Impact of Microfinance Institutions towards Poverty Reduction:
Empirical Evidence from Pwani Region in Tanzania.

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Abstract: The central focus of the study was to identify and measure the performance of Microfinance Institutions (MFIs) towards poverty eradication among the beneficiaries. The study also put on the concentration the relationship between the income of their clients and the loans received. The attention was paid in the data collection and the well-organized questionnaire were used to collect the data from 300 beneficiaries as sample from different micro credit institutions and cooperative groups at Pwani Region of Tanzania. The careful data analysis was done using SPSS by applying descriptive analysis and correlation coefficient to test the hypothesis and to answer the research questions. The study observed that MFIs and poverty reduction have linear association by 74.5% if the other factors put in consideration. Also the results proved the significant relationship between the income of clients and loans received. Finally, we recommend that among other issues, the Government should collaborate with private sector to reach the rural poor because MFIs are urban based.

Keywords: MFIs, Poverty Reduction, Loans, Income, Beneficiaries.

I. Introduction

Poverty is a multifaceted phenomenon. Central to this phenomenon are income deprivations that restrict an individual’s ability to consume certain basic goods. Yet, poverty goes beyond income and is often accompanied by lack of access to education, health, housing, employment, personal security, and more [1]. The income deprivations in developing countries among its people is mainly caused by the lacking of access to financial services. In improving the accessibility of these services in many Governments from the developing nations has put it in their major development strategy objective as [2], [3] argued that economic development can be improved significantly through extending and widening the access of financial services to the people especially the poor. In fighting poverty specifically income poverty in developing world the microfinance or microcredit institutions have evolved as a strategic solution for the access of financial services to poverty alleviation and economic growth in general as a response to central Millennium Development Goals 1 which is to half global poverty by the year 2015 [4]. Microfinance institution, is a set of innovative and alternative financial services to the poor who do not have the access to formal financial institutions [5] It provides banking services to unemployed or low income individuals or group who have no other access to financial services [6] The primary objective of microfinance institutions to poor is to provide appropriate financial services, including loans, savings and insurance, available to poor entrepreneurs and small business owners who have no collateral and wouldn’t otherwise qualify for a standard bank loans [7].It is relatively a vital instrument for the poverty alleviation because it serves to empower the poor and provides a valuable assistance to the economic development process in least developing country [8] As microfinance developed and extensively acknowledged for the increasing of its services to poor and improving the effectiveness and efficiency to reach the poor, several studies have been conducted to determine the performance and contributions of microfinance on poverty eradication from different places of the world. Though, there is a disagreement appeared on the contribution of microfinance on poverty reduction. Some studies revealed that microfinance are positively impacted [9], [10], while others are arguing negatively impacted [11], [12]. The study by [13] for Pakistan on microfinance and household poverty reduction revealed that microfinance had positive impact on participating households. The contribution of microfinance observed through the number of indicators including household income, health care services, and clothing and on a certain residence characteristics, such as water supply and the quality of house they have. Also, in other study by [14] showed positive impact on microfinance on poverty reduction in rural area of Northern Ethiopia. The study reported that microfinance increased their incomes, consumption and housing improvements.
In the same way, the study by [15] conducted research in rural Bangladesh and found that microcredit helped participants to earn higher income, consume more, and lifted many of them out of extreme poverty. [16], reported similar findings showed that micro credit in Pakistan had positive impact on poverty reduction and also indicated that 40% of the beneficiaries opened shops/small provision stores, followed by investment in poultry, embroidery and livestock. [17], argued that MFIs have changed the life of poor people in a positive way. In the case of Tanzania, several studies conducted on the topic and revealed that microfinance contributed positively on poverty alleviation. For example, study by [18], findings showed that microfinance as an effective tool to lift the poor (small farmers) above level of extreme poverty through increased owning valuable assets, household expenditure on basic needs, incomes from farm and off-farm activities, and house ownership, toilets and utilities. Likewise, [19] for Dar es Salaam, Tanzania found that microfinance achieved the most crucial role in poverty reduction through provision of financial services and credit to the poor, consulting services for entrepreneurial businesses that create self-employment opportunities. Similarly, [20] found significant relationship between the positive impact of microfinance and poverty reduction by offering banking services, providing business training, providing loans and other credit facilities and providing business advice and supervision. In contrast to the above, according to [21] argued that microfinance can work well for those people near to poverty line and can engage in high-value enterprises and must be accompanied by social and physical investment to have substantial impacts. Indeed, [22], [23] reported that finance cannot create opportunities itself rather it is the entrepreneurial nature of the people which lead them to see the various ways in which they can generate income. Furthermore, similar studies with the same results as [24]-[26] Microfinance serve poor but not the poorest. Lack of basic education, entrepreneurial knowledge and skills are the reasons for the limited success of microfinance [27]-[29]. Basically, from the ground above, those studies argued against positive impact of microfinance are highly regarded as the fundamental lesson to the actions of microfinance, but with availability of basic infrastructure and capacity building to the poor, microfinance are regarded as significant and effective tool for poverty reduction.

A. Statement of the Problem
The research problem of the study is that Tanzania was expected to be among the middle income countries by the end of 2015 by reducing population below basic needs poverty line nationally from 33.6% in 2007 to 24% in 2015 through different poverty reduction strategies with the emphasis on small scale financial sector and economic empowerment programs as microfinance institutions[30]. In addition according to [31] the basic needs poverty rate in Tanzania declined from 33.6% in 2006/07 to 28.2% in 2015/16. With the huge increasing number of microfinance institutions still the extreme poverty exists in Tanzania and the estimated target is not yet achieved. Therefore the study finds out the contribution of microfinance institutions as a tool of poverty alleviation.

B. Research Question
The following research questions were raised based on the background to the study.
1. Is there any relationship between the performances of microfinance institutions toward poverty reduction?
2. Is there any relationship between microfinance loans and the income generation of beneficiaries?

C. Purpose of the study
The study objective is to measure the performance of microfinance bodies toward poverty reduction among the people. The study also needs to identify the impact of the microfinance loans on the income of the beneficiaries.

D. Research Hypotheses
The following hypotheses were tested in this study to show the level of significance.
Hypothesis 1. There is no significant relationship between the performances of microfinance institutions toward poverty reduction.
Hypothesis 2. There is no significant relationship between microfinance loans and the income generation of the beneficiaries.

II. Methodology
A. Research Design
The study used a survey research design that intended to collect the information for the purpose of identify and measure the performance of microfinance institutions towards poverty eradication through income generation of beneficiaries from the loans they received.

B. Population
The study population was selected from the loans recipients (members) of the microfinance institutions mostly those members from P who at least have two years since joining the particular institution.

C. Data Collection Method
The key data collection instrument was questionnaire that was primarily designed to gather the primary information from the respondents (loans beneficiaries) who were central focus of the study that targeted to measure the performance of microfinance institutions and income generation towards poverty reduction among the people specifically members of the microfinance institutions(loans recipients). The questionnaire designed
into two sections (A and B), section A considered to seek for demographic variables of the respondents and section B intended to collect the microfinance performance and economic information from the respondents.

D. Validity and Reliability of the instrument

The instrument (questionnaire) first was checked through the feasibility study to test the applicability and examine the validity and reliability of the instrument before starting the data collection process.

E. Organization of data collection

Data was collected personally through well designed and managed questionnaire from the respondents. The questions were into two forms, open and closed ended. The respondents were given the questionnaire through their institutions for two days and collected for further step of data analysis. The total number of respondent were 300 clients from the study are of Pwani region in Tanzania.

F. Data analysis

Data was analyzed by using SPSS through simple regression analysis including two variables, the credit as independent variable and poverty through the income indicator of individual as dependent variable. The analysis of data based on the two hypotheses of the study.

III. Empirical Results and Discussion

The total number of the respondents were 300 equivalent to 100 % of the targeted samples, male respondents were 107 equivalent to 35.7% and female respondents were 193 equivalent to 64.3%. In term of age 47% of respondents were between age 35 - 45 and 30% were between ages 46 and above and others were 23%. In addition the level of education among the most respondents were secondary and primary level. This signify that most women and the working class are engaged in borrowing loans for their economic activities and most of them were self-employed owned small businesses, engaging in agriculture (farming and fishing) others were civil servants and art crafts. The finding also proved the gender empowerment and the goal of microfinance to meet the unemployed poor.

The results revealed the significant relationship between the performance of MFIs towards poverty reduction. According to the findings, it was observed that majority of clients were self-employed which is 65.7% of the respondents. 67% of the respondents lived in their own house while the others lived in rented house, the findings also revealed that the reasons behind that influence people to take loans from MFIs is that the loans interest rate can be afforded, the procedures to get the loans is not difficult and they can manage to repay the loans where 79% of the respondents are strongly agreed to this. In term of the uses of the loans received, 81% of the respondents are investing in different economic activities and 19% the respondents said they spending in social life like education. In addition, 91% of the respondents proved that their living standard and daily consumption are changed since they started to receive the loans. From these data, the null hypothesis was reject and indicate that MFIs is the crucial instrument for income generation and reduction of the extreme poverty.

The findings revealed the existence of the significant relationship between the independent variable (loans) and dependent variable income as the indicator of poverty reduction. The hypothesis was tested using correlation coefficient that reject the null hypothesis and accept the alternative hypothesis. Therefore the clients income have strong positive impact from the loans they get and this indicated that where the loans increased and the income increased. Also the result indicated that on average amount of clients have an income of 15,865,166 Tshs per year, 1,322,097 Tshs per month that can allow the clients to borrow up to 8,000,000 per year and average of Tsh 2,135,541 per month. This data signify that the microfinance loans have the positive effect to the clients’ income due to the fact that Pwani region is one among the region with lower Gross Domestic product per capita that is less than 900,000.

IV. Conclusion

The findings revealed a certain magnitude of the importance of having microfinance institutions due to the evidence that majority of the beneficiaries of MFI in Pwani region are changed their living standard through their income generation that obtained from the loans and invest them in different socio-economic activities. The findings shows that majority of the clients of the microfinance institutions are self-employed with low education background and most of them are women that imply no discrimination but there is gender empowerment and the institution achieve their goals to help unemployed. Finally, we conclude that microfinance institutions (loans) have the positive impact on the beneficiaries’ income as the fact that income is the central aspect on the efforts of poverty reduction. Also, for the sustainability of microfinance and improving the living standard of people, the Government should put in consideration the stability of macroeconomic and effective marketing system for small scale entrepreneurs.

V. Recommendations

In general, poverty reduction strategies are the interrelated system, means that, there is no particular component that can work and reduce poverty rate comprehensively, though microfinance institutions contributed positively to decrease poverty rate when the other factors can be well managed and controlled. The researchers are strongly recommending the following major recommendations.

Firstly, the Government should work together with NGO’s and private sector Microfinance Institutions to ensure that they reached rural part of the country where the poverty is highly concentrated and improve lending conditions and terms that restricted most poorest women and men.
Secondly, the Government and Microfinance institutions should provide training on capacity building to the loans beneficiaries focusing on entrepreneurial skills and innovative business techniques focus on the needs of consumers that micro entrepreneurs, women or men groups and individual recipient are required to create sustainable and productive businesses. Finally, the Government should increase the funds allocated to the micro lending and improve quick distribution. Also, the Government should integrate other development interventions of poverty reduction along with microfinance due to the fact that microfinance cannot defeat poverty alone.

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