THE ROLE OF MICROFINANCE IN POVERTY REDUCTION IN TANZANIA

A CASE STUDY OF MBEYA MICROFINANCES INSTITUTIONS

BY

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ABSTRACT

Urban poverty continues to increase in Tanzania despite many NGOs working on poverty reduction. More Microfinance Institutions and Savings and Credit Co-operative Societies are found in urban areas than in rural areas even though the majority of the population is still in rural .Urban centres have become more attractive for the Small and Medium Entrepreneurs (SME), which have increasingly become more important in terms of income generation and provision of goods and services. The aim of this research is to evaluate the role of Microfinance Institutions on poverty reduction and its implications on livelihoods of the micro-entrepreneurs borrowers. The study had 450 randomly sampled respondents, stratified as borrowers and non borrowers. Data was generated using questionnaires, direct observation and focus group discussion. Data analysis employed both descriptive and quantitative methods. Results from the study indicate that main sources of initial capital for their business was own savings and friends.It also showed that non-borrowers are doing better than borrowers in terms of assets possession. Further, it showed that there was low repayment rates amongst the group based MFI, with some members losing their assets due to repossession and some even running away from their families as a result of the debt. High interest rates, short repayment intervals and time spent in meetings were all cited as major obstacles to growth of business. As a way forward, the study recommends among others that the MFIs review their policy in view of: accommodating young entrants into business, increasing the grace period, reducing the frequency of repayment, and providing micro-entrepreneurs with business skills

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