all who were coming were actually running businesses.

**Table 2: Respondents Location**

Location	Number of Respondents	Percentage	Cumulative %
Ilala	55	50%	50%
Temeke	45	50%	100%

Source: Field data 2017.

**Education level of the respondents**

The level of education was grouped into four categories, consisting of primary education, Ordinary secondary education, High secondary education and college. However the study revealed that most of the people who engage in small businesses have a primary level of education, amounting to 43.3 percent of the respondents, 23.3 percent had secondary education, 16.67 percent high secondary education while 16.67 percent had attended college. The result imply that, those who had lower education level, had no other alternative to sustain their living, hence running small business was the only means while others who had a bit high education level had an opportunity for employment.

**Table 3: Respondents Academic Qualifications**

Education	Frequency	Percentage	Cumulative %
Primary	39	43.3%	43.3%
Ordinary Sec School	21	23.3%	66.6%
Advanced Sec School	15	16.7%	83.3%
College	15	16.7%	100.0%
<b>Total</b>	<b>90</b>	<b>100%</b>	-

Source: Field data 2017.

**Business experience of the respondents**

The number of years in business of the respondents ranges from 1 to 10 years. In average, most of the respondents have an experience of 4 years. This shows that most of the respondents have a high experience in business which is expected to have an influence on the business growth.

**Table 4: Length in Business (Duration)**

Years	Frequency	Percentage	Cumulative %
1	6	6.7%	6.7%
2	18	20.0%	26.7%
3	21	23.3%	50.0%
4	21	23.3%	73.3%
5	3	3.3%	76.7%
6	6	6.7%	83.3%
7	3	3.3%	86.7%
8	6	6.7%	93.3%
9	0	0.0%	93.3%
10	6	6.7%	100%
TOTAL	90	100%	-

Source: Field data, 2007

**Loan amount to start a business**

The capital for businesses ranges from Tshs 75,000 to 10,000,000, according to the respondents information. The average amount of capital in this study is Tshs 2,014,655.17. However, according to SIDO loan policy, the micro loans they disburse start from Tshs 50,000 to 500,000, which is below the average loan amount shown in the study. Most of the respondents in the study were having a capital of about Tshs 500,000/= and only few had more than that amount. The Table 7 shows the distribution of capital and its percentage.

**Table 5. The Amount of Initial Capital for Business**

Amount(Tshs)	Frequency	Percentage	Cumulative
75,000	3	3.3%	3.3%
200,000	3	3.3%	6.9%
300,000	9	10.0%	17.2%
500,000	15	16.7%	34.5%
600,000	3	3.3%	37.9%
650,000	3	3.3%	41.4%
700,000	3	3.3%	44.8%
800,000	9	10.0%	55.2%
1,000,000	6	6.7%	62.5%
1,200,000	6	6.7%	69.0%
2,000,000	12	13.3%	82.5%
3,000,000	3	3.3%	86.2%
5,000,000	3	3.3%	89.7%
10,000,000	9	10.0%	100.0%

Source: Field Data 2017

**Income of the respondents per day**

This refers to the amount the respondents are able to get per day from sales. Referring to the results of the study the income ranges from Tshs 3,000 to Tshs 500,000, while the average income per day is Tshs 52,200. However, the study reveals that the average revenue per day is high in comparison with the real situation. This situation has been caused by only few people who have high income with high capital and lead the average income to skew on the right hand side.

**Expenditure per day**

The individual expenditure explains the income of the people. However in the study the mean expenditure for respondents is Tshs 7,233, ranging from Tshs 1,500 to 50,000 per day. Therefore the results of the study indicate that when people's income is low their expenditure is low too.

**Salaries for the employment created**

The salaries for the employment created by these small businesses range from Tshs 5,000 to 120,000 while the average salary is 25,666/=. According to the study this salary has a great impact on the poor since it raises the living standard of an individuals.

**Table 8: Factors Contributing To Business Growth**

	NO.	Minimum	Maximum	Mean	Std Deviation
Age	90	19	55	33.06	9.04370
Sex	90	1	2	1.4333	0.50401
Marital Status	90	1	4	1.9667	1.21721
Location(Residence)	90	1	2	1.5333	0.50742
Education Level	90	1	4	2.7333	1.20153
Length In Business	90	1	10	4.1	2.42615
Initial Capital	90	75000	10000000	2014655.17	2939459.96
Income From Business	90	3000	500000	52200	93805.52
Interest Rate	90	1	2	1.08	0.27689
Salaries Paid	90	5000	120000	25666.66	28527.34
Expenditure	90	1500	50000	7233.33	8911.18

Source: Field Data 2017.

**Determinants of factors influencing the growth of small Business**

The logistic regression analysis was conducted to ascertain factors that contribute significantly to business growth, measured in term of sales turnover by the respondents who received a loan from SIDO. Variables considered include age, number of years in business, education level of the respondents, sex of the respondents, marital status, number of children of the respondents, expenditure per day of the respondents, location of business of the respondents, amount of loan received from SIDO, loan interest rate and other socio-economic factors influencing the success of the business of the respondents. Out of those variables only number of years in business, education level and amount of initial capital from SIDO were regressed with dependent variable of business growth measured in terms of sales turnover. The multiple standard regressions were used where by all the independent variables were entered into the equation at once. The results indicated how well these variables are able to predict the business growth measured in terms of sales turnover. The results indicated that only initial capital from SIDO had significant value less than 0.05 which shows it has a significant unique contribution to the prediction of the dependent variable. The number of years in business (Experience) and education level were not

making a unique contribution to the prediction of the dependent variable, this may be due to overlap with other independent variables in the model. The results of logistic regression analysis are shown in Table 7.

#### **Age**

The results indicated that the loan disbursed by SIDO to its clients is for people from 19 to 55 years old. The mean of the respondents is 33 years old. This indicates that most of the people who get loans from SIDO are younger people who are risk takers. The old people are risk averse and would not like to enter into debt obligations and are afraid of loan conditions. In addition the group concerned is the reproductive one, which of course struggles hard in order to sustain their families, and also to ensure that their families get a good education. The regression results indicate a positive coefficient but not a significant relationship between business growth and age of the respondents. This was expected because age does not contribute anything to business growth. There are both young and old people who have succeeded in their businesses. Hence age under this study was insignificant.

#### **Level of education**

Years of formal education were thought to be a significant variable that could determine chances for business growth. However its positive coefficient of 0.213 beta and the alpha value of 0.185 is greater than 0.05, hence it is concluded that, the variable is not making unique contribution to the prediction of the business growth. The result on this variable was not expected, as it was believed that chances for business success could be determined by the level of education of the respondents. It was a surprise therefore that SIDO loans are given to poor people who have a low level of education.

#### **Length of business (Duration in business)**

The experience of the business owner was thought to be a significant factor, but the result for regression indicates the 0.194 beta and alpha value of 0.284 which is greater than 0.05. The results shows the variable do not make a unique contribution to the dependent variable besides having a positive coefficient of 0.194 beta. It is believed that a person who has been in business for a number of years has a chance to excel in business, but according to this study this factor does not seem to hold. The growth of the business depends a lot on the initial capital of the clients rather than the number of years of the client in business.

#### **Location of the business/Residence of the respondents**

The location of an individual (whether in Temeke or Ilala district) was also thought to be an influencing factor in business growth, but the regression results show that there is no significant relationship between location and the chance to succeed in business.

#### **Sex and Marital status**

Sex and Marital status was thought also to be an influencing factor in business growth, but according to the study results this factor is not significant. However other studies point out that female clients are careful and faithful in terms of loan repayments, but 100% loan repayment does not guarantee that the business will generate enough income to enable them pay back the loan. On the other hand, to grow their business they propose that married couples are always serious about their business, in which case they excel through taking out loan, but this is not the case in this study.

#### **Expenditure per day of the respondents**

Expenditure shows the trends of an individual's income. The higher the expenditure per day, the higher the income. The regressed results of the study indicate that this is not a significant factor in business growth because the expected result was a positive coefficient with an insignificant relationship, because the more the expenditure incurred by a business owner, the more the business profits decline.

#### **Employment created by the business**

This factor aimed to measure the improvement in jobs created accelerated by the loan disbursed by SIDO. The more income that is distributed to poor people the more likely that employment is created. Hence, according to the regression results, the factor has a positive coefficient since employment always drains income from the business. The result is true as expected since, through employment, the profits from the business get distributed to the employees in terms of salaries and hence there are less remaining for business growth.

#### **Amount of capital of the business/Loan received**

The relationship between sales or business growth and amount of capital has a linear relationship. The greater the amount of capital the higher the value of sales the business is likely to make. In this study the regressed results show that this fact has a positive coefficient of 0.455 beta and alpha value of 0.015 which is less than 0.05 level of significant. This indicates that the variable is making a unique contribution in prediction of the dependent variable. The more capital the business has the more sales. Therefore, there is a direct relationship between business growth and amount of capital.

#### **Loan Interest rate**

Loan interest rate is also among the factors considered in the study, which has a negative impact on business growth. The more interest that is required to be paid back, the more expense the business incurs. Hence, through this study, the results for regressed data indicate that it has a negative impact on business growth.

**Table 9: Factors Influencing the Business Growth (Regression results)**

	Unstandardized Coefficients		Standardized Coefficients		T	Sig
	B	Std. error	Beta			
Constant	52531.519	40579.429	-		-1.295	0.207
Education level	16681.351	12235.748	0.213		1.363	0.185
Length in business	7493.317	6838.592	0.194		1.096	0.284
Initial capital-SIDO	1.473E-02	0.006	0.455		2.601	0.015

Source: Field Data 2017

Dependent variable: Growth of the business measured in terms of Sales turnover

**The Impact of Micro Finance on Poverty Reduction**

Chi-square test was run to determine the relationship between SIDO loan beneficiaries and Non- beneficiaries. The test was made on the bases of variables like: Length of time in business, expenditure per day, salaries paid to employed staff on small business, Revenue received per day, Education level of respondents and, expenditure per day. The results of chi-square test indicate that there is an independent of each other on variables tested between SIDO borrowers and non-borrowers as per Table 10.

The Chi-square test results show that those variables under consideration have not shown a significant relationship because the asymp.sig values is greater than 0.05. However, lack of baseline data makes it difficult to ascertain with full certainty that the observed equality between SIDO borrowers and non-borrowers means that the loan does not contribute to any changes to the business. Also it is appreciated that the establishment of the casual role of the SIDO loan is complex due to the multiple sources of revenue of the individuals and the problem of the reliability of data.

However, the t- test for differences between loan beneficiaries and non-loan beneficiaries indicated that there is no difference between these groups. It is evident that the majority of SIDO borrowers were poor and if they could not receive a loan their life could be even worse. The loan they received from SIDO enabled them to acquire assets, send their children to school and even to raise their standard of living in general to the extent that they became equal to those who did not get a SIDO loan, who were considered higher income earners. The implication is that the increase in income of borrowers who belong to the poor group might have been accelerated by the loan facility from SIDO.

The Chi-square test analysis has also shown that as SIDO loan has had a great impact on poor people, as explained above.

**Table .10: Relationship between SIDO Loan Beneficiaries and Non Beneficiaries (Chi-square results)**

LOAN FROM SIDO		EXPENDITURE PER DAY	EDUCATION LEVEL	LENGTH IN BUSINESS	EMPLOYMENT CREATED	REVENUE OF THE BUSINESS PER DAY	SALARIES PAID TO EMPLOYEES
	CHI-SQUIRE	0.000	0.333	0.000	0.000	0.000	-
	DF	2	1	2	1	2	-
	ASYMP.SIG	1.000	0.564	1.000	1.000	1.000	-
YES	CHI-SQUIRE	12.826	2.217	11.826	0.692	6.739	7.000
	DF	7	3	8	1	11	5
	ASYMP.SIG	0.076	0.529	0.159	0.405	0.820	0.221
NO	CHI-SQUIRE	0.500	1.000	0.500	0.000	0.000	0.000
	DF	2	1	2	2	3	2
	ASYMP.SIG	0.779	0.317	0.779	1.000	1.000	1.000

Source: Field data 2017.

**Qualitative Assessment of Some Important Factors for Business Growth**

Some qualitative information was also collected and the responses of the respondents on issues raised are summarised as follows:

**Attitudes of respondents towards credit and interest**

Out of 90 respondents, 69 (76.6 percent) showed a positive attitude to credit, pointing out that is a very essential element for business growth and that it enables the borrowers to get working capital to start up or expand profitable businesses, and they were ready to receive a repeat loan if given the opportunity. However 13.3 percent of the respondents showed negative attitude to SIDO loans, arguing that the conditions attached to such credit are difficult to meet and involve high risk of failing to repay, which may lead to confiscation of the

borrower's property. This group of respondents, even after being given adequate clarification showed reluctance to accept credit from SIDO. While 10 percent were neutral as they did not respond and had no comments about SIDO loans.

When asked their opinion on the interest rate charged by SIDO on loan, 63 (70 percent) of respondents did not accept it and complained that 22 percent interest rate is too high. However they understand that public institutions have to charge interest in order to cover operational expenses and get some profits, but they still had doubts about the percentage charged. Some referred to the Islamic loan policy that is free from interest, while 27 (30 percent) of the respondents were not knowledgeable on the amount charged and the interest they paid on the SIDO loan, because of their low level of education.

#### **Respondent's opinion on factors limiting getting a loan**

The study aimed at capturing respondent views and opinions on factors which limit their chance to get credit from SIDO. Five factors were mentioned, which include difficult conditions 37 percent, high interest rate 27 percent, cumbersome and difficult bureaucratic procedures 10 percent, favouritism 7 percent and higher charges for feasibility study 19 percent. But out of those factors difficult conditions, higher interest rate and bureaucratic procedures were taken to be big problems that hinder people to get the facility from SIDO.

**Table 11. Factors limiting to get Loan**

Factor	Frequency	Percentage	Cumulative %
Difficult conditions	34	37%	37%
Higher interest rate	24	27%	64%
Bureaucracy	9	10%	74%
Favouritism	6	7%	81%
Feasibility study charges	17	19%	100%

**Source: Field data, 2017**

#### **Factors contributing to business growth**

For further analysis, respondents were asked to identify the most important factors that contribute to business growth. Their replies included the following: Own efforts, loan impact, location of the business, having own premises for business, experience, large market, reliable transport, reduction of unnecessary expenditure, good environment, good supervision, good display of goods, business training, trustworthy employees, cooperation with other business people and politeness to the customers or customer care. All these factors mentioned are valid it has a significant contribution to the individual business growth apart from those the researcher considered.

#### **Factors that limit the success of the business**

The respondents were asked to mention some problems which hinders their business growth, and about 16 factors were mentioned although the frequently repeated reasons were: limited amount of capital, lack of business, lack of business transport, high running costs, high prices of products, debtors do not pay, high taxes, stiff competition, high interest rates charged, not in a good location, jealousy in the neighbourhood, too busy, employees not trustworthy, loan disbursement irregularities, high transaction costs and disturbance brought about by city guards.

#### **Reason for borrowers failing to repay loan**

Borrowers were asked if they had ever failed to repay a SIDO loan, but none of them had. This contrasts with the real situation learned from the interview held with the SIDO officers. According to Anna a credit officer at SIDO Ilala, they had a stock of mortgaged assets in the store that had been confiscated from the clients who failed to repay. But the response from the questionnaires in the study none agreed, which indicates that they were hiding the real situation or perhaps the sample used for study had never faced that problem. Respondents showed that the SIDO loan was convenient, while in other questionnaires where they were asked about the problems of acquiring a loan from the institution they mentioned a number of problems that include bureaucracy of SIDO officers, high cost of feasibility study and high interest rate. This also contradicts the replies they gave.

### **CONCLUSION AND POLICY IMPLICATION**

Overall, the study suggests that SMEs need more capital, which is essential for business growth. The loan provided by the MFIs involves high charges and high interest rates the burden of which the client has to bear. Micro loans as defined by (Shahidur, R. K. 2005) refer to small amount of credit lent to poor people who lack tangible assets to secure a loan and also is given without tough conditions and is interest free. However the study reveals that loans given are accompanied by different fees, like transport charges for officers who make a visit to the business premise of the client, form charges and fare for follow -up of the loan, feasibility study fees and interest rates. Hence the interest rate of 22 percent is not true if all those charges incurred by the client are aggregated. Furthermore, it seems there is no difference between the institution for MFIs and commercial banks that charge almost the same interest rates and others are even lower than 22 percent.

A savings culture is the backbone of micro finance, but SIDO does not mobilize the client to enhance



savings. This could reduce the interest rate since the money they disburse as a loan could be coming from the customers themselves and this could also enhance effective loan repayment.

The institution's loans target poor people, but the process for disbursement does not consider this and they ask for collateral. The aim is to reduce the extent of poverty among the people but at the same time, if they fail to repay, their assets are confiscated and so all that does accelerate extend of poverty.

Repayments of loans to the institution by the clients are seen to be good, but it has not been ascertained whether the clients are paying back the loan from the revenue generated by the business or whether they have multiple sources of revenue. The institution could develop a measure to check if the clients are able to repay the loan from the business, which could facilitate and hasten the process of poverty reduction through the establishment of good lending policies.

Lending methodology is a key to success of the MFIs. SIDO is an old institution which has undergone restructuring from assisting small industries to now entrepreneurs, but it has not yet found its own lending methodology. This has been proved through the establishment of Self Help Organizations (SHOs), Solidarity group lending and individual lending which have all copied from the new MFIs like PRIDE, MEDA and FINCA, whose methodology was geared to their main motive to earn profits. But SIDO as a Government institution could develop a good methodology with the vision of alleviating poverty among the citizens without compromising its mission of sustainability.

Micro finance for developing countries has been seen as a way for redistributing income to the poor, but it does not contribute to the economic growth of the nation (Khandker and Pitt, 2003). This study also has shown that the loan disbursed by SIDO is for starting or expanding informal businesses. These businesses are informal and do not contribute much to economic growth but they help the poor to acquire some property and help to empower women economically.

The study has revealed that the loans disbursed create employment. However, the Institution should establish a measure to check the quality of employment created. This is a successful indicator but the quality of employment is poor in terms of remuneration. The Government minimum wage for civil servants is Tshs 80,000/= while the mean wage for employment created through SIDO loan is Tshs 25,666/=, which cannot sustain an individual for the whole month under the mean expenditure of Tshs 7,233/=per day. The loan amount offered by SIDO in the study indicates a range of Tshs 75,000 to 2,000,000. But SIDO loans start from Tsh 50,000/= to 500,000/= which are too small to enable a business to grow and generate profits.

## RECOMMENDATION

The Institution should design a better lending programme, which fits in with the vision of alleviating poverty in the country. The current programmes, NEDF and RRF, do not meet the target for several reasons including; the small amount of the loan, the high interest rate and it operates in only urban areas. Furthermore, its lending methodology has not resolved the problem and so SIDO should seek a better methodology with good lending policies without jeopardizing its desire for sustainability.

In the study we have revealed that there are many charges accompanying loan disbursement. These charges could have been eradicated through subsidies from the Government under its strategy of poverty reduction and at the same time the interest rate should be lowered. The current programme, which needs the client to incur charges for a feasibility study, transport cost for visit, form fees and interest rate, reduces their seed capital and lowers their productivity. But if all those charges were to be subsidized and the interest rate lowered, then the situation could improve.

The amount of the loan offered by SIDO through its programme is too small for business growth. Hence it is wise for the Government through its Ministry of Industries and Trade to increase the seed fund to enable the Institution to increase the loan amount. Even the Economic Empowerment Funds, which have been guaranteed by the Government to CRDB and NMB loans to Entrepreneurs, could have been given to SIDO, which has been in the business of poverty alleviation long before instead of NMB and CRDB.

The Institution should encourage a culture of savings in its clients in order to develop funds for the programme. Through this saving programme loans could be disbursed on an interest free basis because that money comes from the clients. This could enhance an effective and efficient programme of poverty reduction and at the same time people could learn to save, as savings are the source of investment capital. In the same vein, SIDO should have a vision of being a Micro finance Bank in the long run through a savings deposit scheme.

The Institution should define its clients in terms of loan amount. This will help to know its base and once client numbers have grown, it can then link up with other money lending institutions. This could help the clients who develop from micro business to corporate enterprise to get easy access to finance without incurring unnecessary expense. Therefore the Government should link micro finance institutions with the commercial banks, so that SIDO and other MFIs would find out which of their clients have reached their credit limit.

The Institution at the beginning was offering a hire purchase loan facility. But has abandoned that and adopted a new credit system. However it has been seen that the new system does not meet the requirements of

the poor, and so it is necessary to return to the old system of hire purchase which, because of its wide coverage, can reach even rural areas. Furthermore, poor people not only need funds, but they need the provision of tangible property for generating income which could be of more worth to them compared with money.

The Government through its poverty Reduction Strategy has earmarked micro finance as one of the action that should be taken to eradicate poverty. However, it is true that finance given to the poor cannot help if the business environment is not conducive. Hence in order for the plan to succeed, the Government should create a conducive environment for informal businesses by reducing the unnecessary taxes that are levied.

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