Effectiveness of Microfinance Markets in Alleviating Poverty
A Supply Side Analysis in Morogoro Region
By

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Abstract

Micro-Finance Institutions (MFIs) have been the focus of many studies because of their importance in poverty alleviation. This study was on effectiveness of micro-finance institutions in alleviating poverty. The research problems were that, despite the fact that the majority of Tanzanians lived in rural areas and were entangled by vicious circle of poverty and savings were expected to have at least equal weight to credit in MFIs, most microfinance institutions concentrated more in urban areas than rural areas and gave less weight to savings than credit.

The objective of the study was to examine the effectiveness of savings and credit microfinancing market in poverty alleviation in Tanzania. Specific objectives included examining:

- whether or not savings were given equal weight as credit;
- the factors which made MFIs more prominent in urban than rural areas; and
- their effectiveness in poverty alleviation.

The research addressed three questions; namely:

- How had microfinance institutions been oriented to the supply side?
- How far had they served the rural clients? and
- How effective had MFIs' operations been in alleviating poverty.

Further, the study was guided by three hypotheses; namely:

- MFIs were not oriented to the supply side;
- Services of micro-credit institutions to rural clients were negligible; and
- MFIs' services were not effective in alleviating poverty.

A multiple case study was purposely opted for as a research design because a case study design per se provided for a deep analysis of a single unit, the results of which were particular to that study unit. Such results could not be directly generalised or inferred to the entire population. The multiple case study design, on the other hand, contained all elements of the case study and involved several cases. As such, findings from a multiple case study could tentatively lay a basis for inference to the population.

The study was conducted in Morogoro rural and urban districts. The study cases included: Promotion of Rural Initiative and Development Enterprises (PRIDE), Action for Relief and Development Assistance (AFREDA), Small Industries Development Organisation (SIDO), Local Savings and Credit Bank (LSCB) - Langali, Kireka Savings and Credit Cooperative Society (SACCOS), Sokoine University of Agriculture (SUA) SACCOS, Mzumbe Secondary School (MSS) SACCOS, and their clients in the said districts.

The cases were carefully selected so that similar results could be predicted, i.e. literal replication. The cases served in a manner similar to multiple experiments with similar results predicted explicitly at the onset of investigation. Each individual case study had its own data collected and analysed separately. Each individual case study consisted of a •whole' study in which convergent evidence was sought regarding the facts and conclusions for the case. Conclusions of each case were then considered to be the information meeting replication by their individual cases. Both individual cases and the multiple-case results were the focus of the final report.

Data collection methods comprised documentary sources, interviews, questionnaires and observations. The documentary sources which were used to obtain secondary data included: weekly portfolio reports, clients' registers, various reports and brochures from PRIDE, AFREDA, Kireka SACCOS, SUA MSS SACCOS, LSCB-Langali, SIDO - Morogoro and SUA SACCOS. As for interviews, these were conducted to the branch managers of PRIDE, AFREDA, and SIDO. Interviews were also done to the SACCOS district officers and the chairpersons of Kireka SACCOS, LSCB-Langali, SUA SACCOS and Mss SACCOS.

The following sets of questionnaires were used:

(i) The first set of questionnaires was directed to employees of the MFIs. This type of questionnaire was administered to branch managers of PRIDE, AFREDA, and SIDO.

The same was also administered to chairpersons of Kireka SACCOS, LSCB-Langali, SUA SACCOS and MSS SACCOS.

(ii) The second set was administered to 120 MFIs' clients. However, only 93 clients responded positively.

Analysis of the research findings involved descriptive statistics and qualitative method. The frequencies, percentages and narrative notes were used as well as tables whenever deemed appropriate. The descriptive analysis was purely simple frequency tabulation which did not only intend to trace the singular reactions but also aimed at exploring the relationship between these issues.

The findings were presented by starting with the presentation of each individual case study and, finally, the presentation of the whole study was made. To each single case study and multiple-case, the data were presented in series; starting with catchment are and interlinkage, then savings of MFls, followed by the MFIs' credit systems, and finally, poverty alleviation. Poverty alleviation aspects that were considered include the following:

- Increase in assets, capital acquisition and productivity/output/business expansion by clients of MFIs after loan disbursement from savings and credit systems;
- Increase in ability to meet household expenses as a result of change in income earned by MFIs' clients; and
- Increase in employment opportunities as a source of income generation to the poorest of the poor.

The findings revealed that, in general, less weight was given to savings than credit by both MFIs and their clients. However, to be more specific, PRIDE, LSCB and Kireka SACCOS were giving equal emphasis on both savings and credit, while SUA SACCOS, MSS SACCOS and AFREDA were giving savings less weight than credit. SIDO had only a credit component, and no savings. Further, when joining the above MFIs, clients were first more interested in credit than savings, but many changed a little bit after joining by attempting to increase their savings as well depending largely on the conditions given by the MFIs.

On factors which made MFls to be more popular in urban areas than rural areas, the study identified the following:

- Poor infrastructure in rural areas (relative to that in urban areas);

- Lack of business skills among most rural people;
- Uninformed rural population on many business opportunities;
- Prohibitive transport costs in rural areas;
- Lack of different motivating factors in rural areas; and
- Many funding agencies preferred urban investments.

It was also observed that credit enabled clients of MFIs to increase their size of capital by as much five times; resulting into increase in assets (investment) and, consequently, productivity/output. Further, the majority of MFIs' clients had increased their ability to meet basic household requirements such as food, clothes, education, household utensils and medical care. More than 50% of the poorest of the poor who were employed by clients of MFIs were being paid Tshs. 800 or above. In that case, therefore, the MFIs' operations/ services were, to a certain extent, effective in alleviating poverty of their clients.

Given the foregoing findings, the study recommended, among other things, that:

- MFIs ought to treat savings and credit with equal emphasis. Those without the savings component should establish the component in their structure/operations, and those with that component should reinforce it. One way of reinforcing the savings component is through increasing interest rate for deposits. The MFIs should avoid subsidizing lending interest rates as this would impair savings.
- The MFls should also be popularised in rural areas so as to increase avenues for savings and credit among the rural population.
- In order to improve the MFIs' operations/services, the interest rates charged should be reduced -at least, to range between 5% and 15% annually.
- Further, the MFIs should mobilise as much savings as possible in order to meet the increasing demand for credit from clients.
- There is need to introduce and/or improve training strategies on proper investment in order to increase assets/capital acquisition, appropriate production techniques, and proper financial (and other resources) utilisation.