

**The role of micro-finance institutions on poverty reduction:
a case study of Micro-credit services provided by the National Microfinance Bank**

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The increased number of unemployment in developing countries, particularly Tanzania, by the mid 1980s accelerated the requirements for changes in development activities. A new concept of employment was urgently needed for individuals and country's development. Thus, the concept of self employment through Micro and Small Enterprises (MSEs) was born. While capital stands as the major tool to support Micro and Small Enterprises; liberalization of the economy and privatization of financial institutions (Banking act, 1991) pushed the poor away. Banks have tended to shy away from financing MSEs. Therefore, the development of Microfinance institutions in the country was vital. Many NGOs for micro finance were introduced. However, many of these failed due to lack of sustainability and charges of high interest rates. Therefore the government launched the national microfinance policy (2000) for the purpose of establishing a sustainable and affordable financial instrument for MSEs. This led further to the restructuring of the National Bank of Commerce (NBC) and establishment of the National Micro Finance Bank (NMB). The NMB was given an additional role to assist the poor households by giving them credit on favourable terms in order to reduce and alleviate poverty. This placed the NMB at the core of efforts of poverty reduction. There was thus a need to assess the impact of micro credit on poverty reduction. To provide a factual base for the study, the methodology developed was based on harvesting a set of pre-determined and planned data through systematic field studies and following in-depth quantitative and statistical analysis of the data harvested. The region that was studied was Morogoro. Random selection was applied to obtain the sample populations. To add verification to the data harvest, in-depth interviews were conducted also with the NMB staff at the regional office. The outcome of the analysis shows a clear correlation between availability of Micro credit and poverty reduction. The study area reveals that a majority of those who borrowed from NMB experienced an increase in their sustainable income levels after obtaining the loan. They have also experienced remarkable improvement in their standard of living particularly in basic needs of life like health care, education, food and nutrition, clothing as well

as empowerment. However, it is not evident from the findings that the group presently targeted for loans from NMB is representing the very poor segment of the society. We recommend that, the bank should extend the services to the very poor segment of the society: while at the same time linking the process of giving out credit with savings and insurance practices to the beneficiaries. It is also recommended that, in order to increase effectiveness and impact of credits to MFI's borrowers, intensive training programs are needed for the purpose of providing the borrowers with basic enterprise skills which will help their business of flourish.