A critical look at the role of micro finance banks in poverty reduction in Tanzania: A case of Akiba Commercial Bank Limited

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Abstract

A study to examine the effectiveness of micro-finance banks in poverty reduction in Tanzania was conducted in Dar es Salaam using Akiba Commercial Bank as a case study. The study was guided by the following research questions: Who has access to credits? Do borrowers become successful in their undertakings? And what are improvements achieved in the reduction of poverty in the fields of income, employment, education and housing? Simple random and purposive sampling techniques were used to get a total of 120 study respondents. Data were collected through questionnaires, semi structured interviews, observations and documentary reviews. Data analysis was based on descriptive statistics and presented in tables, charts, and percentages.

Study findings show that majority of the poor do not access bank loans because they lack guarantors, assets, businesses, salaried employment, savings account in banks, ability to make pre-loan weekly deposit on Special Savings Account which are required as collaterals. Majority of respondents have indicated that credits do not make them successful in their undertakings as they make them to become more dependants on them. Generally, it can be concluded that the effectiveness of Micro-finance banks in poverty reduction is minimum, because the banks are not pro-poor. Banks should encourage poor to borrow by revisiting the collateral conditions and reducing interest rates. Also government should consider of establishing independent funds to help poor.

1.0 Introduction

One of the major development problems facing the world today is growing phenomenon of poverty. It is estimated that over 1.3 billion people live on less than one dollar per day, and 1 billion people can not meet basic requirements (Peralta, 2003). Furthermore, 315 million people (one in every two people) in Sub Saharan Africa survive on less than one dollar per day and 184 million people (33% of the African population) suffer from malnutrition (UNDP, 2002). In Tanzania the situation is worse, as 50% of Tanzanians are considered to be basically poor with approximately one third of people living in abject poverty (URT, 2000). According to the Household Budget Survey (HBS) of 2000/01 the proportion of the population below the national food poverty line is 18.9 % and that below the national basic needs poverty line is 35.7%. Indicators of income poverty also show growing disparities between urban and rural population, as well as across and within regions and districts; the urban poor constitute about 13% compared to 87 % in rural areas (URT, 2003).

The problem of poverty is intensified by its complex and dynamic nature with many facets which keep on changing from time to time. The persistence of poverty is linked to its interlocking multidimensionality; it is dynamic, complex, institutionally embedded, and a gender and location specific phenomenon. The pattern and shape of poverty vary by social group, season, location, and country. Further, poverty has a number of indicators, including low income, low production, unemployment, ignorance, hunger, poor infrastructure, persistence of diseases, high maternal mortality rate, short life expectancy, homelessness, voiceless, powerlessness, vulnerability, and poor social services such as poor education services, lack of clean and safe water and poor health services.

It has long been recognized that resource-poor people may be trapped in poverty because of lack of financial resources needed to undertake productive investments (Von Pischke *et al.* 1983). Increased access to financial resources relaxes the liquidity constraints that disadvantaged households face enabling them to engage in economic activities that generate dynamic growth. Banking industry has a major impact on economic growth, development and poverty reduction in a country. Microfinance banks provide financial services including micro loans, savings, micro insurances and other financial innovations to the poor. Improved access to credit can enable the poor to finance productive activities that allow income generation, consumption, savings, as well as investment. This is a route out of poverty for the non-destitute chronic poor. For the transitory poor, who are vulnerable to fluctuations in income that bring them close or below the poverty line, microfinance provides possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself that can be drawn on.

Against this background, the National Micro Finance Policy was introduced in with the main objectives of establishing a basis for the evolution of an efficient and effective micro financial system in the country, which serves the low-income segment of the society, and thereby contributes to economic growth and reduction of poverty. The policy focuses at the provision of financial services to households, small holder farmers, and small and micro-enterprises in rural as well as in the urban sector. It covers range of financial services, including savings, credit and payment (URT 2000). All this aimed at making banks become a useful instrument towards poverty reduction.

As a result of this policy, many banks and other financial institutions have introduced various packages of credits and deposits. Available information shows that currently there are 27 banks and few non-banking financial institutions in the country (BoT, 2006). The presence of more banks is interpreted as more access to credit among Tanzanians and hence more investment leading to generation of more income to reduce poverty. Despite of 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. Although some banks have started to target the poor, by extending collateral-free and low interest micro credits and loans, their coverage has remained minimal and mostly confined to urban areas. As such the contribution of these banks in poverty reduction has not clearly been established. This study therefore was intended to fill the gap by examining the effectiveness of microfinance banks in poverty reduction in Tanzania using a case of Akiba Commercial Bank (ACB) in Dar es Salaam. Specifically, the study aimed at (i) studying the coverage of credit in terms of people's class (poverty status) and size (number) of beneficiaries (ii) identifying the limitations to successful use of credits and (iii) assessing the effect of micro credit and micro savings on people's standard of living.

2.0 Study Methodology

In undertaking this study, a case study design was adopted because it is less expensive and helps to get in-depth insight of the unit under investigation. Akiba 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 five out of her six full branches, in Dar es Salaam. Respondents for the study included ACB employees both at the headquarters and their Dar es Salaam branches, credit beneficiaries and non credit beneficiaries. Both simple random and purposive sampling methods were used to select the study respondents. Simple random sampling was employed to obtain credit beneficiaries of the Akiba Commercial Bank while purposive sampling was used to get ACB employees particularly the branch manager, credit manager, loan officers, credit analyst, marketing officers and old credit beneficiaries of the ACB. A total of 120 respondents were involved in the study whereby 100 were ACB clients while 20 were ACB employees.

Primary data for the study were gathered by using structured questionnaires, interviews and direct observations. Questionnaires focused on the demographic aspects and socio economic activities and were administered to all units of inquiry including ACB employees, and clients in the study area. Semi structured interviews were conducted with bank employees, bank clients and non bank clients. The researchers also participated in some of the day to day activities of ACB working with employees and loan beneficiaries as part of the data collection process which provided opportunity to record facts as they were observed, listened or experienced. Secondary data were obtained from bank's documents which included credit reports, trend on portfolio, schedule of interest rates and charges on deposits and lending, credit policies, credit intelligence reports, and bank's marketing brochures. Collected data were organized and analyzed manually. Data analysis was based on descriptive statistics particularly means, modes and frequencies. The study intended to establish accessibility, coverage and the impact of credit in poverty reduction.

3.0 Study findings and discussions

3.1 Access to credit

Credit accessibility by the poor is an important factor in determining the effectiveness of micro finance banks in poverty reduction. The concern of this study was on the location of bank, types of customers per credit products, credit conditions and nature (or characteristics) of customers. Location of the bank may indicate the nature of clientele focused or served by the bank, and the accessibility of the bank. ACB is mainly based in Dar es Salaam with five branches in the city. It was revealed from the study that, 60% of ACB branches are located in Ilala where there is 25.5% of Dar es Salaam population while 40% of ACB branches are located in Kinondoni where there is 43.6% of the Dar es Salaam population. There was no any ACB branch in Temeke where there is 30.9% of the region's population. Considering the economic status of people and investments, there is no doubt that Ilala is comparatively well followed by Kinondoni while Temeke is the least. In other words, Temeke is likely to have higher proportion of low income earners. Besides, mobility from one place to another has cost implications which mean that the poor are likely to be less mobile and therefore long distances from banking services may deny them from accessing the same. Absence of a bank branch in Temeke implies that over 30% of Dar es Salaam residents do not have easy access to ACB services.

With regard to types of customers, it was revealed that the bank's loan customers are divided into six categories according to the types of loans they access. They include those who access group loans, salaried loans, individual loans, taxi loans, vehicle loans, and corporate loans. As shown in Table 1, customers who have access to group loans accounted for about 47.47% of all customers. Salaried loans and individual loans customers made up 27.1% and 24.39% respectively.

Table 1: Types of ACB products and number of customers accessing the products

Type of product	No. of clients	Percentage
Group Loan	5,523	47.47
Salaried Loan	3,154	27.11
Individual Loan	2,837	24.39
Taxi	36	0.003
Vehicle	47	0.004
Corporate	37	0.003
Total	**11,634**	**100.0**

Source: Akiba Commercial Bank, 2007

One of the reasons for this trend is the fact that terms and conditions in terms of collaterals for accessing group loans are relatively affordable compared to other categories of loans as the customer is required to have movable or non movable household assets such as furniture, domestic utensils, or any other items with market value. However, majority of the real poor can not have easy access to group loans, because group members tend to avoid them so as to avoid the burden that may be caused by their failure to pay debts. This is due to group security system which favors high income earners. In addition, group loans involve small amount of money which in most cases is used to solve immediate family problems instead of being allocated in productive activities. Results further show that, total number of ACB borrowers in Dar es Salaam is 11,634 which is about 0.0089% of the economic active population in the age bracket of 20 to 59 years (URT 2005). This is a very small number indicating that most of poor are not covered by ACB loans.

3.2 Credit Conditions

There are some conditions which must be fulfilled before accessing credit from the financial institution. These conditions may either smoothen or complicate credit accessibility by the poor. Taking an example of group loans, in order to access this service, borrowers must be in a group of six and must own a business, know each other, trust each other, love each other, willingly engaged in the group, ready to guarantee each other, have attended preliminary training given by ACB, ready to attend weekly centers' meetings, ready to save specific amount of money on weekly basis, likely in terms of income and are not blood relatives. Despite the fact that, study findings have shown that group loans seem to attract many customers (47.47% of all ACB clients), it was also observed that, the product was not easily accessed by the real poor. This is because conditions to access group loan act as barriers for the majority of the people. Discussions with respondents revealed that most of poor do not own business as do not have a capital base and are mostly concerned with immediate basic needs such as food, shelter, clothing, medical care and education of their children.

Responses from various stakeholders have revealed that; few poor, who have business, can not save enough so as to open and service the Special Savings Account in order to meet criteria of 'save one get four'. "Our business is hand to mouth, we can't save!" This was a common response on the question; why don't you open Special Savings Account so that you can make savings in order to get four times of what you will have saved?

Other conditions that exclude the poor from accessing loan, is lack of possibility of being accepted in the group. This is because the whole group is responsible in guaranteeing their members. Thus no one can guarantee a poor, knowing that, there is high possibility that, she can not afford weekly returns, thus may add burden to the guarantors. In other words, poor are not trusted, thus guarantors reject poor's request to join the group. Also a condition that; one is supposed to make four weekly savings consecutively before accessing the loan, is affecting poor's access to loan, because poor can not afford the savings, hence excluded from the service.

For salaried loans, borrower must have a permanent employment and the employer must guarantee her/him. Most of real poor do not have formal and permanent employment; this is due to their low or lack of education, thus do not fulfill the guarantee conditions hence can not access the service (salaried loans). On the other hand few of them are employed in low cadre jobs, such as security guards, messengers, and or cleaners, who either do not easily guaranteed by their employers, because of the nature of their jobs being risky or small salary amount, that one may easily disappear after accessing loan. Furthermore even if they get the guarantee, size of loan is insignificant that can not help them to alleviate poverty. Size of salaried loan accessed by poor is insignificant because of the loan principle which states that; the size of loan is only four times the net salary of the borrower, considering low salary amount of poor, even if they are lucky to access the loan, they can access very small amount of loan.

3.3 Nature of ACB Customers

A number of characteristics of respondents were examined to show the nature and categories of ACB clients in the study area. These included sex, education level, income level, family size, and economic activities. Study findings have shown that, women are the major borrowers making up 71% of all ACB borrowers while men accounted for only 29%. This trend may be attributed to the historical fact that, in many African societies, historically women have been one the disadvantaged groups due to lack of access to education causing them not to secure jobs in the formal sector. As a result, women tend to engage themselves in self employed activities, which necessitate them to borrow from financial institutions so that they can afford to run their businesses. Moreover, women can easily form groups thus fulfill the grouping conditionality as required by financial institutions providing loan services. This may one of reasons as to why majority of women clients tend to go for group loans. However, the loan amount in group loan is small, and therefore its contribution towards poverty reduction is minimal.

Another characteristic that was considered in this analysis was education due to the fact that a certain level of understanding is required for one to access and analyze the relevance of loans towards poverty reduction. Findings on education level of ACB clients have been summarized as shown in Table 2.

Table 2: Education levels of ACB Clients (N=100)

Education level	Women		Men		Total ACB Clients	
	No.	%	No.	%	No.	%
No formal education	2.0	2.8	0.0	0.0	2.0	2.0
Primary education	60.0	84.5	15.0	51.7	75.0	75.0
Secondary education	9.0	12.7	13.0	44.8	22.0	22.0
Diploma	0.0	0	1.0	3.5	1.0	1.0
Degree	0.0	0	0.0	0.0	0.0	0.0
Total	**71.0**	**100**	**29.0**	**100.0**	**100.0**	**100.0**

Majority of clients have primary education (75%) followed by those with secondary education (22%) while those with post secondary education (diploma and degree holders) accounted for only 1%. It was also evident from the findings that a small proportion of people with no formal education had access to ACB loans (2%). These findings imply that, those with no formal education are likely to have no access to bank's services due to lack of awareness, lack of assets, and not likely to be accepted in groups. One the other hand, people with formal education can easily understand the availability of loans in the bank and follow instructions towards loans. However, it is likely that majority of clients with primary and secondary education may lack the capacity to make cost benefit analysis of loans unless they undergo capacity building programs to enable them make use of the loans as intended. While people with post secondary education have more awareness and understanding and can make cost benefit analysis of loans taking consideration of high interest rates, some of them find it not profitable and therefore avoid these services.

To know the coverage of credit services in terms of peoples' class; there was a need to understand creditors' income levels. For the purpose of this study income levels of ACB clients were grouped into five categories as shown in Table 3.

Table 3: ACB customers in relation to their income levels (N=100)

Category	Income level (Tshs per month)	Frequency	%
Lowest	0 – 100,000	32	32.0
Low	100,001 – 300, 000	39	39.0
Medium	300, 001 – 500,000	17	17.0
Relatively high	500,001 – 1,000,000	9	9.0
Higher	Over 1,000,000	3	3.0
Total		**100**	**100.0**

Results show that about 39% of ACB borrowers have an average monthly income of Tshs. 100,001 – 300,000, followed by those earning less than Tshs. 100,000 which accounted for about 32%. On the other hand, medium, relatively high and higher income earners made up about 17%, 9% and 3% of all ACB borrowers respectively. This implies that, lowest income earners have no easy access to credit services due to various factors such the condition of depositing specific amount of money in the special savings account for the period of four weeks consecutively before accessing the loan. Combined together, clients in the low, medium and relative high income earners groups made up about 65% of all borrowers of ACB. This is due to the fact that, people in these groups can surpass conditions for accessing loans. Some of these conditions are having operating business, and capable of depositing specific amount of money for a period of four weeks before accessing loan. Moreover they can be accepted in groups and can afford to pay back. Though high percentage (65%) of these people can access loans, it is obvious that this is not the exactly group of lowest income earners (real poor), the ones who were supposed to access loans for the purpose of enabling them to escape from poverty.

Findings further show that, only 3% of high income earners access ACB loans. This situation was justified by ACB staffs interviewed as being due to the fact that most of ACB products have been designed to serve small and medium entrepreneurs. The design includes size of loans (most of packages are small size loans) and the recoup period, which is a maximum of one year. The group of over one million income earners, find those credit packages and conditions unfavorable to them, thus keep away from the ACB loans.

Another useful variable in this analysis was family size which has something to do with the family classes, savings and investment. Family size may determine the ability of individuals to access loans. Small families are regarded to be better off as compared to big families. This is due to the fact that, small families are likely to have lower expenditures on basic needs and services compared to big families. Thus, savings and investment is easier in small families and therefore easily access loans.

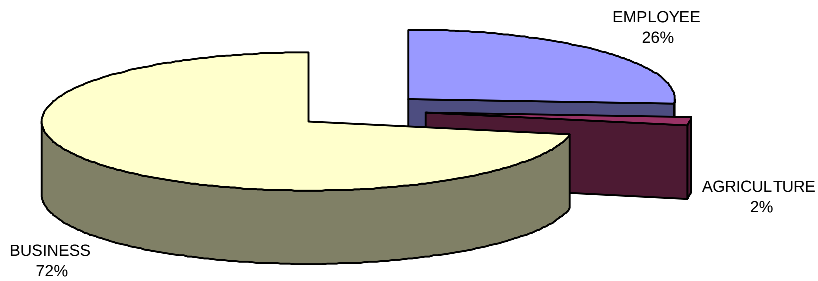
Table 4: ACB clients' family sizes (N = 100)

Size of the Family	Number of clients	%
1 – 3 members	21	21.0
4 – 7 members	52	52.0
8 and above	27	27.0
Total	**100**	**100.0**

As shown in Table 4, study findings show more than half of the respondents (52%) have families with 4-7 members. About 27% of borrowers have big families which have eight or more members and only 21% of ACB borrowers have small families, whose members are between 1-3. Because it is perceived that loans can act as a way out of poverty, thus, heads of average families tend to borrow from banks as they can meet loan conditions and therefore have access to loans. That is why they are leading borrowers with 52% of ACB loans share. The same applies to heads of big families, who also run to the bank for monetary salvation. However, not all of them get access to loans, because some of them do not meet conditions, this is a reason why, they are in number two with 27%. Small families' heads are the last ones in terms of loans share, this is attributed to the fact that, they are capable of affording life expenses, as they have small number of dependants, instead of borrowing they are making savings, which eventually leads to investments. This is why few of them go to loans, and easily access loans, as it can bee seen in the table that, though they are the last in terms of loans share, but their percentage is relatively large, this is 21%.

With regard to the type of economic activities performed by bank borrowers, study findings have revealed that, about 72% of borrowers are business operators, followed by employees who constitute about 26% and only 2% of bank borrowers are engaged in agricultural activities (Figure 2). The low proportion of farmers who are benefiting from bank loans has been attributed to the level of poverty of among farmers. Most of local farmers are low income earners, they are real poor, they can not afford the necessary weekly deposits, do not have assets, can not be accepted in groups. Moreover, farmers are not likely to afford payment schemes which are on weekly and monthly basis, because their harvest are seasonal; hardly twice a year.

FIGURE 2: ACB CLIENTS ECONOMIC ACTIVITIES

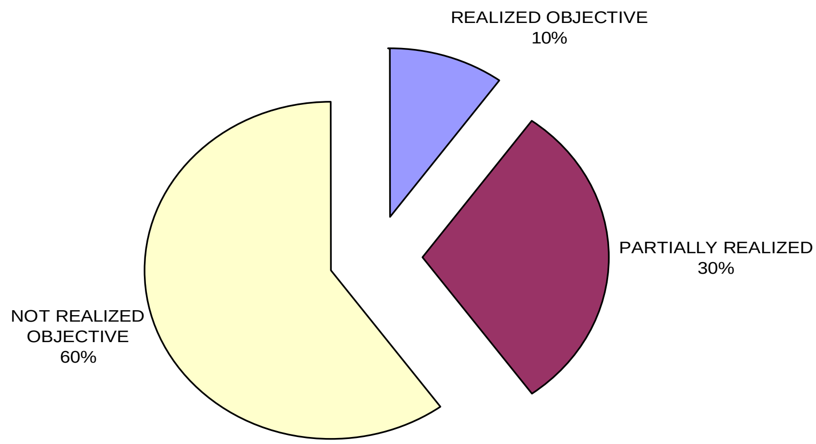


On the other hand, business operators are a leading group due to the fact that, businessmen and women need money to top up to their capital so as to make more profit. Most of them believe that more capital makes a possibility of making more profit. Moreover, business operators can easily fulfill banks credit accessing conditions, as compared to farmers, especially for small size loans.

4.4 Effect of Micro credit on People's Standard of Living

The impact of micro finance banks on poverty reduction can be seen by assessing the effect of credit in improving people's standards of living. Guiding questions were: Do borrowers become successful in their undertakings? Do they realize their objectives? On top of this, ability to repay loans was taken in to consideration. Results in figure 3 show that 60% of borrowers do not realize their objectives, 30% partially realize their objectives, and 10% realize their objectives. Borrowers cited that, loans make them more dependants on loans. Once they start to borrow, they can not do away with loans. Only few of the respondents (10%) indicated to have been successful as a result of credits. Reasons attached to their success included an attitude of having monetary discipline i.e. they recognize that business is an independent entity, they have business skills and have access to large amount of loans. Further, it was noted that 33.3% members in group loans failed to recover their loans on their own due to failure in their businesses. As a result, those loans had to be forcefully paid by other group members, friends, or relatives. In some cases collaterals were auctioned by the bank.

FIGURE 3. ACB CLIENTS RESPONSES ON REALIZATION OF THEIR OBJECTIVES



Responding to the question, why do borrowers keep on borrowing while do not become successful in business? About 50 % of respondents said it was because they had no other alternative, 35% argued that it is better to be busy doing something, even if it is not profitable, while 15% complained that banks make them tools for making profit as banks make more profits and not borrowers.

It was further observed that some borrowers though are not losers, are not making steps out of poverty, they only manage to break even. Others are not even breaking-even; they manage to repay their loans through injection of money from other sources. These sources include money from spouses, children, friends, relatives and from friendly loans (loans that have no interest rates). Non beneficiaries of loans responded that; they do not borrow because most of borrowers are not setting a good example in poverty reduction. They commented that, they are seeing borrowers embarrassed because of failure to repay loans on maturity. They keep on running here and there to stay away from group members and ACB loan officers, who visit them, when the time of making returns is overdue. One noticed that, her neighbor shifted from her room to stay with her relatives in another ward, so as to run out of the debt burden. Furthermore, non beneficiaries have observed that, loans, especially for poor, instead of alleviating poverty, are accelerating it, because few assets owned by the poor are being auctioned by the bank.

About 80% of ACB loan officers stipulated that, one great problem in their daily activities is to make their debt portfolios clean. This has been attached to failure of borrowers to respect their payment schedules, due to inability of loan investment to produce enough, so as to be able to afford scheduled payment plan. Also 10% of ACB loan officers pointed out the issue of lack of working facilities, such as means of transport and paid telephones to make follow ups for recovery debts is affecting their performance. They explained that, to conduct one day recovery trip per week is not enough. Again, this paints a picture that, most of borrowers do not pay their debts smoothly, unless they get to be pressurized by ACB loan officers. This is because the loans they get do not generate enough so as to afford scheduled returns. 10% of ACB officials kept quiet on this question, probably because of fear of divulging internal weaknesses. Based on observations and responses from ACB officials, borrowers and non borrowers, the bank loans are not effective tools in poverty reduction, because they do not help most of borrowers to attain their objectives, and in some cases they even fail to payback their debts.

4.0 Conclusions and Recommendations

Based on the findings of this study, it can generally be concluded that the contribution of micro finance institutions on poverty reduction among poor, is very minimum, due to hard conditions in accessing and servicing loans that poor people can not afford. It is therefore recommended that microfinance banks should improve accessibility of their services to poor by relaxing their terms and conditions on accessing services, especially loans. ACB should widen her market by introducing new products, such as house loans, agricultural loans, education loans and loans for initial capital. This will make borrowers access relevant loan products to meet appropriate objectives. There is also a need for the Bank to formulate flexible payment conditions and payment schedules to help poor customers afford loans, and make success out of them. Payment schedule should be flexible to comply with borrowers economic activities. Furthermore, a grace period for group loans should be extended from two weeks to at least one month, and for individual and salary loans bank at least two months, so that money returned to the bank may come from the profit generated by loan investments.

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