



## **MICRO-CREDITS AND POVERTY REDUCTION IN DAR-ES-SALAAM, TANZANIA: A CASE STUDY OF DAR-ES-SALAAM COMMERCIAL BANK**

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### **ABSTRACT**

*The purpose of this study was to examine the contribution of micro-credits on poverty reduction in Dar-es-Salaam, Tanzania. The study used a sample of 200 respondents taken using simple random sampling, while data was collected using questionnaires and analyzed using statistical methods derived from the use of the Statistical Package for Social Sciences (SPSS) research which, when used, provides a variety of statistical measures like percentages, mean, standard deviation, variances etc. The study found out that Micro-credits contribute positively towards reduction of poverty for Dar-es-Salaam residents who are mainly neglected by the formal banking sector on the aspects of loans provision. The field results presented the following means: creation of employment 4.8300, increase level of income 4.3850, asset accumulation 3.6382, improve borrowers living standards 4.4050, create awareness to borrowing and resettlement monthly 3.8100, and promote respect and social dignity 4.6700 of the total sample. Added to the above, the study found that Dar es Salaam Commercial Bank contributed to the reduction of poverty and vulnerability of poor through enabling them to break the vicious cycle of poverty and also enabling them to enhance self-empowerment, respect and social dignity. The study concludes that micro-credits are a useful means for the poor section of the society to reduce or eliminate poverty. It enables the financially less fortunate members of our society to overcome financial inadequacies. The researcher, thus, recommends the following policy issues: development of ideal means for micro-credit institutions to serve more the section of the society that is neglected by the formal banking sector and assist in the enactment of appropriate micro-credit infrastructure and policies to reach the poor.*

**Keywords:** Micro-credits, Poverty, Poverty reduction, Commercial bank, Microfinance institutions, Micro-entrepreneurs.

### **Contribution/ Originality**

This paper's primary contribution is finding out that micro-credits contribute positively towards reduction of poverty for Dar-es-Salaam (Tanzania) residents and that Micro-credit Institutions provide important services for these clients who are mainly neglected by the formal banking sector on loans provision, playing increasing vital roles in society development.

## 1. INTRODUCTION

A recent study conducted by the Bangladesh Institute of Development Studies and the World Bank in Bangladesh provides a strong indication that Micro-credit do help the poor in consumption smoothing as well as in asset building (Latifee, 2003). The study also suggests that micro-finance programs promote investment in human capital, like schooling, raises awareness to reproductive health and increases both individual and household welfare.

Latifee (2003) also observed that Micro-credit refers to programs that are poverty focused and which provide financial and business services to poor people for generation of self-employment and income. Micro-credits have been known to contribute immensely in poverty alleviation worldwide. Governments, donors, development agencies, banks, universities, consultants, philanthropists and others have increasingly been developing a lot of interest in poverty alleviation.

Microcredit is increasingly being perceived as a powerful instrument for poverty reduction and income generation for low-income population segments in developing countries. The United Nations' proclamation of 2005 as the International Year of Microcredit, as well as the Nobel Peace Prize awarded in 2006 to Muhammad Yunus, who was a pioneer (the founder of the Grameen Bank in Bangladesh; Yunus and Jolis, 1998) in assisting the poor by extending them micro-credits through appropriate programmes, are both clear signs of this recognition. Ghosh (1990) viewed poverty in terms of the condition of people not having money or power. By moneylessness he means insufficient of cash and chronic inadequacy of resources of all types to satisfy basic human needs such as nutrition, warmth, rest and body care. Having no power, on the other hand, means lack of opportunities. As the idea of microfinance began to spread, so many Micro-credit Institutions also began to spring up. However, with the emergence of many Micro-credit Institutions in many countries, there seem to be some hope for the poor (Adesunmi, 2004), but some questions that come to mind are: what is the relationship between income level of respondents before and after the microcredit? Has the poverty level been reduced due to the presences of microcredit? What is the impact of this microcredit on the livelihood of the poor? These are the issues that this study tries to address.

Taking Pakistan (which, according to the World Bank, has one of the highest levels of the poor among developing nations), a variety of institutions ranging from NGOs to private and government sponsored rural support programs are delivering microfinance services to the poor. In this country (Pakistan), the poor usually acquire loans from informal sources. Microcredit businesses are often plagued by the problems of small size and isolation and rely on local patronage, which may not be sufficient to support long term growth. These problems may be solved by 'microenterprise clusters' or groups of microenterprises located in close proximity and engaging in similar business activities. The main advantages are collective efficiency as well as sharing labour, information and technological innovations. On the other hand some clusters are unable to progress beyond the rudimentary stage and develop a parochial world view (Weijland, 1999).

The micro-enterprises play a vital role in the reduction of poverty for the poor by enabling them to start prospering, economically and socially. Others in the society also get benefited from the microenterprise development as it fosters social relations or networks, civic engagement, community solidarity and social capital (Ssewamala *et al.*, 2006).

As a result of poverty reduction policies in many countries, many banks and other financial institutions have introduced various packages of credits and deposits. Available information shows that currently there are about 60 banks and few non-banking financial institutions in Tanzania (Bank of Tanzania, 2013). The presence of more banks can be interpreted to mean more access to credit among Tanzanians and hence more investment leading to the generation of more income to reduce poverty. Despite the proliferation of banking institutions and the wide range of banking products and services, it seems very little attention has been paid to help the poor to come out of poverty.

Following the statement of the problem for this study, although poverty reduction has been the declared core objective in the Government's National Strategy for Growth and Reduction of Poverty II (NSGRP II), there has not been adequate emphasis to the problems of the low income earners of the society. The government's efforts to improve the living conditions of the majority of her population have begun to bear some fruit; however, the incidence and severity of poverty have intensified in various areas in the recent past. Recent researches suggest that the income gap between the wealthy and the poor has been widening in rural and urban centers. Certainly, some work has been going on in the country to improve the lives of the majority of the population, especially in the recent past. However, most of the country's urban centers including Dar es Salaam are still facing various social and economic problems. Microcredit institutions are expected to play a pivotal role in meeting the financial needs of both households and microenterprises. On the supply side, microcredit could be the best instrument to bring about poverty reduction by loosening constraints on capital, opening doors for investment, smoothing consumption over time and meeting emergency liquidity needs. On the demand side, microcredit institutions could mobilize poor people's savings and enable them to accumulate interests on their deposits (United Nations, 2008). But, still, micro credits seekers are facing challenges of collaterals, access to the credits, unfavorable banking and government policies like the interest rates etc.

Huge amount of money has been given to the Micro Finance Institutions (MFIs), not only by donors but also by the government. In a resource-scarce country like Bangladesh, government's allocation to MFIs has added effects on other sectors. A faster rate of poverty alleviation does not depend only on the scale of microcredit programs but also on actual poverty alleviating strength of these programs. This is why it is important to investigate how much the current microcredit programs are actually contributing to the poverty alleviation, and how to make them more poverty alleviating. Although quite a large number of micro studies are available, which primarily trace and depict robust household level impacts of microcredit, study on their macro level impacts has hardly been available (Morduch, 1998).

Therefore, to address these issues, amidst other strategies, the use of microcredit has tremendously gained importance lately. The [World Bank \(2000\)](#) claims that poverty reduction strategies which made use of microcredit method have, to a large extent, brought improvement in the lives of the poor. Though critics are challenging this claim, saying that microcredit efficacy has been overstated. One such view is echoed by [Russel \(2006\)](#), who lamented on the absence of statistics to suggest any causal link between microcredit and improved living conditions among the poor. However, with the improved situation, poor people still continue to experience vulnerability to hazard, risk and stress. Microcredit can be seen as extremely small loans given to poor borrowers. It is for self-employment projects that help them to generate incomes that would support them and their family members. Most beneficiaries are those who are mostly not qualified for traditional bank loans as most do not possess secured and adequate collaterals demanded by the banks before loans are advanced. Moreover, most cannot borrow at the prevailing bank rates. To examine, the contribution of micro-credits to poverty alleviation, this study was undertaken to test the same in Tanzania.

The significance of the study stemmed from the fact that the contribution availed from it will enable and assist policy makers in formulation of appropriate macroeconomic policies in the area of micro-credits so that a large section of the society can be reached in poverty alleviation strategies. The study will also make an appropriate contribution to existing body of literature, assisting the micro-credit enterprises in improvement of their services, as well as be a basis for further research in the area.

## 2. LITERATURE REVIEW

Micro-credits contribute to the reduction of poverty and vulnerability of the poor by enabling them to break the vicious cycle of poverty and also enabling them to enhance self empowerment, respect and social dignity. It allows poor people to increase their income, accumulate assets and enter into mainstream society. The benefits of starting micro-enterprises go beyond an individual and a household. Others in the society will also be able to get benefits from the microenterprise development due to the ability to foster social relations or networks, civic engagement, community solidarity and social capital ([Ssewamala et al., 2006](#)). The contribution of the micro-enterprises is also significant to the macro-economic level. [Tokaman \(1996\)](#) emphasizes the importance of promoting micro-enterprise sector as a safety net for unemployed people in the societies where unemployment insurance is not available.

The [World Bank \(2000\)](#) classified micro-credit programs in Bangladesh as one of the most effective anti-poverty tools for the poorest. [Mamun \(2011\)](#) examined the effect of Malaysia's microcredit program on hardcore poor households' microenterprise income in Peninsular Malaysia. Existing literature survey suggests that there is a gap in the literature on the topic of measuring the effect of microcredit programs on hardcore poor households' microenterprise income in Peninsular Malaysia. The results of this study reveal that microcredit program increases the microenterprise income of their clients in Peninsular Malaysia. Therefore, the study

concluded that a diversified program should be undertaken with special focus on providing adequate training, flexible and diversified loan programs, and increasing outreach.

Ahmed (2000) undertook a study based on empirical data collected through interview from two groups of rural women who had credit and those without credit. The findings demonstrated that, the 'with credit' women had a much lower percentage of poverty in terms of its incidence (80%), intensity (28%) and severity (12%) compared to the 'without credit' respondents (99%, 59% and 37% respectively). It was also found that educational attainment of the respondents and income earners in the family contribute positively to reduce poverty situation among the 'with credit' households more, as compared to 'without credit' households. Therefore, it can be concluded that microcredit programme helped the rural women to reduce their poverty more effectively.

Clement and Terande (2012) investigated microcredit as a strategy for poverty reduction in Benue State, Nigeria. The analytical tools included descriptive statistics and logit regression model. The study outcomes showed that the incidence of severe poverty existed before and after microcredit. The Gini coefficient also indicated a high and low income inequality that existed before and after microcredit. The result from logit regression techniques indicated that the computed value of R<sup>2</sup> was as high as 0.723, which implies that microcredit influenced the poverty status of the respondents. The results confirm that microcredit had helped in reducing poverty among the respondents.

The evidence of micro-credits on reducing poverty vulnerability is somewhat now quite clearer. The provision of micro-credit has been found to strengthen crisis-coping mechanisms, diversify income-earning sources, build assets and improve the status of borrowers (Hashemi *et al.*, 1996).

Mamun (2011) took a study to measure the impact of microcredit programme in Malaysia and discovered a significant increase in client's monthly household income (55%). A second Internal Impact Study (1990) conducted by Research and Development Unit of the programme, showed further overall improvement among participating households. The findings showed that that household income increase was experienced to around 98% of them. The per capita monthly income also increased from RM 40 to RM 73. The findings, thus, echoed the earlier study. In mid-1990, the Malaysian government initiated an impact assessment study on the microcredit schemes by a team of Social Science and Economic Research Unit (SERU) of the Prime Minister's Department. Social Science and Economic Research Unit (SERU) (1990) study noted that the overall household income increased by more than double (from RM 197.78 per month to RM 466. Household savings increased from an average of RM 33.11 to RM 211.25. The increase in household income also facilitated an increase in expenditure on food, nutrition, education and reinvestment. As for cost effectiveness, with an operating cost of RM 7,056, the programme managed to release 249 poor families from poverty. Several empirical applications have followed the logit regression. These include, Adesunmi (2004) who researched on the extent to which microcredit had an impact on small scale farm production in Ondo State, Nigeria. The study evaluated the production efficiency of farmers participating in the microfinance and the

determination of credit utilization on traditional farming in western Nigeria. A multi-stage sampling technique was used to collect primary data using structured questionnaire from 100 beneficiaries from selected financial institutions in the study area. The study showed that the margin beneficiaries after microfinance loans are relatively with more farm resources than their counterparts. Most studies (like those cited above) suggest that access to credit has the potential to significantly reduce poverty (Khandker, 1998) on the other hand there are also some research which argue that micro-credit has minimal impact on poverty reduction (Morduch, 1998).

### 3. METHODOLOGY

#### 3.1. Research Design

The study basically adopted a descriptive survey research design. The design was chosen as a means to evaluate the effect of micro-credits on poverty alleviation/reduction.

#### 3.2. Study Location and Population

According to Brian (2000) a population comprises any entire set of elements or objects that possess at least one common characteristic. Furthermore, a population can be very large or small depending upon the size of the group of the elements or objects from which the researcher plans to draw inferences. Thus, the population refers to that entire set that a researcher has in mind from which information or data can be obtained for the study purpose. Dar es Salaam Commercial Bank was chosen as a case study for this study because it is actively involved in the field of micro-credit and micro-savings in Tanzania with various branches in Dar es salaam, Tanzania. The study population involved credit beneficiaries residing within Dar es Salaam, with DCB employees both at the headquarters and the bank branches, amounting to 400.

#### 3.3. Sampling Plan (Sample Size and Sampling Techniques)

Sampling is a process of selecting sufficient number of elements from the population so that the study of a sample and an understanding of its properties or characteristics would make it possible for us to generalize such properties or characteristics to the population elements. A total of 200 respondents were involved in the study whereby 149 were those who use micro-credit facilities from DCB while 51 were DCB employees.

Table-1. Sample Size

Type	Amount
DCB Employees	52
Micro-credit Beneficiaries	148
Total	200

Source: Researcher (2014)

#### 3.4. Sample Size

Thus, as stated earlier above, the sample for this study comprised of 200 respondents. The researcher arrived at this sample through the use of Slovene's formula at e (Level of Significance) = 0.05, stated as;

$$n = \frac{N}{1 + N (e^2)}$$

Where n= Sample Size, N= accessible population and e = Level of significance at 0.05.

### 3.5. Sampling Procedures/Techniques

The study employed a simple random sampling technique in picking the respondents. Brian (2000) noted that: "... this technique allows the researcher pick the sample he/she thinks will deliver the best information in order to satisfy the research objectives in question...". The simple random sampling technique was appropriate here since it provides an opportunity for each and every element in the target population or sample to get an equal chance of being selected or included in the final sample and thus increasing the objectivity of the results of the research. The sampling design so selected resulted in cost effectiveness, rendering a possible small sampling error, truly represented the population (true representative sample), minimized and controlled the extent of biasness and the one which presented a good generalization of the findings for the population that was under study.

### 3.6. Research Instrument

Self-designed questionnaires were administered such that they could be filled by the respondents and collected back by the researcher. This method was useful on reducing the problem of non-response, hence, its justification for this study. Sekaran (2006) defined questionnaire as a pre- formulated set of questions which respondents record their answers within rather closely defined alternatives. The questionnaires consisted of a set of questions set by the researcher in relation to the objectives of the study to guide the respondents in responding appropriately to the researcher at the time of the field study; this enabled the respondents to express their opinions and views on the problem under study. The questionnaires consisted of a 5-point Likert Scale which is a suitable method widely used due to its convenience to the respondents in agreeing, disagreeing etc. for each question. The questions were created to cover various components of the variables under study. Within each component there was a series of questions that examine or test specific aspects of the variables.

### 3.7. Instrument (Questionnaire) Validity and Reliability

This study employed construct validity whereby the obtained data through the questionnaires represented a theoretical concept meaningfully and accurately. This method was considered reliable after a pilot study was conducted using test-retest method to same group of respondents yielding consistent results. The test-retest method that was used in testing instrument validity yielded consistent results (100% consistency). The questionnaires were also tested for reliability using test-pre-test method to ensure reliability. Some writers acknowledge that validity is concerned with the question of goodness of fit or concurrence between what the researcher has defined as a characteristic of the phenomenon under study and what the researcher

is reporting in terms of measurement. The instrument's validity was further diagnosed as hereunder:

**Internal Validity:** Piloting by testing the questionnaires prior to sending them to the selected sample ensured internal validity of the study. The testing was done so that the questionnaires were reviewed and tested as appropriate. This was done to ensure that the questions asked concentrated on the issues essential to the survey. This also ensured that the right questions with proper ingredients were asked. This increased the reliability of answers and their consistency throughout the survey questionnaires. The questions were checked against a set of questions used in similar researches that were undertaken previously.

**Face Validity:** Validity is the degree to which the findings correctly map the phenomenon in question. The researcher utilized other professionals, research colleagues and other experts to examine the questionnaires to ensure facial validity and the contents. Their comments and suggestions were used to revise the questionnaires before preparing the final instrument.

**Content Validity:** The content validity refers to the representativeness of the item content domain: the manner in which the questionnaire and its items are built to ensure the reasonableness of the claims of content validity. The rigorous procedures used to select the questionnaire constructs to form the initial items, personal interviews with experts, and the iterative procedures of scale purification imply that the instrument had strong content validity.

### 3.8. Instrument Reliability

The researcher calculated the reliability coefficients of the scales using Cronbach's Alpha. In order to calculate Cronbach's Coefficient Alpha, the following Kuder-Richardson (K-R) 20 formulae was used:

$$KR_{20} = \frac{(K)(S^2 - \sum s^2)}{(S^2)(K-1)}$$

Where:

$KR_{20}$  = Reliability coefficient of internal consistency

$K$  = Number of items used to measure the concept

$S^2$  = Variance of all scores

$s^2$  = Variance of individual items

A high coefficient implies that items correlated highly among themselves. This is sometimes referred to as homogeneity of data. The reliability correlation by Cronbach Alpha found the coefficient to be 0.75 which was considered acceptable for this research.

### 3.9. Plan of Data Analysis (Data Coding, Analysis and Interpretation)

After data had been collected, the task that followed was that of analyzing, thoroughly and carefully, the data for the study. This involved the establishment of categories, the application of



the categories to the raw data through coding, tabulation etc, which led to drawing statistical references. In this case, therefore, raw data was classified into some purposeful and usable categories. Tabulation and subsequent analysis of data was made. The researcher employed the use of tables and frequencies and findings represented with the aid of statistical tables. Tabulation, as noted by Kothari (2002; 2004) is the use of tables in analysis and presentations of research data. Tabulation conserves space, reduces explanatory and descriptive statements to a minimum, facilitates comparison and summation of items and provides a basis for various statistical computations. The responses of the subjects were entered into the computer using Statistical Package for Social Science (SPSS) research. The responses from closed ended questions were coded into frequencies and percentages for easy analysis and interpretation. The 5-point Likert Scale and Mean interpretation was made as follows:

**Table-2.**The 5-Point Likert Scale Interpretation

Rating	Response Mode	Description	Interpretation
5	Strongly Agree	Agree with no doubt at all	Very Satisfactory
4	Agree	Agree with some doubt	Satisfactory
3	Undecided	No idea	Nil
2	Disagree	Disagree with some doubt	Fair
1	Strongly Disagree	Disagree with no doubt at all	Poor

The Mean Interpretation was undertaken with the following key:

Strongly Agree	4.5-5.0
Agree	3.5-4.4
Neutral	2.5-3.4
Disagree	1.5-2.4
Strongly Disagree	0.5-1.4

It has been in view of this study that the different approaches of data analysis that were employed have given a better feel and findings that are credible (i.e. findings which are reliable, valid and generalizable). Thus, after the actual data collection had been undertaken, the actual processing and analysis of such data was given an important consideration and hence both quantitative and qualitative procedures were adequately put into use.

### 3.10. Study (Research) Findings

This study established the following starting with the way data was analysed:

## 4. DATA ANALYSIS

Data analysis was undertaken as per the table below (Table 3) which depicts the findings analysed as per the mean interpretation presented above:

**Table-3.** Descriptive Statistics Showing Mean of all Responses on Contributions of Micro-credits to Poverty Reduction in Urban Society in Dar es Salaam

Contributions	n	Range	Sum	Mean	Std. Deviation	Variance
Create employment	200	1.00	966.00	4.8300	.37658	.142
Increase level of income	200	3.00	877.00	4.3850	1.02078	1.042
Asset accumulation	199	4.00	724.00	3.6382	1.27911	1.636
Improve borrowers living standards	200	1.00	881.00	4.4050	.49212	.242
Create awareness to borrowing and resettlement	200	3.00	762.00	3.8100	.69737	.486
Promote respect and social dignity	200	54.00	934.00	4.6700	3.78852	14.353
N	199					

Source: Author (2014)

The Means in Table 3 have been interpreted following the main key below:

**Table-4.** Mean Interpretation

Response Mode	Mean Score Range	Mean	Interpretation
Strongly Agree	4.5-5.0	Very High	Very Satisfactory
Agree	3.5-4.4	High	Satisfactory
Neutral	2.5-3.4	Neutral	Nil
Disagree	1.5-2.4	Low	Fair
Strongly Disagree	0.5-1.4	Very Low	Poor

Source: Author (2014)

Micro credits were found to play a great role in poverty reduction which was under study, the field results presented thus (with following Means): creation of employment with 4.8300, increase level of income with 4.3850, asset accumulation with 3.6382, improve borrowers living standards with 4.4050, create awareness to borrowing and resettlement monthly with 3.8100, and promote respect and social dignity with 4.6700 of the total sample. All these statistics have high and very high means showing that respondents either agreed or strongly agreed with the constructs (please see Mean interpretations above). Added to the above is that the study found that Dar es Salaam Commercial Bank contributed to the reduction of poverty and vulnerability of poor through enabling them to break the vicious cycle of poverty and also enabling them to enhance self empowerment, respect and social dignity. It allowed poor people in Dar es Salaam to increase their income, accumulate assets, and enter into mainstream society as shown in the above the mean of 3.6700. The benefits of starting micro-enterprises go beyond an individual and a household. Others in the society also get benefited from the microenterprise development as it fosters social relations or networks, civic engagement, community solidarity in Dar es Salaam.

The contribution of the micro credits in Dar es Salaam, is, thus, also important at the macroeconomic level. These organizations contribute to innovations, jobs and economic growth as shown in the table above by 4.8300 mean which is on "strongly agree". It concurs with this study in Thailand which pointed out that small firms create employment opportunities for 60% of the workforce and contribute 50% to the GDP. Tokaman (1996) emphasizes the importance of promoting microenterprise sector as a safety net for unemployed people in the societies where

unemployment insurance is not available. In addition, the researcher finds out that micro credit program has a positive impact in generating, not only voluntary savings, but also additional savings among the borrowers. In this backdrop, it is necessary to analyze how this micro credit programs can influence income, savings and assets for the borrowers. Respondents revealed that access to credit has the potential to significantly reduce poverty in Dar es Salaam communities. The evidence on reducing vulnerability is somewhat clearer. The provision of micro-credit has been found to strengthen crisis-coping mechanisms, diversify income-earning sources, build assets and improve the status of women in Dar es Salaam. These findings (as can be accessed from the Table 3 above) concur with the study in Pakistan (see Literature Review). Other studies that have findings which concur with the ones under this study are: The contribution of the micro credits in Dar es Salaam concurs with the study in Thailand (Tokaman, 1996).

## 5. CONCLUSIONS

The findings have indicated that, micro-credits play major contributions to poverty reduction in the urban society of Dar es Salaam, and this may be replicated to other areas in the country. The contribution of Micro-credits in poverty reduction has been indicated by the field results that showed the following highly positive ratings: creation of employment with 4.8300 mean, increase level of income with 4.3850 mean, asset accumulation with 3.6382 mean, improve borrowers living standards with 4.4050 mean, create awareness to borrowing and resettlement with 4.4050 mean, and promote respect and social dignity with 4.6700 mean of the total sample responses.

In addition, micro-loan facilities have enormous outcomes to borrowers at the household level in both the rural and urban communities in Dar es Salaam. Borrowing and using micro-loan has increased on the capacity of the poor to overcome financial vulnerability. Many credit users have met household needs like food, medical and education hence improvement in their standards of living. Micro-credit has boosted businesses and many micro-entrepreneurs owe success to borrowing and using micro-loans. Indeed majority of the borrowers in Dar es Salaam rated the wellbeing of the household as high and moderate after credit utilization as opposed to low and moderate before using credit facilities in the household. However, the outcome of credit usage varies from person to person, time to time and across households. People of different socio-economic status, knowledge, experience, exposure and geographical location; either from rural or urban settings have different success stories concerning micro-loan usage. There are some constraints to using micro-loan facilities; like high interest rates, little time of repayment, but no doubt that micro-credit usage, in both rural and urban households, has positively contribution to the wellbeing of many people in Dar es Salaam as a whole. More so, the researcher concludes also that a micro-credit facility is, no doubt, a good innovation for developing low income earners of our society, as it enhances the productive capacity of the poor to participate in income generating activities. For a long period of time commercial banks neglected the poor members of our society who lack conventional collateral security like land title; on realizing this gap, Microfinance Institutions (MFIs) came in to extend affordable and easily payable loans to poor people through micro-loan schemes. Micro-loans, as a result, enable low income earners, in Dar es Salaam, to

expand and develop their income generating activities, enhancing their bargaining power and interests within the household and support payment of household necessities like food, medical care and education among others, thereby contributing to the welfare of the household. However, borrowers should be careful of the exploiting micro-credit lending institutions which charge exorbitant interests and others which cheat borrowers by running away with their savings.

## 6. RECOMMENDATIONS

The Government is called upon to undertake the preparation of an appropriate way for credit lending institutions to further penetrate and reach out even to the poorest of the poor in both rural and urban areas since the study has found out that micro-credits greatly improve the lives of the poor. There is also a need for the Government to appreciate the socio-economic conditions, knowledge, attitudes, perceptions, cultural beliefs and practices of credit borrowers and a critical consideration of these issues will have a high impact in enabling lending institutions to tailor their financial services to the needs of the clients and low income earners in developing communities. It has also been apparent that micro-credit institutions provide important services for clients neglected by the formal banking sector. This study also calls for immediate measures to revamp micro-credit policies in the country (Tanzania). It is also recommended that micro-credits, in their present form, should not only be considered for their alleged poverty alleviating qualities, but also as subsidies in support of an alternative small-scale banking sector. As long as social development funds are directed to microfinance institutions, qualitative and quantitative indicators of social progress achieved through micro-credit lending should be among the basis of assessment of growth and social development. A core issue in this respect is the working conditions of micro-entrepreneurs and their employees. It is not enough to know that loans have been repaid; micro-credit institutions should also account for the social and economic impact their programs have on their clients. For the case of Micro-loan providers, they should be able to expand their loan facilities to reach out the vast majority of the poor population in the country, both in rural and urban areas. As it has been pointed out earlier, for a long period of time commercial banks neglected the poor members of our society who lack conventional collateral security like land title. In realizing this gap, Microfinance Institutions (MFIs) should come in full force to capture this niche and extend affordable and easily payable loans to the poor people through micro-loan schemes. Micro-loans, as a result, will enable low income earners, to expand and develop their income generating activities, enhancing their bargaining power within the household and be able to support payment of household necessities like food, medical care and education among others, thereby contributing to the welfare of the household and, finally, to the economy of the country as a whole.

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