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- support the monitoring of the implementation of poverty related policy;
- strengthen national and international poverty research networks, and
- forge linkages between research(ers) and users.

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Assessing the Relative Poverty of Clients and Non-Clients of Non-Bank Micro-finance Institutions in Tanzania

The Case of the Dar es Salaam and Coast Regions

Hugh K. Fraser
&

Vivian Kazi

Research Report No. 04.2

**RESEARCH ON POVERTY
ALLEVIATION**

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Non-Bank Micro-finance Institutions in Tanzania**

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ABBREVIATIONS

CGAP	The Consultative Group to Assist the Poorest
FINCA	Foundation for International Community Assistance
PI	Poverty Index
MFI	Microfinance Institution
MSE	Micro and Small Enterprise
PTF	Presidential Trust Fund for Self Reliance
PCA	Principal Component Analysis
PRIDE	Promotion of Rural Initiative and Development Enterprise
IFPRI	International Food Policy Research Institute
REPOA	Research on Poverty Alleviation
SELFINA	Sero Lease and Finance Company
SPSS	Statistical Package for Social Scientists

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Finally, we wish to thank all the data collectors for their commitment and dedication in accomplishing their tasks.

We, the authors, remain entirely responsible for any errors or omissions in this study.

EXECUTIVE SUMMARY

This study was commissioned by REPOA. The overall objective of the study was to critically assess the relative poverty level of clients and non-clients of non-bank Microfinance Institutions (MFIs) in Tanzania, using the Coast and Dar es Salaam as sample regions. The end results were used to analyse the extent to which non-bank MFIs in Dar es Salaam and Coast that have poverty alleviation related mission do reach the poorest segments of the target communities.

One of the first things to appreciate is that this study was not an impact assessment study. Indeed the MFIs' clients surveyed were deliberately selected from those with less than six months of membership in the MFI to eliminate any impact of being in the lending programmes. Likewise, non-clients surveyed were not members of any MFI.

Both quantitative and qualitative research methods were employed in which structured questionnaire interviews were held with 498 clients and non-clients of MFIs namely: Presidential Trust Fund (PTF), Promotion of Rural Initiative and Development Enterprise (PRIDE), SERO Lease and Finance Company (SELFINA) and Foundation for International Community Assistance (FINCA). One on one interviews were also conducted with the Chief Executives of these MFIs to obtain basic institutional data. Data was then analysed using the CGAP's poverty assessment tool whose key feature is the Poverty Index (PI).

This is constructed through the application of Principal component Analysis (PCA), developed by using the Statistical Package for Social Scientists (SPSS). The benchmark indicator for poverty used in the poverty index was clothing and footwear. Levels of poverty were categorized as: Poorest (the lowest group), Poor (middle group) and Less Poor (highest group).

The Poverty Index results reveal that, out of four MFIs in the study, only one (FINCA) has a large number (47%) of the poorest clients while the others (PRIDE and PTF) are concentrating on the poor and least poor groups of clients. SELFINA was found to serve the least poor group almost exclusively. It was felt that one major reason for SELFINA's preference was because of its lending model i.e. individual lending mechanism. These results suggest that most MFIs do ignore the poorest group of clients.

Based on the results of this study, some MFIs with a poverty related mission do not really serve the poorest people in their areas of operations. This study should, therefore, give MFIs much food for thought and those that are serious about poverty alleviation may either have to modify their mission/objectives and/or

refocus their target markets and interventions to meet their poverty reduction goals.

This study, though general and using a very limited sample size, raises the question whether MFIs should in fact have poverty alleviation as their mission given the real need for MFIs to become fully sustainable. The irony is that it is a chicken and egg situation. To really serve the poor on a sustainable basis, MFIs themselves have to be sustainable but in that quest to become sustainable, MFI services may not be affordable to the poorest. A trade-off, therefore, has to be made.

It may be that MFIs' role in poverty alleviation (if poverty alleviation means reaching the poorest of the poor) will have to be indirect, i.e. by serving the least poor and poor in the hope that the relative 'prosperity' created will trickle down to the poorest of the poor through employment created by the least poor and extended family obligations etc.

It should be noted that there were a number of limitations in this study, therefore, in order to arrive at more concrete and specific results, it is recommended that the study be conducted to cover as much as possible of the country.

ABSTRACT

The overall objective of the study was to critically assess the relative poverty level of clients and non-clients of non-bank Microfinance Institutions (MFIs) using the Coast and Dar es Salaam as sample regions. The end results were used to analyse the extent to which non-bank MFIs in Dar es Salaam and Coast that have poverty alleviation related mission are reaching the poorest segments of their communities.

The MFIs' clients surveyed were deliberately selected from those of less than six months standing as members of the MFI, to eliminate any impact of being in the lending programme. Likewise, non-clients surveyed were not members of any MFI.

Both quantitative and qualitative research methods were employed in which structured questionnaire interviews were conducted with 498 clients and non-clients of four MFIs. Data was then analysed using the CGAP's poverty assessment tool whose key feature is the Poverty Index. Levels of poverty were categorised as: Poorest (the lowest group), Poor (middle group) and Less Poor (highest group).

The Poverty Index results reveal that, out of four MFIs in the study, only one has a large number (47%) of the poorest clients while two others cater for the poor and least poor groups of clients. The fourth was found to serve the least poor group almost exclusively. These results suggest that most MFIs are ignoring the poorest group of clients.

Based on the results of this study, some MFIs with a poverty-related mission do not really serve the poorest people in their areas of operations. This study should therefore give MFIs much food for thought and those that are serious about poverty alleviation may either have to modify their mission/objectives and/or refocus their target markets and interventions to meet their poverty reduction goals.

This study raises the question whether MFIs should in fact have poverty alleviation as their mission, given the real need for MFIs to become fully sustainable.

1.0 THE STUDY

Microfinance Institutions (MFIs) were established for the purpose of providing one, or a combination of micro loans, savings, business advice and training to Micro and Small Enterprises (MSEs). The formal objectives of most MFIs indicate a concern for poverty alleviation through provision of financial services to Micro and Small Enterprises (MSEs) (CGAP¹, 2000). Despite the establishment of a number of MFIs in Tanzania, the poverty burden continues to weigh heavily on Tanzanians and more specifically those living in the rural areas. For example, the proportion of rural households categorized as poor is 36 per cent in rural areas compared to 18 per cent in Dar es Salaam and 26 per cent in other urban areas (URT, 2002). Additionally, over 50 per cent of the people of Tanzania are categorized as poor with an annual income below the poverty line.

1.1 Objectives of the Study

- (1) The overall objective of this study was to critically assess the relative poverty level of clients and non-clients of non-bank MFIs in Tanzania by using CGAP's Poverty Assessment tool.
- (2) The end results of this study wish to answer the question as to what degree non-bank MFIs in Dar es Salaam and Coast regions that have poverty alleviation related mission are reaching the poor segments of their target communities. The results are expected to give MFIs much food for thought where they may need to either re-define their mission/objectives and/or refocus their target markets and interventions to meet their poverty reduction goals.
- (3) The results may also provide a useful means to verify both for the donor and the MFI the extent to which an existing strategy results in poor clients joining the MFI.

1.2 CGAPS' s Poverty Assessment Tool: A Summary

The microfinance industry promotes the dual objectives of sustainability of services and outreach to the very poor. When deciding to fund specific microfinance institutions, donors and other social investors in the sector invest in both objectives, however their relative importance varies among funders. Furthermore, many practitioners, donors, and experts perceive a trade-off between financial sustainability and depth of outreach, although the exact nature of this trade-off is not well understood.

In recent years, several tools have emerged to assist donors in their assessment of the institutional performance of MFIs. An example is the "CGAP Appraisal Format".

This tool contains practical guidelines and indicators for measuring MFI performance in a range of issues, including: governance, management and leadership, mission and

¹ The Consultative Group to Assist the Poorest.

plans, systems, operations, human resource management, products, portfolio quality, and financial analysis. Analysis of these institutional features allows for an appraisal of the potential for institutional viability or sustainability. At the same time, such tools as the “Appraisal Format” has encouraged transparency and development of standards on the topic of financial sustainability.

Currently, no concrete tool for measuring the poverty level of MFIs clients exists. In order to gain more transparency on the depth of poverty outreach, the CGAP has collaborated with the International Food Policy Research Institute (IFPRI) to design and test a simple, low-cost operational tool to measure the poverty level of MFI clients relative to non-clients. The CGAP poverty assessment tool has been developed as a much needed tool to provide transparency on the depth of MFIs’ poverty outreach. CGAP has tested this tool in four developing countries from Central America, East Africa, Southern Africa and South Asia.

The key feature of the Poverty Assessment Tool is the **Poverty Index (PI)**. The Poverty Index is constructed through the application of Principal Component Analysis (PCA). The PCA method is applied to determine how information from various indicators can be most effectively combined to measure a household’s relative poverty status. Which combinations of indicators prove the most instrumental in measuring relative poverty in a given survey area will differ, and often in ways that are somewhat predictable. In countries where poverty is extreme, indicators signalling chronic hunger tend to differentiate the relative poverty of households. In densely populated countries, ownership of land and dwellings may better signal differences in relative poverty.

The end result of PCA is the creation of a single index of relative poverty that assigns to each sample household a specific value, called a score, representing that household’s poverty status in relation to all other households in the sample. The lower the score, the poorer the household relative to all others with higher scores. The scores of MFI client households and non-client households are then compared to indicate the extent to which the MFI reaches the poor.

First, however, the share of the local population that is likely to fit the assessment’s definition of poor must be decided on. CGAP, in the assessments it has undertaken, has used a cut-off of 33 per cent of the control population to define the poorest group within the local population.

This decision is based on the usefulness of categorizing local populations into terciles that can be broadly interpreted to represent the lowest, middle and higher ranked groups of households ranked by relative poverty. The methodology can be adapted to include additional categorization. If half of the people in a country are below the poverty line and if the bottom 25 per cent are said to be the hard core poor, then the local population (the comparison group) can be divided into quartiles. Other divisions can also easily be made.

Referring to the case studies (Central America, East Africa, Southern Africa and South Asia), each assessment study includes a random sample of 300 non-client households and 200 client households. To use the Poverty Index for making comparisons, the non-client sample is first sorted in an ascending order according to its index score. Once sorted, non-client households are divided in terciles based on their Poverty Index score: the top third of the nonclient households are grouped in the “higher” ranked group, followed by the “middle” ranked group and finally the bottom third in the “lowest” ranked group.

Since there are 300 non-clients, each group contains 100 households. The cut-off scores for each tercile define the limits of each poverty group. Client households are then categorized into the three groups based on their household scores. **Figure 1** illustrates the use of cut-off scores to create poverty terciles from non-client households.

The cut-off scores of -0.70 and $+0.21$ were calculated from an actual case study example.

Each poverty assessment will use different cut-off scores to group households. Now that all cases for MFI clients and non-clients have been assigned to poverty groupings, comparing differences between the two distributions is possible².

1.3 Location of the Sample

Our sample was drawn from the Coast and Dar es Salaam regions. The sample comprised 498 owners/managers of MSEs and four MFIs operating in Dar es Salaam and Coast region namely: Presidential Trust Fund (PTF), Promotion of Rural Initiative and Development Enterprise (PRIDE) - Tanzania, SERO Lease and Finance Company (SELFINA) and Foundation for International Community Assistance (FINCA).

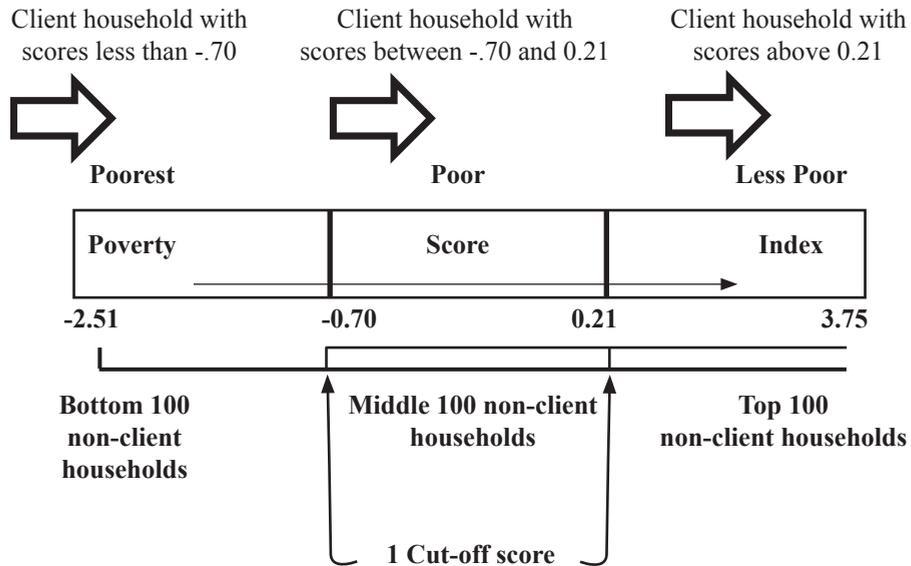
Of the sample of 498 owner/managers, 198 were clients of the sample MFIs and 300 were non-clients. The following sub-sections contain the regional profiles of Coast and Dar Salaam regions.

1.3.1 Coast Region

The region was established in 1972 as one of the regions across the Indian Ocean. It measures approximately about 33,539 sq. km. It is divided into six districts namely, Bagamoyo, Kisarawe, Kibaha, Rufiji, Mkuranga and Mafia. It also has 25 divisions, 81 wards and 417 villages.

² The tool is intended neither as a means to target new clients nor to assess the impact of micro-finance services on the lives of existing clients.

Figure 1: Constructing Poverty Groups



1.3.1.1 Population

According to the population census of 1988, the coast region had a population of 638,015. However the August 2002 census results show that the region now has a population of 889,154, made up of 440,161 males and 448,993 females. This shows that between 1988 and 2002, the population had increased at an average of 2.4 per cent per year. **Table 1.1** below shows the geographical summary of the Coast region.

1.3.1.2 Climatic Condition

The Coast region has an average temperature of 28°C and average rainfall of 800mm to 1000mm per year. The region has two rainy seasons i.e. from March to June and from October to December. The hottest months are between October and February.

1.3.1.3 Economic Activities

The economic development of the region mainly depends on agricultural activities. About 90 per cent of the people in the region depend on agriculture. Not surprisingly this sector contributes at least 80 per cent of the regional income.

Other economic activities include livestock keeping and retail trade. Livestock keeping contributes about 10 per cent of the regional income while the trade and service sectors contribute about another 10 per cent countrywide, the coast region is estimated to contribute an average of 2 per cent of GDP.

Table 1.1: Geographical Summary of the Coast Region

District	Area (Sq/km)	Area (%)	Population Males (2002)	Population Females (2002)	Total Population (2002)	Divisions	Wards	Villages
Bagamoyo	9,842	29.3	113,991	114,976	228,967	6	16	82
Kibaha	1,812	5.4	65,797	65,445	131,242	3	9	41
Kisarawe	4,464	13.3	48,152	47,171	95,323	4	15	77
Mkuranga	2,432	7.3	91,411	95,516	186,927	4	15	101
Rufiji	13,339	39.8	97,735	104,266	202,001	6	19	96
Mafia	518	1.5	20,564	19,993	40,557	2	7	20

Source: Regional progress report (2003), 2002 National Population and Housing Census

1.3.2 Dar es Salaam Region

Dar es Salaam was named “Haven of Peace” by the founding Sultan of Zanzibar in 1857. It is the largest and fastest growing city in Tanzania. Dar es Salaam is located on Tanzania’s East Coast, with Zanzibar Island to its North East, just 40km off the coast. This busy port city is the country’s commercial and administrative centre. The region is divided into three municipals namely Temeke, Kinondoni and Ilala. It also has a total of 10 divisions, 73 wards, and 103 villages.

1.3.2.1 Location and Area

The region is located between latitude 6°.36’ degrees and 7°.0’ degrees, South of the Equator and longitude 39°.0’ and 33°.33’, East of Greenwich. The region has a total area of 1,393 km² of which 448 km² are urban settlements. Dar es Salaam is bordered by the coastal line stretch of 124 km off the Indian Ocean water mass to the East and by Coast region to the south West and North.

1.3.2.2 Climate

The general temperature in Dar es Salaam ranges from 25°C experienced in the months of May to August to a level of between 29°C and 33°C during September to April.

The average rainfall adds up to a total of 1,135 mm per year during the short rains from October to December and the long rains during March to June each year.

1.3.2.3 Population

The 1988 census results indicate a total population of 1,360,790 people at an annual growth rate of 4.3 per cent. The 1990s decade marked the beginning of tremendous migration of people to the city of Dar es Salaam looking for jobs and hence the number of people increased as was noted in the results of 2002 population and housing census.

That census shows that Dar es Salaam has a population of 2,487,288 of which 1,254,853 are males and 1,232,435 are females. **Table 1.2** below summarizes the demographic information of the region.

1.3.2.4 Economic Activities

Major economic activities of the region relate to its role as the administrative, financial and transportation hub of the country and as a center for agricultural processing and light manufacturing.

Apart from civil servants, others are engaged in a variety of activities including: industry, trade, agriculture, livestock keeping, fishing, transport, hospitality etc.

A substantial number of traders in the region operate informal businesses i.e. micro and small businesses, such as food vending, carpentry, shoe making, tailoring, hairdressing, and small shops.

Table 1.2: Geographical Summary of the Dar es Salaam Region

District	Area (Sq/km)	Area (%)	Population Males (2002)	Population Females (2002)	Total Population (2002)	Divisions	Wards	Villages
Kinondoni	531	38	547,081	536,832	1,083,913	4	27	14
Ilala	210	15	320,408	314,516	634,924	3	22	27
Temeke	652	47	387,364	381,087	768,451	3	24	62

Source: Regional reports (2003), 2002 National Population and Housing Census report.

Residents of remote locations are engaged mainly in agricultural and livestock keeping activities. Agricultural produce includes food and cash crops such as: maize, rice, cassava, sweet potatoes and others. Commercial products includes; coconuts, peanut, mangoes, paw paws, watermelons, pineapples, oranges, and green vegetables.

1.4 Poverty Status of Dar es Salaam and Coast Regions

According to recent literature for Tanzania on Poverty and Human Development Report (2002), income poverty is measured by using various methodologies including the following:

- Single Indicator Approach (SIA)
- Human Development Index and Human Poverty Index

For the purposes of this report, the results of the Single Indicator Approach (SIA) are more applicable. The advantage of the SIA is that it gives a detailed view of the performance of individual regions per indicator. This level of detail reveals both strengths and weaknesses of the region and facilitates a more balanced perspective on the overall performance of the regions.

SIA defines poverty as a function of income and non-income human development attributes. Using this definition, poverty is measured and monitored through indicators grouped in seven clusters: income poverty, survival, human capabilities, extreme vulnerability, nutrition, conducive development environment and social well-being. Income poverty and human capability results of SIA were used in this study to show the poverty status of Dar es Salaam and Coast regions. **Table 1.3** below gives a human capability and income poverty indicators summary.

1.5 The Status of Poverty in the Dar es Salaam Region

According to the results of the Poverty and Human Development Report (2002), DSM is among the four best performing regions in Tanzania. It can be considered least deprived, consistently scoring among the best five for most indicators.

DSM has low income poverty compared to other regions in the country. Referring to the table above, DSM has performed best in almost all income poverty indicators. As compared to the country average, DSM's basic needs poverty headcount ratio of 17.6 per cent is better than the national average ratio of 36 per cent. Food poverty headcount (%) of 7.5 per cent for DSM is also better than the national average 16 per cent.

Table 1.3 also shows that the literacy rate is high in Dar es Salaam as compared to other regions. The report further reveals that Dar es Salaam is one of the best four performers in the country. Others are Kilimanjaro, Tabora, and Mbeya.

Table 1.3 Income Poverty Results of Dar es Salaam and Coast Regions

S/N	INDICATORS	DSM		COAST		TANZANIA
		Performance	Rank	Performance	Rank	
INCOME POVERTY						
INDICATOR						
1	Basic needs Poverty headcount ratio (%)	17.6	1	46.2	17	36
2	Food Poverty headcount (%)	7.5	1	27.5	16	19
3	Adults (age: 15-60) not active (%)	39.9	20	18.1	15	15.3
4	Rural Poverty headcount ratio (%)	NA	NA	29.7	18	
HUMAN						
CAPABILITIES						
1	Literacy rate of population 15+	91	1	61	18	71
2	Girl/boy ratio in primary education	1.1	2	0.7	20	
3	Girl/boy ratio in secondary education	0.81	12	0.79	13	

1.6 The Poverty Status for the Coast Region

The Single Indicator approach shows that the Coast Region has the worst performance in the country and has been ranked as the poorest region. According to the results of the Poverty and Human Development Report (2002), the Coast Region is among the four poor performing regions in Tanzania and it can be considered most deprived. Others are: Kagera, Lindi, and, Rukwa.

The performance of the Coast Region is particularly poor on indicators in the income poverty and human capability cluster with the 3rd lowest literacy rate (61 per cent) and among highest Basic needs and Food Poverty headcount ratios (46.2 per cent and 27.5 per cent respectively). This is more than 10 percentage points higher (worse) than the national average.

2.0 CASE STUDY METHODOLOGY

2.1 The Choice of Poverty Index Using an Indicator Based Methodology

There are three principal methods for assessing the poverty level of a household: (i) household expenditure analysis and computation of a poverty line (ii) rapid appraisal or participatory appraisal methods, and (iii) indicator analysis, using an index of relative poverty.

The expenditure survey method is a widely accepted and fairly precise tool in measuring poverty, as far as the income dimension of poverty is concerned. The poverty line allows for comparisons between clients and non-clients of MFIs within one area of a country and between countries. However, while this method can provide a reliable and valid assessment of poverty, it is too costly, time consuming, cumbersome, and analytically demanding to be chosen as the most practical method for assessing the poverty level of microfinance clients.

Rapid Appraisal (RA) and Participatory Appraisal (PA) methods are often thought to be the same, since they seek input by the community and its members using similar techniques, such as wealth ranking and community mapping. These methods are widely used and accepted as tools for identifying vulnerable groups in a community. They are extensively used by the development programmes and institutions, including MFIs, for targeting services to poorer clients (Hatch and Frederick 1998).

However, these methods are difficult to verify, as they stem from community members' subjective rating of who is poor in the community and who is not. Furthermore, the PA method takes a long time in data collection and requires skilful and experienced communicators.

Poverty Index (indicator-based method) is used through identifying a range of indicators that reflect powerfully on the different dimensions of poverty and for which credible information can be quickly and inexpensively obtained. Once information on a range of indicators has been collected, they may be aggregated into a single index of poverty. In principle, the time and cost requirements of the indicator method in terms of data collection and analysis can be relatively low if the number of indicators in a poverty index is limited. The method can be considered valid if several dimensions of poverty are included. For these reasons, the indicator method was chosen in this study to measure the poverty level of micro finance clients for the "Microfinance Poverty Assessment Tool".

In summary, approaches based on intensive household expenditure surveys were ruled out not only because they were too expensive and time consuming to implement, but also because they necessitated advanced skills in statistical data analysis. On the other

hand, participatory or rapid assessment techniques were ruled out mainly because they did not easily allow for objective comparisons between MFIs.

2.2 Methodological Steps Using the Indicator Based Approach

This method involved the following main tasks:

- Identifying a range of indicators that reflect powerfully on poverty levels, and for which credible information can be quickly and inexpensively obtained;
- Designing a survey methodology that facilitates the collection of information on these indicators from households living in the operational area of the MFI; and
- Formulating a single summary index that combines information from the range of indicators and facilitates poverty comparisons between client and non-client households.

The indicator-based approach involved the following methodological steps:

- Extensive literature review and expert consultation on the general availability and use of poverty indicators;
- Selection of indicators based on an eight point criteria;
- Development of a generic questionnaire for testing in the four case studies;
- Adaptation of the questionnaire to account for local level specifics using participatory methods;
- Testing indicators through household surveys;
- Statistical analysis of indicators;
- Review of indicators with MFI and other stakeholders;
- Selection and synthesis of common indicators across countries;
- Development of a generic poverty index; and
- Revision and simplification of generic questionnaire.

2.3 Multiple Dimensions of Poverty and Its Implications

Because of the multi-faceted nature of poverty, reliance on any one dimension or any one type of indicator was not recommended. To capture different dimensions of poverty, we used the following general classification of indicators in the process of developing the generic questionnaire:

1. Indicators expressing the means to achieve welfare. These reflect the earning potential of households and relate to:
 - Human capital (family size, education, occupation, and others).
 - Asset ownership
 - Social capital of household
2. Indicators related to the fulfillment of basic needs:
 - Health status and access to health services
 - Access to food, shelter and clothing

3. Indicators related to other aspects of welfare (security, social status, environment)

2.4 Criteria for the Selection of Indicators

The criteria used in their selection include: nationally valid (can be used in different local contexts, urban vs. rural), not too sensitive a question (can be asked openly), practical (can be observed as well as asked), quality of the indicator (discriminates poor households individually), reliability (low risk of falsification/error; also possible to verify), simplicity (direct and easy to answer vs. computed information), and universality (can be used in different countries).

2.5 Pre-testing

Before proceeding to the main survey, we undertook pre-testing in Dar es Salaam. Based on the list of indicators developed by CGAP on the same subject, we selected the following indicators for testing:

- (1) Demographic indicators (e.g. family size, age and number of children)
- (2) Housing indicators (e.g. walls, roofs, access to water)
- (3) Wealth (e.g. value of assets)
- (4) Human capital (e.g. level of school education and occupation of household members)
- (5) Food security and vulnerability e.g. consumption of luxury versus inferior food
- (6) Clothing

Pre-testing was done at PRIDE Tanzania (Magomeni Branch) from 29th to 30th October 2003 by including 20 and 30 clients and non-clients respectively. All the 20 clients were from PRIDE (Magomeni Branch) while 30 non-clients were from various streets of Kinondoni and Ilala districts including Mwananyamala, Kinondoni A & B, Kigogo, Manzese, and Mikocheni. We selected the PRIDE Branch in Dar es Salaam because it was most easily accessible and that the institution has the largest client numbers, hence a better representation of the sample.

Pre-testing was done for the following reasons:

- (1) To further select and/or reduce the number of indicators to be included in the recommended final questionnaire.
- (2) To test whether the sentence structure was too complex and that respondents (and data collectors) understood the question, the task required, and the answer format.
- (3) To test and standardize the methodology used to integrate different indicators into a poverty index that would allow for comparisons between MFIs and, clients and non-clients.

2.6 List of Indicators Included in the Final Recommended Questionnaire

The results of pre-testing helped modify the questionnaire before conducting the main survey. **Table 2.1** gives the summary of the final questionnaire. The selection of these indicators was based on how well they correlated with the poverty indicator: per capita expenditure on clothing and footwear, and the ease and accuracy with which information on them could be elicited in a typical household survey.

2.7 Benchmark Indicator Used in the Poverty Index

Per capita expenditure on clothing and footwear was chosen as the benchmark indicator since it bears a stable and highly linear relationship to total consumption expenditure. Studies have shown that the proportion of clothing and footwear expenditure in the household budget remains stable at different income levels, around 5 to 10 per cent of total expenses (Aho, Larivie're, and Martin 1998; Minten and Zeller 2000).

A recent study by Morris and others (1999) found clothing expenditure to be expenditure component that increased proportionally with total household expenditures.

Since clothing, unlike food commodities, usually requires a purchase of either a finished garment or materials to make a garment, it also avoids the valuation problems posed by food consumption and expenditure.

2.8 Research Design

The study used both qualitative and quantitative research designs. Quantitative research design was employed to develop the poverty index by using the Statistical Package for Social Scientists (SPSS). Qualitative research design was mostly used in the analysis of the qualitative data on MFIs selected in our sample.

2.9 Study Sample

The study was conducted in Dar es Salaam and the Coast Region (from 17th November to 19th December 2003) by using structured interviews to 498 owner/managers of MSEs and four MFIs. Of the 498 respondents, 300 owner/managers of MSEs were non-clients of MFIs and 198 were clients.

The study was limited to choosing MFIs that have poverty alleviation related mission and operate in both Dar es Salaam and the Coast Region.

Thus, PTF, PRIDE Tanzania, SELFINA and FINCA were chosen. However, PRIDE has no branch in the Coast but was selected since the study was limited to four MFIs in which 50 clients from each Institution could be chosen and making a total of 200 MFI clients which could be used to make a good comparison with non-clients, that is, a two to three ratio (200 clients and 300 non-clients).

Table 2.1: List of Indicators Included in the Final Recommended Questionnaire

Human Resources	Dwelling	Food Security and Vulnerability	Assets	Others
<ul style="list-style-type: none"> • Age and sex of adult household members • Level of education • Occupation • Number of children • Annual clothing/ footwear expenditure 	<ul style="list-style-type: none"> • Ownership status • Number of rooms • Type of roofing material • Type of external walls • Type of flooring • Observed structural condition of dwelling • Type of electricity connection • Type of cooking fuel used • Source of drinking water • Type of drinking water • Type of latrine 	<ul style="list-style-type: none"> • Number of meals served during the last two days • Luxury food • Inferior food • Hunger episode • Frequency of purchase of staple goods • Size of stock of local staple in dwelling 	<ul style="list-style-type: none"> • Area and value of land owned • Number and value of selected livestock resources • Ownership and value of transportation related assets • Ownership and value of electronic appliances 	<ul style="list-style-type: none"> • Urban /rural indicator • Non - client assessment of poverty outreach of MFIs

2.10 Sampling Design and Procedures

This study used both probability and non-probability sampling techniques. The owner/managers of MSEs were selected using a simple random sampling (Probability sampling technique) while the selection of MFIs was done using purposeful sampling (Non-probability sampling technique).

The household was the basic sampling unit. Since the major objective of this study was to know to what extent MFIs are reaching the poor, new clients of less than six months in the lending programme were sampled to eliminate any impact from being in the programme. Comparison households (non-clients) were selected randomly from the same geographical area of MFI operations in order to make comparisons between MFI clients and those who represent the general community. These non-clients were to have not been clients of any MFIs before.

The data collectors obtained the random list of non-client owners/managers of MSEs from the ward officers and from that list simple random sampling was used to select the sample. The list of clients of MFIs was given by the officials of the respective MFIs from which the researchers used simple random sampling to select the respondents.

Background information of MFIs included in our study was collected through interviews with the managers of MFIs.

2.11 Data Collection Technique

Both primary and secondary data sources were used. Primary data was done through structured interviews with owners/managers of MSEs. Secondary data sources included; official reports of various MFIs, Internet searches and research reports.

2.12 Data Analysis

Data analysis was done using SPSS (Statistical Package for Social Scientists). The major objective of this research was to assess the poverty level of clients and non-clients of non-bank MFIs by using the CGAP's poverty assessment tool called Poverty Index. The Poverty Index is constructed through the application of Principal Component Analysis (PCA). SPSS was used because construction of Poverty Index through the application of PCA is best done with SPSS.

2.13 Limitations of the Study

- The selection of a proper sample for MFIs was limited. We had planned to use the same 4 MFIs both in DSM and Coast regions. However, we found that only three non-bank MFIs had branches in both regions. We, therefore, had to use one MFI without a branch in the Coast region. This was PRIDE. We interviewed Dar es Salaam PRIDE clients only.

- As with any such study there is always the possibility that respondents may not give truthful information
- CGAP highly recommends that the tool is a companion piece to its MFI Appraisal Format and should not be used in isolation from a larger institutional appraisal. This exercise has not been part of a ‘larger institutional appraisal’ and we only obtained very basic institutional information of each of the four MFIs in this study. The conclusions drawn on the MFIs’ poverty reach are, therefore, based only on the poverty assessment and very negligibly on other aspects of the MFIs.
- The CGAP tool recommends the use of 500 ME respondents in assessing one institution, i.e. 300 non-clients and 200 clients. In this study we have used 500 with the same split between non-clients and clients but this has been for all four MFIs in total. In short, even though the ratio of 1.5:1 (50 clients to 75 non-clients) is maintained for each MFI, it means that the sample for each MFI is so much smaller.

3.0 THE MICROFINANCE INSTITUTIONS STUDIED

3.1 Presidential Trust Fund (PTF)

3.1.1 History and Legal Structure

PTF was a government institution established in 1984. In August 1988, the government-owned PTF transformed itself into a Non-governmental Organisation (NGO) using the same name and was established with support from the Ford Foundation.

PTF was incorporated under the Trustee Incorporation Ordinance of 1956 Ch 375 of Tanzania laws. It was officially registered as a trust fund on 2nd August 1988 making it an NGO mandated to operate in the whole of the Tanzania Mainland.

3.1.2 Mission and Vision

The mission of PTF is “to bring into mainstream the economic activities of the disadvantaged groups of people, women and youths in particular.”

PTF’s vision is to serve its members in a respectful manner in order to improve their standards of living by creating best conditions for sustainable development.

3.1.3 Type of Clients, Coverage and Outreach

The target beneficiaries of PTF are “the active poor” who do not have access to finance and are often involved in household based activities such as petty traders, kiosk operators, service providers and food vendors. The majority of the PTF clients are women, constituting 94 per cent.

PTF has six branches in four regions, namely, Dar es Salaam, Coast, Morogoro and Iringa. As at December 2003, PTF had a total of 9,706 clients of which 3,865 were from Dar es Salaam and 2,378 were from the Coast region.

3.1.4 The Board of Trustees

PTF has an mixed group in its Board of Trustees. There are three professional accountants, one economist, two administrators and one client.

3.1.5 Services Offered and the Loan Delivery Mechanism

There are three major services offered by PTF to its clients. These are; group loans, compulsory and voluntary weekly savings and training.

PTF has replicated the Grameen bank model i.e. group lending mechanism. It lends to groups of five self-selected and self-guaranteed members such that when one member of the group defaults the entire group becomes liable to pay the amount defaulted by

that particular member. Every loan applicant in PTF has to fulfill loan delivery terms, conditions and procedures.

The minimum loan size is Tshs. 50,000 and the maximum loan is Tshs. 1,000,000. Every loan applicant has to pay loan fees categorized hereunder:

Table 3.1: PTF Loan Sizes and Loan Fees

Loan Amount (Tshs.)	Loan Fees
50,000-300,000	5%
350,000-500,000	4%
550,000 and above	3%

3.1.6 Future Plans

PTF plans to reach 14,456 clients by the year 2008.

3.2 Foundation for International Community Assistance (FINCA)

3.2.1 History and Legal Structure

FINCA is an NGO and a company limited by guarantee. It was established in 1998 in the Mwanza region. FINCA was once sponsored by United States Agency for International Development (USAID) and Department for International Development (DfID) and currently relies on its own sources. It does, however, receive technical support from FINCA International.

3.2.2 Mission and Vision

FINCA's mission is "to provide access to micro credit and savings to economically disadvantaged groups especially women and to support asset accumulation".

To develop a sustainable and professional financial institution that supports economic and human development of Tanzanian families trapped in poverty is the vision of FINCA.

3.2.3 Type of Clients, Coverage and Outreach

The main beneficiaries of FINCA are economically active poor women who have one or more businesses. Many clients reside in rural areas with the exception of the clients from Dar es Salaam.

FINCA has six district offices, three branches (Dar es Salaam, Morogoro and Lake Zone) and operates in seven regions countrywide namely Mwanza, Dar es Salaam,

Shinyanga, Morogoro, Coast, Mara and Kagera. The Institution covers all the districts of Dar es Salaam and Lake Zone.

Since establishment, the number of FINCA clients has been increasing. In the year 2001, FINCA had 13,536 clients and thereafter increased to 20,486 and 28,411 in 2002 and 2003 respectively. Currently, FINCA has 28,411 active clients.

3.2.4 The Board of Trustees

FINCA board of directors has a combination of different professionals including business experts, economists and bankers.

3.2.5 Services Offered and the Loan Delivery Mechanism

FINCA offers both financial and non-financial services with the major focus on provision of micro and small loans. Other services are; compulsory and voluntary savings, training on business management etc. Like PTF, FINCA has replicated the Grameen bank model i.e. group lending mechanism. It lends to groups of five self-selected and self-guaranteed members. Currently, the minimum loan amount is Tshs. 30,000 and the maximum Tshs. 2.5 million.

3.2.6 Future Plans

FINCA is planning to expand to the rest of the country and reach 53,000 clients by the year 2008.

3.3 SERO Lease and Finance Company (SELFINA)

3.3.1 History and Legal Structure

SELFINA is a company limited by guarantee under CAP 212 which was registered in 2002. Micro-leasing activities started in 1997 under the parent company. SELFINA borrows money from the Vice President's office. SELFINA offers management services to Austro Project Association (APA) whereby it earns commission for managing the portfolio on behalf of APA.

The company is governed and directed by a board of directors. The Board is made up of professionals in the field of accounting, agriculture and women programmes and administration.

3.3.2 Mission and Vision

To increase the income and employment opportunities of poorer businesswomen and indigenous business people in Tanzania. To assist in growing clients' disposable incomes and helping them to create, expand and increase capacity of their enterprise.

3.3.3 Objectives

- a). Make capital available to women's and indigenous businesses in Tanzania - through lease equipment, loans and bank guarantees - in order to support their efforts in business and create a solid economic base for themselves, and to provide them with increased income and capacity.
- b). Demonstrate that women's and indigenous businesses are not only bankable but are also responsible moneymakers and users.
- c). Stimulate and empower women and indigenous business people to actively participate in commerce, thereby, positively contributing to building Tanzania.
- d). Contribute to poverty alleviation in Tanzania through the development of commerce, agriculture and industry, by providing equipment for business on lease to companies that have affirmative action policies towards employment and pay decent wages to women and indigenous businesspeople.

3.3.4 Geographical Coverage and Outreach

Currently, SELFINA operates in only two regions in Tanzania i.e. Dar es Salaam and the Coast Region. SELFINA has two branches, one is a head office in Dar es Salaam and the other branch office is in Kibaha (the Coast Region). It has a total number of 273 active clients.

3.3.5 Type of Clients and Services Offered

The clients of SELFINA are poor but economically active. Others manage small businesses and create employment for the real needy.

SELFINA clients are mainly grouped into the following:

- (i) 40 per cent of the clients are involved in the service type of business;
- (ii) 35 per cent are engaged in trading and retail;
- (iii) 20 per cent in livestock and crop production; while
- (iv) 5 per cent have advanced to do agro-processing.

The services offered by SELFINA include the following:

- (i) Loans – products are micro-leasing leaseback.
- (ii) Compulsory savings (20% of the value of the leased equipment).
- (iii) Training offered by SERO Business Women Association (SEBA).

3.3.6 Loan Delivery Mechanism

Unlike PTF, PRIDE and FINCA, SELFINA practices individual lending mechanism and thus a client must have two guarantors and pay 20 per cent of the value of the equipment prior to getting the lease equipment.

SELFINA charges flat interest rate of 2.5 per cent per month and the loan fees of Tshs. 10,000 for any loan applicant. It also offers pre-loan training through SEBA in cases where the client has not attended any training.

3.3.7 Future Plans

Immediate plans include establishing a branch in Mbeya in year 2004 and soliciting loans from banks for on-lending.

Long range plans include slowly and prudently expanding to other parts of the country.

3.4 Promotion of Rural Initiative and Development Enterprise (PRIDE-Tanzania)

3.4.1 History and Legal Structure

PRIDE Tanzania (PTZ) is a company which was incorporated on 5th May 1993 under Cap. 212 as a company limited by guarantee without share ownership. The management and technical assistance of PTZ is provided by Pride Management Services Limited Africa, based in Nairobi, Kenya.

3.4.2 Mission

The mission of PRIDE (T) is to create a sustainable financial and information services network for small and micro-entrepreneurs in order to promote their business growth, enhance their income and create employment in Tanzania.

3.4.3 Target Beneficiaries, Coverage and Outreach

The target beneficiaries of PTZ are both men and women who are poor but economically active with business worth less than Tshs. 700,000. Most of the PTZ clients operate in the trade, services and manufacturing sectors. The number of clients has been increasing. For instance, in 2000 there were 48,605 clients which increased to 50,522; 56,228 and 62,433 in 2001, 2002 and December 2003 respectively.

PRIDE has clients in all regions of Tanzania with the exception of the Coast, Kagera, Lindi, Mtwara and Rukwa regions. The main four regional centers of PTZ are Arusha (Northern), Dar es Salaam (East and Central), Mwanza (Lake), and, Dodoma (Central and Western). PRIDE has a total of 21 branches and 5 sub branches with 99 per cent

Table 3.2: Summary of Characteristics of the Case Study MFIs

MFI	Year of establishment	Stated Mission/goals	No. of branches	Areas served	Methodology	Target clients	Products	No. of clients Dec. 2003
PTF	1988	To bring into mainstream the economic activities of the disadvantaged groups of people, women and youths in particular.	6	Both urban and rural	Group lending mechanism	Disadvantaged groups of people women and youths in particular	Loan, savings and training	9,706
FINCA	1998	To provide access to micro-credit and savings to economically disadvantaged groups such as women and to support asset accumulation	3	Mostly in rural areas	Group lending mechanism	Women who are economically active poor and have one or more businesses	Loans, savings and training	28,411
SELFINA	2002	To increase the incomes and employment opportunities of poorer businesswomen and indigenous business people	2	Urban and Rural	Individual lending mechanism, leasing	Poorer business women and indigenous business people	Loan, through leasing, compulsory, savings, training	273
PRIDE	1993	To create a sustainable financial and information services network for small and micro-entrepreneurs	21	Urban and peri-urban	Group lending mechanism	Poor men and women but economically active with business worth less than Tshs. 700,000	Loan, savings and insurance	62,433

of the total clients being urban residents while only 1 per cent of the clients are from peri-urban areas.

3.4.4 Services Offered and Loan Delivery Mechanism

PTZ offers micro-loans to micro and small enterprises (MSE). Other services include voluntary and compulsory savings and insurance.

Like PTF and FINCA, PRIDE practices group lending mechanism whereby each group comprises five self-selected individuals and hence solidarity group guarantee. Each week, clients meet in groups of fifty called Marketing Enterprise Committee (MEC) for savings, loan repayment and other activities.

3.4.5 Future Plans

PRIDE plans to expand its branch network to 30 branches by the end of year 2004. By year 2006, PRIDE plans to have reached 85,000 clients. It also plans to transform to a regulated MFI by the end of 2005.

4.0 QUANTITATIVE ANALYSIS AND INTERPRETATION

4.1 Introduction and Analysis of the Indicators

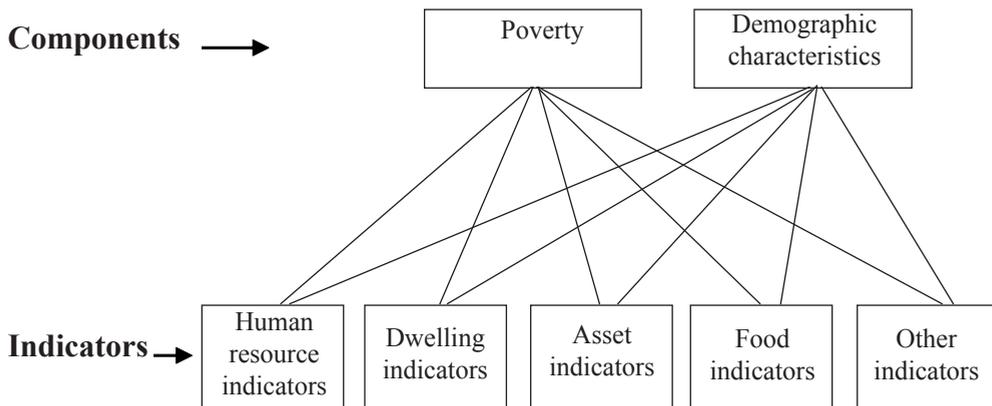
The poverty assessment tool utilizes multiple indicators. This enables a description of poverty but it also complicates the task of drawing comparisons. The wide array of indicators has to be summarized in a logical way, underlining the importance of combining information from the different indicators into a single index. The creation of an index requires finding a set of pre-determined weights that can be meaningfully applied to different indicators so as to come to an overall conclusion.

The case studies used the method of PC analysis to accomplish this task. Specifically, PC analysis isolates and measures the poverty component embedded in the various poverty indicators and creates a household specific poverty score or index. Relative poverty comparisons are then made between client and non-client households based on this index.

Some separate indicators were identified as strongest that distinguished relative levels of poverty and then their explanatory power pooled into a single index. In the example presented in **Figure 4.1**, poverty and demographic characteristics constitute the two underlying components affecting the level of all the indicators. Because the indicators are determined by these common underlying components, they are likely to be related to each other.

PC analysis uses this information (the co-movement among the indicators) to isolate and quantify the underlying common components. PC analysis is also used to compute a series of weights that mark each indicator's relative contribution to the overall poverty component. Using these weights, a household specific poverty index (or poverty score) was computed based on each household's indicator values.

Figure 4.1: Indicators and Underlying Components



The indicators in the case studies have been specially chosen to correlate well with poverty, including only those that have significant correlation with per capita clothing expenditure, the benchmark indicator. Hence, the poverty component is expected to account for most of the movements in the indicators, and will be the “strongest” of all the components.

Further, the poverty component is also identified based on the size and consistent signs of the indicators in their contribution to the index. For example, education level should contribute positively – not negatively - to wealth.

The principle component analysis produces a household level poverty index. **Figure 4.2**, below, shows the distribution of the poverty index across households using MFI’s data.

Figure 4.2 Poverty Index Distribution Among Households

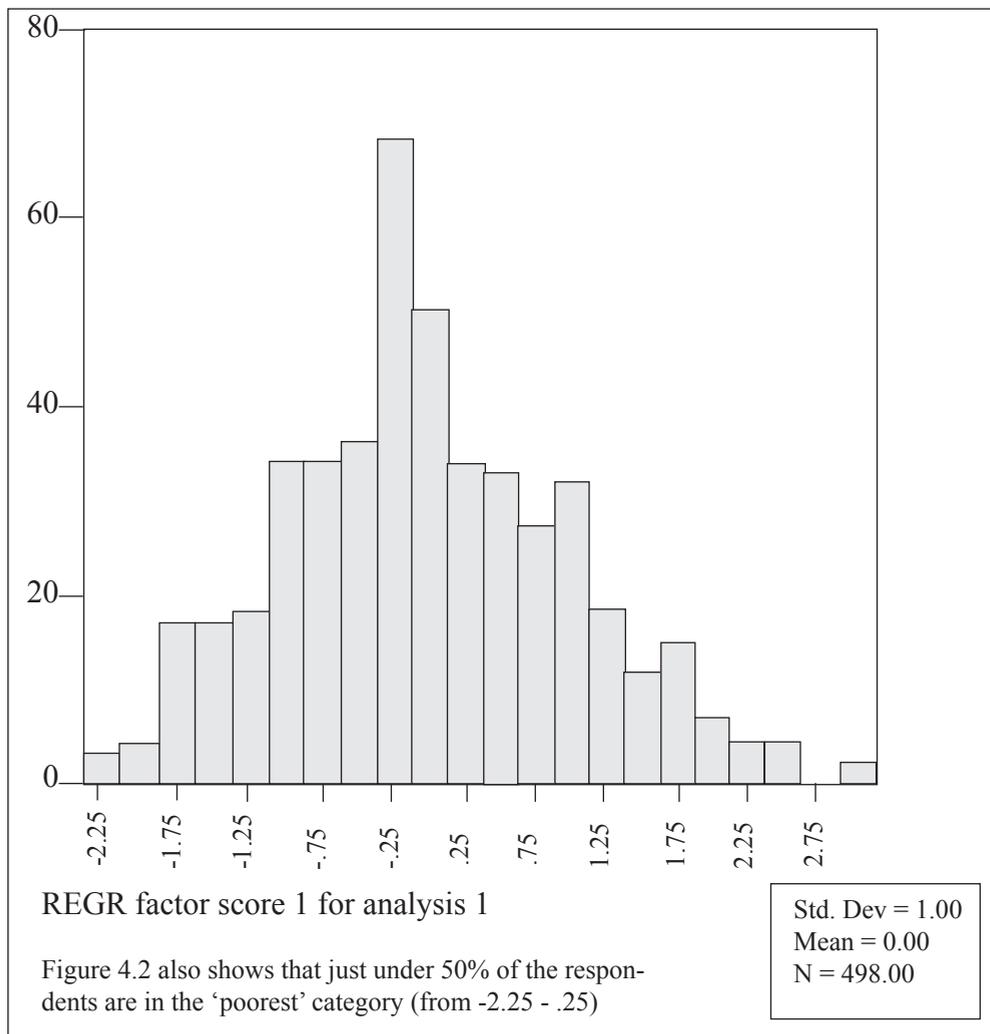
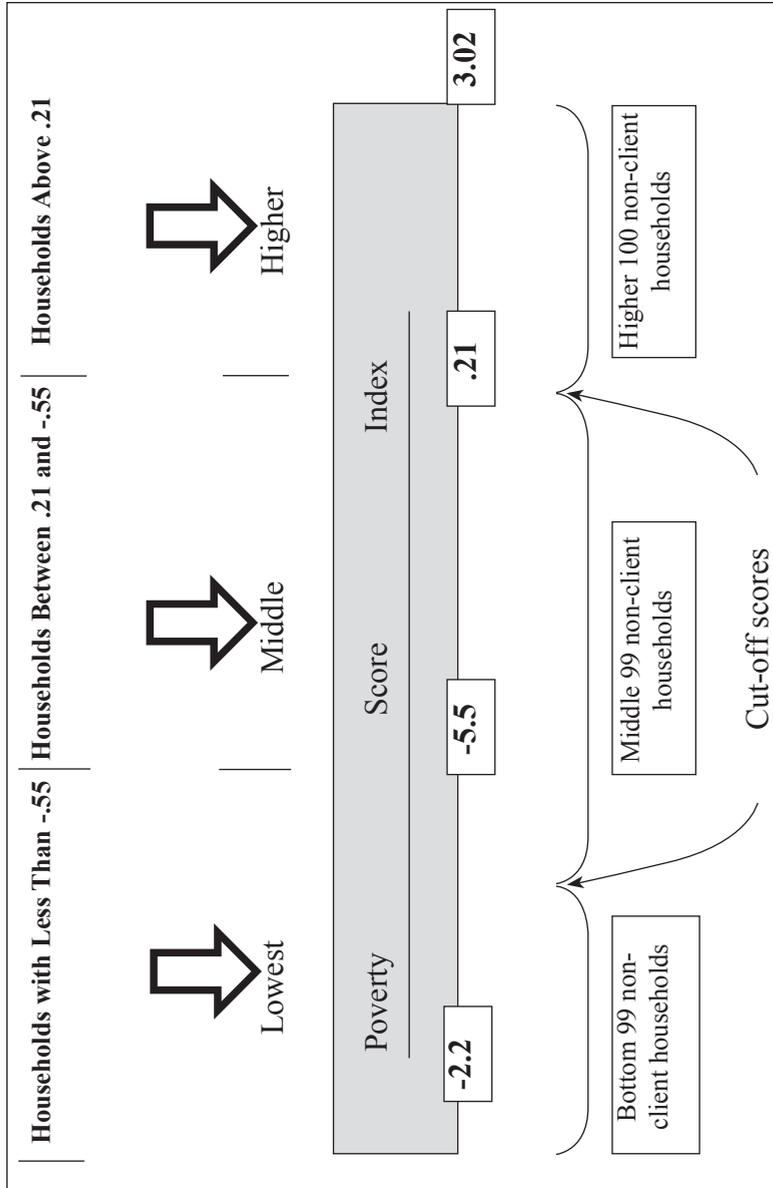


Figure 4.3: Constructing Poverty Groups



4.2 Using the Poverty Index

The research comprised a random sample of 300 non-client households and 198 client households. To use the poverty index for making comparisons, the non-client sample is first sorted in an ascending order according to its index score. Once sorted, non-client households are divided in terciles based on their index score: the top third of the non-client households are grouped in the “less poor” group, the middle third grouped in the “poor” group and the bottom third in the “poorest” group. This is illustrated in **Figure 4.3**, above. Since there are 300 non-clients each group contains 100 households.

The cut-off scores for each tercile define the limits of each poverty group. Client households are then categorized into the three groups based on their household scores.

If the pattern of client households’ poverty matches that of the non-client households, client households would divide equally among the three poverty groupings just as the non-client households, with 33 per cent falling in each group. Hence, any deviation from this equal proportion signals a difference between the client and the non-client population. For instance, if 60 per cent of the client households fall into the first tercile or poorest category, the MFI reaches a disproportionate number of very poor clients relative to the general population.

4.3 Indicators Used to Compute the Poverty Index in the Case Studies

Table 2.1 in Chapter Two contains the list of indicators included in computing the index in our case study. They were selected based on a first stage screening that examines correlation with per capita clothing expenditure and a second stage screening using principle component analysis.

The case used a number of indicators. These indicators combine different dimensions of poverty concerning human resources, housing conditions, assets, and food security and vulnerability. Twenty indicators were initially outlined as ranked by the level of association with benchmark poverty indicator.

4.3.1 Human Resources

Three indicators related to human resources are used in the study. These indicators reflect the level of education in the household, number of children per household and family size.

4.3.2 Dwelling

Dwelling indicators discriminated among relative poverty levels well. They all related to housing quality. The importance of dwelling indicators supports the use of the

housing index as important indicator of poverty in the country. Those featured were number of rooms, roof type, wall type, and electrical supplies.

4.3.3 Assets

Three indicators were included in this case study. They were values of appliance, transport and power assets.

4.3.4 Food Security and Vulnerability

These indicators turn out to be very important in explaining differences in relative poverty in the study. The indicator of chronic hunger, number of meals, staple and luxury food featured prominently.

4.3.5 Other Indicators

Education. This has been considered an important starting point because it plays a large role in the process of poverty alleviation.

Most of the respondents attained primary level of education, while very few attained secondary and college level. There were less than 20 per cent of the respondents in the MFI clients' group who attained above primary level education. **Tables 4.1** and **4.2** below give the education level and gender of clients and non-clients interviewed during the study.

Table 4.1: Client Status by Education Level

			Client Status		Average
			Non-client	Client	
Education	BelowPrimary	% within Client Status	10.7%	11.9%	10.9%
	Primary	%within Client Status	63.4%	69.3%	64.4%
	Secondary	%within Client Status	21.6%	15.8%	20.6%
	Post Secondary	%within Client Status	4.4%	3.0%	4.1%
TOTAL		%within Client Status	100.0%	100.0%	100.0%

Table 4.2: Client Status by Gender

Sex * Client Status Cross Tabulation				
		Client Status		Average
		Non-client	Client	
	% within Client Status	54.6%	9.9%	46.6%
	% within Client Status	45.4%	90.1%	53.4%
TOTAL	% within Client Status	100.0%	100.0%	100.0%

It has been realized from the survey that irrespective of whether one was an MFI client or not, spending on clothes and shoes was the same for both groups. Here it was observed that money borrowed is spent for the stated purpose. Also the findings suggest that housewives do not take loans, as out of the responses from housewives only 1 per cent are clients of a Micro Finance Institution. On the other hand this variable may have more relevance within the trade sector.

Among the main occupations, schooling, casual labour, domestic workers, retired and handicapped are not members in any MFI.

4.4 The Results: MFI Clients Versus Non-clients

The results are best summarized by examining the proportion of client household falling into the three poverty groups. If the pattern of client households' poverty were similar to those of the non-client households, client households would divide up equally among the three poverty groupings. Any deviation from this proportion signals a difference between the client and the non-client population.

Figure 4.4 presents the poverty groups by client and non-client households. The distribution of the MFI clients is in ascending order with the number of MFI clients increasing from the 'poorest' category to the 'least poor' category. The trend indicates that MFIs serve a clientele that are generally in the higher (least poor) end of the poverty index. This is in contrast with the poverty trend in the operational areas. This overall result is inconsistency with those MFIs' whose stated objectives is oriented towards poverty alleviation or reaching the poor.

Figure 4.4: Poverty Groups by Client and Non-client Households

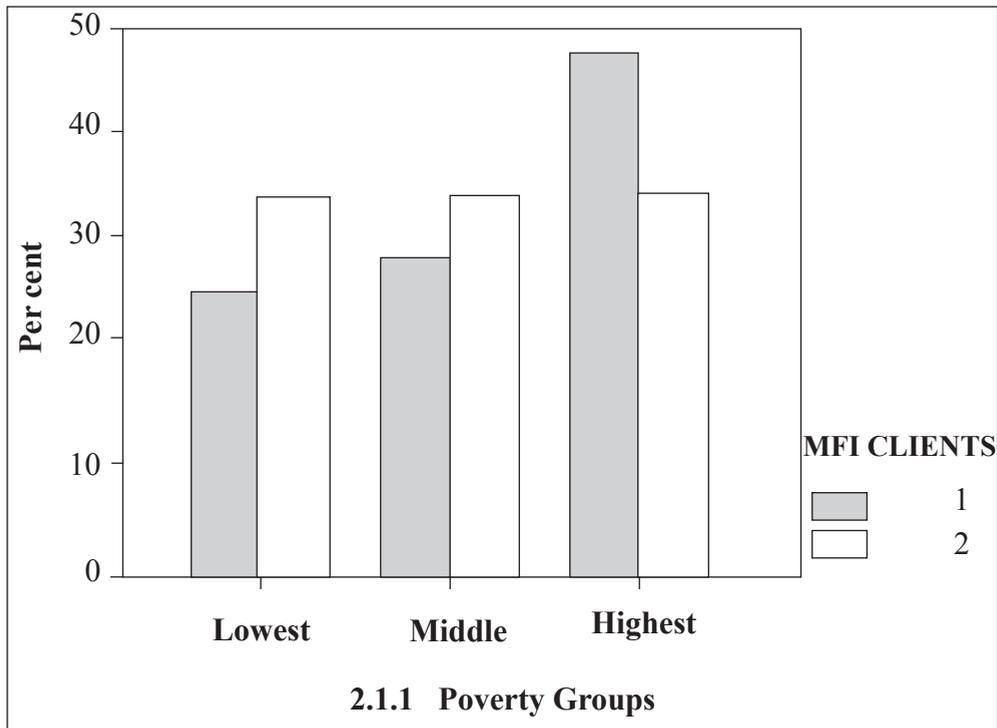
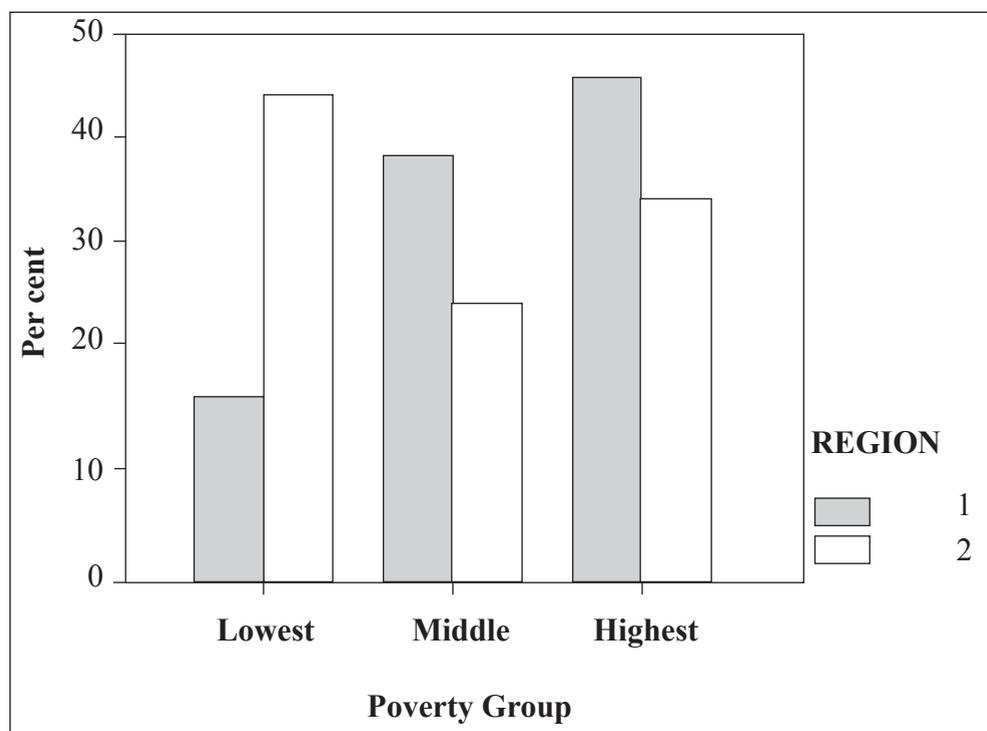


Figure 4.5 below, shows a sharp contrast between poverty groups of Dar es Salaam and Coast. Over 40 per cent of the Coast households are within the lowest tercile and about 25 per cent and 30 per cent are within middle and highest terciles respectively. On the other hand over 40 per cent of Dar es Salaam region households are within the highest tercile and about 15 per cent of the households are within the lowest tercile.

4.5 Poverty by Regions

Figure 4.5: Poverty Level by Regions



Key

1 – Dar es Salaam

2 - Coast

4.6 Distribution of MFI Clients within Poverty Groups

Figure 4.5 is also summarised in Table 4.3 below. Pride concentrates on the middle poverty group followed by the highest. FINCA clients are mostly in the lowest group followed by highest group. SELFINA is mostly in highest group followed by middle and almost neglected lowest group. PTF is almost equally concentrated in the middle and highest while indicating low concentration in the lowest group.

Table 4.3: Distribution of MFI Clients by Poverty Group

			MFI – MEMBERSHIP SAMPLE				Total
			PRIDE	FINCA	SELFINA	PTF	
Poverty Group	Lowest	Count	3	35	2	9	49
		% within MFI SAMPLE	11.5%	47.3%	4.3%	18.0%	24.9%
	Middle	Count	13	15	6	21	55
		% within MFI SAMPLE	50.0%	20.3%	12.8%	42.0%	27.9%
	Highest	Count	10	24	39	20	93
		% within MFI SAMPLE	38.5%	32.4%	83.0%	40.0%	47.2%
Total		Count	26	74	47	50	197
		% within MFI SAMPLE	100.0%	100.0%	100.0%	100.0%	100.0%

4.7 Overall Comparative Results

A comprehensive assessment of an MFI must include an evaluation of how its poverty outreach record reconciles with its mission and programme objectives. As the study has shown, MFIs differ in terms of geography, their stated mission, the type of market niche they seek, their preference for a specific type of institutional culture, and a host of other factors. Ignoring these considerations or providing incomplete information on institutional details fails to tell a complete story and the method can be easily misused. With this important caveat, a basis for making overall comparisons across MFIs is discussed below.

Table 4.4 below, presents three ratios that facilitate comparisons between MFIs. Ratio 1 is computed by dividing the percentage of client households that belong to the poorest group by 33, i.e. the percentage of non-client households that belong to this group. The ratio reflects the extent to which the poorest households are represented in the client population.

Table 4.4: Relative Poverty Ranking of Client versus Non-clients

Percentage/ Ratio	Pride	Finca	Selfina	PTF
% of client households who are as poor as the poorest 1/3 of the non-client population	11.5%	47.3%	4.3%	18.0%
Ratio 1	0.35	1.43	0.13	0.55
% of client households who are as well of as the least poor 1/3 of the non-client population	38.5%	32.4%	83.0%	40.0%
Ratio 2	1.17	0.98	2.52	1.21
Ratio of country HDI to HDI for all	0.40 (Tanzania)			

A ratio of one indicates that the proportion of the poorest households among the MFI's client equals that of the general population. Ratios higher than one imply that the proportion of the poorest households among the MFI's clients exceeds that of the general population. On the other hand, ratios less than one imply that the proportion of the poorest households among the MFI's clients falls below that of the general population.

A similar ratio - Ratio 2 - divides the percentage of client households that belong to the least poor group by 33. The ratio reflects the extent to which less poor households are represented in the client population. A ratio above one indicates that, in comparison to the non-client population, a greater proportion of client households fall into the 'least poor' group.

While Ratios 1 and 2 provide relative poverty comparisons in the operational area of the MFI, this information must be supplemented by country-level information using the human development index (HDI) computed by UNDP. Tanzania falls below the average for all developing countries.

5.0 QUALITATIVE ANALYSIS

Introduction

This Chapter gives a qualitative analysis of MFIs studied in as far as poverty outreach is concerned. As stated earlier, there were four MFIs included in this study, namely, Presidential Trust Fund (PTF), Promotion of Rural Initiative and Development Enterprise (PRIDE) Tanzania, SERO Lease and Finance Company (SELFINA) and Foundation for International Community Assistance (FINCA).

This qualitative analysis mostly relied on, among other things, results from the SPSS that was used to construct poverty index and the missions of MFIs included in the study.

5.1 MFIS' Poverty Outreach³

5.1.1 *Presidential Trust Fund for Self Reliance (PTF)*

The mission of PTF is “to bring into mainstream the economic activities of the disadvantaged groups of people, women and youths in particular.”

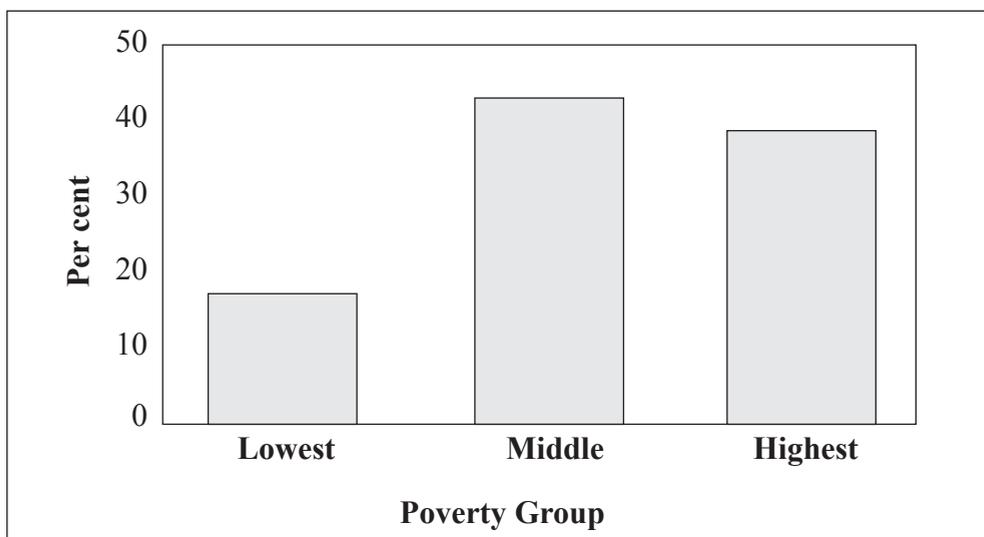
PTF's purpose of existence is to reduce poverty by creating employment on a self help basis and increase the incomes of disadvantaged groups of people, women and youths in particular.

PTF's Poverty Outreach According to the Field Results

PTF is among of the MFIs with poverty related mission. This being the case, new clients of PTF are expected to be in the poorest and poor group. Contrary to this expectation, the field results of this study reveal that a large number of PTF's new clients are in the group of the “poor” followed by the group of the “least poor”. Less than 20 per cent are in the poorest group (see **Figure 5.1** below). These results appear contrary to the mission of PTF which focuses on reducing poverty by financing disadvantaged groups of people.

³These findings apply only to the Coast and Dar es Salaam regions.

Figure 5.1: PTF's Poverty Outreach



5.1.2 FINCA

5.1.2.1 Mission

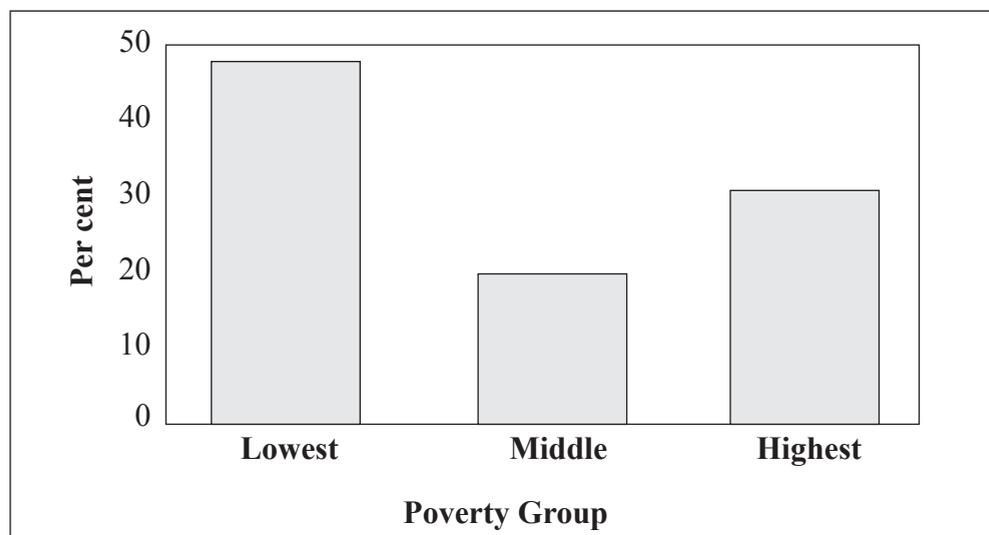
FINCA's mission is "to provide access to micro credit and savings to economically disadvantaged groups especially women and to support asset accumulation".

5.1.2.2 FINCA's Poverty Outreach According to the Field Results

FINCA's mission is related to poverty alleviation through provision of micro loans to disadvantaged groups especially through asset accumulation.

The field results show that FINCA is among the institutions with poverty related mission which targets the poorest group of people. **Figure 5.2**, below, shows that nearly half of the new clients of FINCA are in the 'poorest' category. This suggests that FINCA is the only institution in this study which does target the poorest group and hence meeting its mission. However, FINCA has largely ignored the poor (middle) group as compared to the least poor group.

Figure 5.2: FINCA's Poverty Outreach



5.1.3 SELFINA

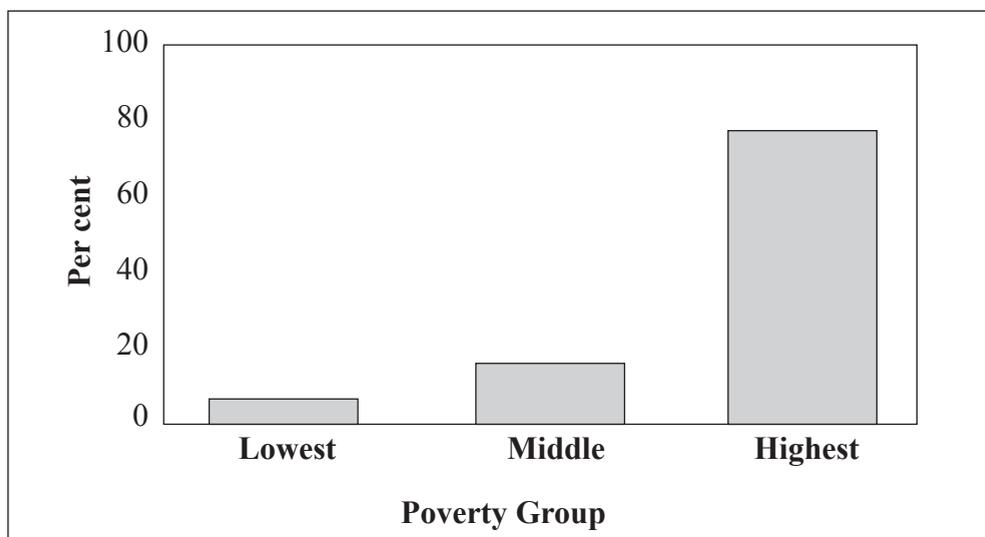
To increase the incomes and employment opportunities of poorer businesswomen and indigenous business people in Tanzania. To assist in growing client disposable income and helping them to create, expand and increase capacity of their enterprise.

5.1.3.1 SELFINA's Poverty Outreach According to the Field Results

According to its mission, SELFINA's clients are poorer businesswomen and indigenous business people. SELFINA is thus expected to have a large percentage of new clients in the middle group i.e. 'poor' group. However the field results are quite different from these expectations. About 80 per cent of SELFINA's new clients are in the "least poor" group (See **Figure 5.3**).

These results are somewhat contrary to the mission of SELFINA of targeting the poorer businesswomen and indigenous business people. Given its credit methodology (individual lending through leasing) it is not surprising that it is not catering at all for the 'poorest' group and only marginally for the middle (poor) group.

Figure 5.3: SELFINA’s Poverty Outreach



5.1.4 PRIDE

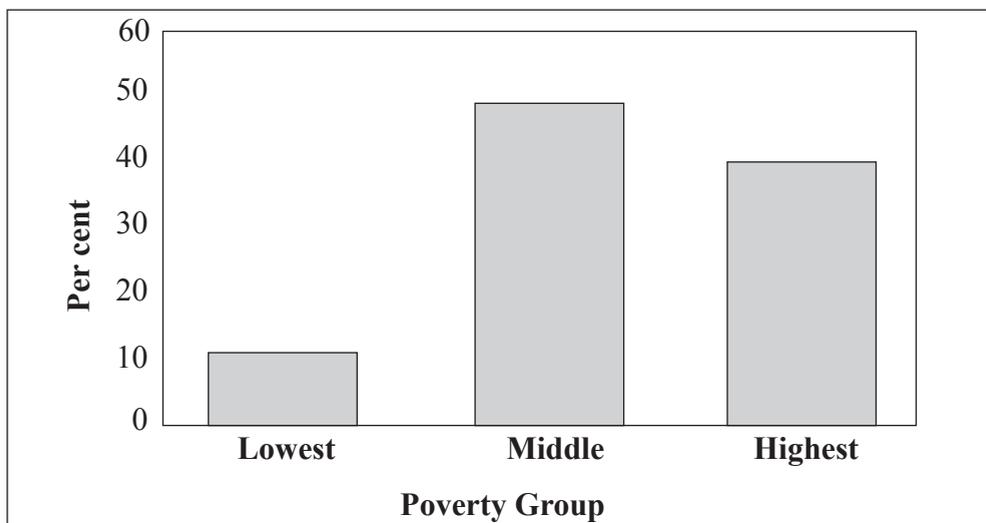
The mission of PRIDE (T) is to create a sustainable financial and information services network for small and micro-entrepreneurs in order to promote their business growth, enhance their income and create employment in Tanzania.

5.1.4.1 PRIDE’s Poverty Outreach According to the Field Results

The mission of PRIDE is not directly related to poverty. Unlike PTF, the field results of PRIDE reveals that a large number of the new clients of PRIDE are in the middle group, that is, the poor group followed by the highest group, that is, the less poor group. A very small percentage (11.5%) of new PRIDE clients included in this study is in the poorest group (Figure 5.4). One can conclude that PRIDE is ignoring the poorest group, which in any event are not its primary or intended target group.

It should be noted, however, that this study interviewed PRIDE clients in Dar es Salaam only since PRIDE has not yet established branches in the Coast. As stated earlier, the large number of respondents from Dar es Salaam is in the highest and middle group. This being the fact, the PRIDE clients in Dar es Salaam are also expected to be in the same groups. Additionally, PRIDE is concentrated in semi urban and urban areas where most of the people are in the middle and highest groups.

Figure 5.4: PRIDE's Poverty Outreach



5.2 Poverty Field Results by Regions

Figure 4.5 in the previous chapter shows that a large number of the respondents from Dar es Salaam are in the third group i.e. less poor and very few of them are in the poorest and poor group. Unlike Dar es Salaam, the respondents from the Coast are more concentrated in the poorest group and very few are in the less poor group. These results are similar to the recent study⁴ which shows that Dar es Salaam is one of the best performing regions and compared to the country average, Dar es Salaam's Basic needs Poverty headcount ratio of 17.6 per cent is better than the national average ratio of 36 per cent. Food Poverty headcount (%) of 7.5 per cent for Dar es Salaam is also better than the national average 16 per cent.

The report further shows that the Coast Region has the worst performance in the country and has been ranked as the poorest region. According to the results of Poverty and Human Development Report (2002), the Coast Region is among the four poor performing regions in Tanzania and it can be considered most deprived. The performance of the Coast Region is particularly poor on indicators in the income poverty and human capability cluster with the third lowest literacy rate (61 per cent) and among highest Basic Needs and Food Poverty headcount ratios (46.2 per cent and 27.5 per cent respectively). This is more than 10 percentage points higher (worse) than the national average.

⁴ URT: Poverty and Human Development Report (2002).

6.0 CONCLUSION AND RECOMMENDATIONS

MFIs, and particularly those with poverty related missions were established to help the poor access loans by financing MSEs. However, this study suggests that some of these MFIs are ignoring the lowest group (poorest). Whether credit is what is required for this group was not assessed in this study but there is perhaps little doubt that among other needs that would alleviate their poverty, financial services (perhaps savings more than credit) is required.

With the exception of FINCA, other MFIs in this study serve mainly the middle (poor) group and the highest (least poor) group. The conclusion is that a number of MFIs are afraid to serve the poorest group. There is a need to find out, first of all if credit is a real need for this group and the reasons why microfinance services are not effectively reaching this group.

This study should, therefore, give MFIs, donors and Government much food for thought and those MFIs (and their donors) that are serious about poverty alleviation may either have to modify their mission/objectives and/or refocus their target markets and interventions to meet their poverty reduction goals.

This study, though general and using a very limited sample size, raises the question whether MFIs should in fact have poverty alleviation as their mission given the real need for MFIs to become fully sustainable. The irony is that it is a chicken and egg situation. To really serve the poor on a sustainable basis, MFIs themselves have to be sustainable but in the quest to become sustainable, MFI services may not be affordable to the poorest. A trade-off therefore has to be made.

It may be that MFIs' role in poverty alleviation (if poverty alleviation means reaching the poorest of the poor) will have to be indirect, i.e. by serving the least poor and poor in the hope that the relative 'prosperity' created will trickle down to the poorest of the poor through employment created by the least poor and extended family obligations etc.

Recommended Supplementary Research

- Confirm the extent and nature of the financial services needs of the poorest group.
- In order to come out with more concrete and specific results, undertake this same study on a countrywide or regional basis.

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