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Determinants of Microfinance Activities in Poverty Reduction in Tanzania

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Abstract

Microfinance activities are an important area of socioeconomic development worldwide, as they foster economic growth and reduce poverty across nations. However, studies examining their impact in fast growing commercial hubs in Africa are limited. Thus, this study set out to bridge that glaring gap by examining the determinants of microfinance activities and their impact on poverty reduction in Dar es Salaam, Tanzania. The study applied the Life cycle Consumption Theory coupled with the Theory of Reasoned Action , to examine the phenomenon at issue. The survey strategy assisted in data collection, which, given the nature of unreliable internet services, was conducted through a delivery and collection questionnaire. In all, 315 respondents from the sample participated in the study, after which decriptive and inferential analyses were applied to enrich our understanding. Community income, community savings and attitude emerged as the predictors of poverty reduction. In this undertaking, the study advances existing knowledge by building upon a parsimonious model that expanded the theoretical and conceptual understanding of microfinance activities, thereby supporting the development of effective microfinance initiatives in Tanzania to enhance the nation's economic development. Therefore, policymakers and microfinance service providers need to promote stronger community savings, which would improve incomes. The latter, should be accompanied by a favourable attitude towards microfinance activities within the community, that is believed to enhance poverty reduction.

Keywords: *Teachers' Continuous Professional Development, CPD Cost, Cost analysis, Human Capital Theory*

1.0 Introduction

Microfinance participation in the global context dates back to the 1990s and the 2000s (Kipesha, 2013a). Due to the structural adjustment program in 1990, which led to the formation of community banks to alleviate poverty, microfinance activities had success stories emanating from the achievements made by the Grameen Bank in East Asia and Latin America, which facilitated an increase in microfinance activities and facilities to people experiencing poverty (Kipesha, 2013b).

Typically, microfinance activities are categorised into the formal, informal, and semi-formal sectors. The informal sector accounts for the largest share of participants in community savings groups, including village community banks (VICOBA) and Rotating Savings and Credit Associations (ROSCAS) (Bostrom & Quadrell, 2012). The formal sector includes Community and Commercial banks, which the central bank of a particular nation governs. Their banking products include current, savings, corporate, and fixed deposit accounts (Ackah & Vuvor, 2010). The drawbacks of commercial banks include high minimum balance requirements, high interest rates, and high transaction costs. Another disadvantage of formal banks is the availability of services in urban areas. However, the drawbacks of community savings include theft of savings and loss of money and belongings, while the advantages include low transaction costs (Scotia, 2017). Most of the community savings in Tanzania are operated by civil societies and informal interest groups. Microfinance services include financial services such as loans and savings, as well as non-financial services such as training in project management, entrepreneurship, and non-formal insurance.

Despite various policies and regulations enacted by the Central Bank of Tanzania regarding

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microfinance activities, including regulations governing microfinance businesses. The regulations come in a trio containing the Microfinance (Non-Deposit Taking Microfinance Service Providers) Regulations 2019 (GN No. 679 of 2019), the Microfinance (Savings and Credit Cooperative Societies) Regulations 2019 (GN No. 675 of 2019), and the Microfinance (Community Microfinance Groups) Regulations 2019 GN No. 678 of 2019. These regulations are in response to the enactment of the Microfinance Act, Cap. 407 (Act No. 10 of 2018), but the poverty level remains high in Tanzania (Kumburu & Pande, 2020; Mrindoko & Pastory, 2022). According to the African Development Bank's 2021 report, the number of Tanzanians living below the poverty line has increased (World Bank, 2022). Most of the population in Tanzania lives in subsistence farming and purchasing. This indicates that there is an increase in poverty among the rural and urban populations; thus, the growing income gap between the rich and the poor is widening, despite an increase in microfinance activities.

The life cycle consumption theory, when coupled with the theory of reasoned action (TRA), guided this study (Deaton, 2011). The Lifecycle theory assumes that individuals plan their spending over their lifetime, considering future income; they take on debt when they are young, assuming future income will enable them to pay it off. Then they save in middle age to maintain their consumption level in retirement (Deaton, 2011). Therefore, this study assessed the members' community income and members' community savings as part of the variables of the lifecycle consumption theory on how they can influence the poverty level in the community

The limitation of the lifecycle consumption theory is that it assumes people are rational and forward-planning; this is not the case, as many individuals often have motivations to avoid planning (Kaseva, 2014). People may lack the self-control to reduce spending now and save more for the future. Hence, the Life Cycle is easier for people with high incomes (A. S. Deaton, 2011). To overcome this limitation, this study combined the lifecycle consumption theory with the theory of reasoned action (TRA) to identify the determinants of microfinance activities in poverty reduction in Tanzania. The theory of reasoned action (TRA) stipulates that a person's behaviour is determined by their intention to perform the behaviour and that this intention, in turn, is a function of their attitude toward performing the behaviour and subjective norms (Ajzen & Fishbein, 1977; Albarracín et al., 2001). Therefore, the community-saving attitude among members will be assessed in this study as an additional variable within the lifecycle consumption theory, alongside TRA.

Community savings, facilitated through savings, is significant in enhancing community and individual lives, reflecting better development and business growth (Nyamsogoro, 2010). However, if microfinance and community saving activities are not meeting the needs of the community, their effects cannot be noticed (Kipesha, 2013b; Lwesya & Mwakalobo, 2023)

Despite government efforts to improve microfinance through acts, policies, and regulations, poverty remains high in Tanzania (Chilambe, 2018; Lwesya & Mwakalobo, 2023; Mlowosa et al., 2014). This indicates problems with the implementation of community savings activities in Tanzania. Indeed, previous studies (see for example, Chilambe,2018; Danga & Yusuph, 2019; Kaseva,2014; Kessy & Urio, 2006) on the effect of microfinance on poverty reduction in Tanzania has indicated that, despite the available and improved regulations and policies which has taken place in Tanzania, there are still high rate of poverty in the nation. This raises questions about the causes of the rise in poverty, despite income-generating activities and government efforts to alleviate it through community savings initiatives. Since the life consumption theory has indicated some drawbacks of not involving external factors in determining human behaviour (Chille & Shayo, 2021), and there is a paucity of studies regarding the effects on community savings, income growth and members' perception of community savings activities on poverty reduction in Tanzania(Kumburu & Pande,2020; Mrindoko & Pastory,2022). To enhance the model's explanatory power of the model, the study combined Life cycle consumption theory and the theory of Reasoned action (TRA) to study the determinants of microfinance activities in poverty reduction in Tanzania. Therefore, the community-saving attitude among members has been conceptualised in this study as an additional construct, building on TRA and lifecycle consumption theory, to address the gap by assessing microfinance activities for poverty reduction in Tanzania.

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2.0 Literature Review and Hypothesis Formulation

2.1 Lifecycle Consumption Theory on Poverty Reduction

The life cycle consumption theory, also known as the life cycle hypothesis, is an economic theory that suggests individuals plan their spending and saving patterns over their lifetime, considering their expected future income. The theory assumes that individuals aim to maintain a stable level of consumption throughout their lives and adjust their saving and borrowing behaviour accordingly (Deaton, 2011). The life-cycle consumption theory takes a long-term perspective by considering individuals' lifetime income and consumption patterns. It recognises that individuals' financial situations change over time, and that their saving and spending decisions should reflect these changes. The theory assumes that individuals are rational and forward-looking in their economic behaviour. It suggests that individuals carefully plan their consumption and saving decisions, considering their future income and expected expenses. The life-cycle consumption theory highlights the importance of saving during periods of higher income to maintain consumption during periods of lower income, such as retirement. It emphasises the role of savings in smoothing consumption over the life cycle (A. Deaton, 2005).

The weaknesses of the life-cycle consumption theory include its assumption that individuals have perfect foresight and can accurately predict their future income and expenses. In reality, individuals may face uncertainties, such as changes in employment, health, or unexpected expenses, which can affect their ability to plan and save accordingly. The theory assumes that individuals have self-control and the ability to make optimal decisions regarding saving and consumption. However, in practice, individuals may exhibit behavioural biases, such as present bias or limited self-control, which can lead to suboptimal saving and spending. The life cycle consumption theory assumes a stable income stream over an individual's lifetime (Kaseva, 2014).

In reality, however, individuals may experience income volatility due to factors such as job loss, economic downturns, or changing economic conditions. Income volatility can disrupt planned saving and spending patterns, as theory suggests. The life cycle consumption theory assumes homogeneity among individuals in terms of income, preferences, and life circumstances. However, individuals have diverse financial situations, goals, and constraints, which can lead to variations in their saving and consumption behaviour. The theory may not adequately capture these individual differences. The life-cycle consumption theory focuses primarily on individual-level factors and may not adequately account for external influences on saving and consumption decisions. Factors such as government policies, cultural norms, and social influences can significantly impact individuals' saving and spending behaviour but are not explicitly considered in the theory (Kumburu & Pande, 2021).

Nevertheless, the theory of reasoned action explains the relationship between behaviour and attitude in human action. The theory comprises the constructs of attitude, behavioural intention, and subjective norms regarding the behaviour in question. The decisions individuals make to engage in a particular behaviour are based on the outcomes they expect to result from performing the behaviour (Venkatesh et al., 2012). The decision of the consumers towards the product is mostly determined by the attitude of a person, either positive, negative, or indecisive towards that brand. If the consumer has a positive attitude, s/he will choose a particular brand and thus create brand loyalty; conversely, the consumer will not prefer a particular brand (Porter & Kramer, 2002).

The theory of reasoned action (TRA) stipulates that a person's behaviour is determined by their intention to perform the behaviour and that this intention, in turn, is a function of their attitude toward performing the behaviour and subjective norms (Albarracín et al., 2001). This study, therefore, has complemented members' attitudes as an additional construct within TRA, alongside lifecycle consumption theory, to fill the gap by assessing microfinance activities for poverty reduction in Tanzania. Notwithstanding this, there are few studies on the determinants of microfinance activities in poverty reduction in Tanzania (Danga et al., 2019; Chilambe, 2018; Mlowosa et al., 2014). However, even the available studies conducted in both developed and developing countries have mixed results, as there are differences in interpretations of the factors influencing microfinance activities and poverty reduction (Réthi, 2012; Saka et al., 2019).With these mixed results and scant studies in developing countries, particularly in Tanzania. Therefore, this study was conducted to address this gap by underscoring the following Hypotheses:

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H1: Community savings has a positive effect on poverty reduction.
H2: Community members' income has a positive effect on poverty reduction.
H3: Members' attitude towards community saving activities has a positive effect on poverty reduction.

3.0 Research Approach, Population, Sampling Techniques and Sample Size

The study utilised a quantitative methods approach. Data were collected through surveys to assess the relationships between community savings, income levels, members' attitudes, and poverty reduction, while controlling for the identified variables. (Saunders et al., 2012; Kothari and Garg, 2014). The study adopted a survey strategy; surveys help collect large amounts of data through questionnaires administered to a population sample, enabling the researcher to test the study hypothesis (Saunders et al., 2012). The population of this study was the microfinance institution members and service providers in Dar es Salaam city, comprising its 5 municipalities. According to the Financial Sector Supervision Report of 2021, there are about 1487 microfinance service providers in Dar es Salaam from tier 2, tier 3 and tier 4, respectively (URT,2021)

This study was conducted in Dar es Salaam. Dar es Salaam was selected because it is a commercial city that contributes 30% to Tanzania's Gross Domestic Product (GDP) (URT, 2022). In this study, the researcher used a multistage sampling procedure. In determining the sample size, the sample was determined by the formula that has been developed by Yamane (1967) as:n = N/(1+N(e)2); Where n = Sample size; N = is the Targeted study population; e = Level of precision (0.05); Therefore n = 1,487/ (1+ (1,487*0.052)n = = 315 respondents (Approximately). The independent variables were measured on a 5-point Likert scale ranging from strongly disagree to agree strongly. In contrast, community membership savings, community membership income, and community membership attitude were independent variables, and poverty reduction was the dependent variable, as adopted from Graham & Isaac (2000) and Venkatesh et al. (2003). Inferential Analysis was conducted using the multiple linear regression model. As poverty reduction was the dependent variable, it is represented by Y.

$$Y = a + \beta X1 + \beta X2 + \beta X3 + \epsilon$$

Where Y represents the dependent variable, a = Represent the regression constant, X1, X2, X3 represent the independent variables, β1 + β2 +β3 are regression coefficients of the respective independent variables, which were determined from the input data, and ϵ is the error term.
Ethical issues were addressed by the researcher throughout the study (Saunders et al., 2012). There was clear communication with the participants to ensure they were aware of the research aim before the study was conducted. Respondents were given a questionnaire, informed of the study's aim, and asked for consent to participate.

4.0 Results and Discussion

4.1 Results

4.1.1 Respondents' Demographic Characteristics

The study's sample characteristics included the microfinance institution members and service providers in Dar es Salaam City, comprising its 5 municipalities, according to the financial sector Supervision report of 2021.

4.1.2 Reliability Test results

Cronbach's alpha indicated the reliability of the instruments. The reliability of the scale for each variable was assessed using Cronbach's alpha to measure internal consistency. Values of α> 0.7 indicated that the items in the questionnaire were reliable; hence, the minimum acceptable value of α was 0.7 (Saunders et al., 2012). Factor analysis was conducted to measure construct validity; a factor analysis cut-off point of 0.3 was considered acceptable (Sondhi and Chawla, 2016). Items above 0.3 were maintained during the factor loading. Based on the available data, Poverty reduction (PV), Community membership savings

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(CS), Community Income (CI), and Attitude (ATT) were analysed using factor analysis, as indicated in Table 2.

Table 1. Validity and Reliability of the Data

Cronbach's alpha Results on Reliability	KMO	BTS (P-Value)
0.878	0.875	<0.001

Source: Field Work (2024)

Table 2. PV, CS, CI & ATT Constructs on Factor Loading

Community Membership Saving Constructs (CS)		ATT (Attitude)	
Variable	Factor loadings	Variable	Factor loadings
CS6	0.866	ATT2	0.672
CS2	0.631	ATT1	0.602
CS3	0.668	ATT4	0.758
CS1	0.526	ATT6	0.777
CS5	0.691	ATT5	0.767
CS4	0.679	ATT3	0.688
Community Income (CI) Constructs			
Constructs			Factor loadings
CI3			0.808
C16			0.743
CI5			0,690
CI2			0.667
CI4			0.597
CI1			0.641
Poverty reduction (PV)			
Variable			Factor loadings
PV1			0.703
PV3			0.825
PV4			0.836
PV5			0.871
PV2			0.793

Source: Fieldwork (2024)

Principal Component Analysis was the extraction technique applied. The rotation technique applied was Kaiser Normalisation Using Varimax A single component was extracted from the associated variables for each construct. There was no rotation of the solution (no rotated component matrix).

4.1.3 Results of Correlation Analysis

According to Table 3, there appears to be a causal association between poverty reduction (PV) and Community membership savings (CS), Community Income (CI), and Attitude (ATT) as independent variables, with r values ranging from 0.779 to 0.839 at p<0.01. It is important to note that the research did not reveal any instances of multicollinearity.

Table 3. Inter- Correlation among Variables (N=91)

Correlation		PV	CS	CI	ATT
Pearson Correlation	PV	1.000	.738	.609	.727
	CS	.738	1.000	.675	.673
	CI	.609	.675	1.000	.668
	ATT	.727	.673	.668	1.000

**r is significant at the 0.01 level (2-tailed); Source: Fieldwork (2024)

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4.1.4 Correlation Analysis Outputs

As Table 3 illustrates, the correlation between poverty reduction (PV) and the independent variables ranges from 0.609 to 0.738 at p<0.01. However, the study did not indicate multicollinearity during analysis

4.1.5 Outcomes on Multiple Linear Regression Analysis

The model fit revealed R-squared and adjusted R-squared values of 0.756 and 0.784, respectively, indicating that 75 per cent of the variance in the dependent variables was explained. 105.502 indicates the F-statistic at p<0.001. Statistics regarding Durbin-Watson were close to. Also, there is no indication of any outliers in the data (Daud, 2018).

Table 4. Model Summary and Regression Results

R	R squared	Adjusted R Squared	The standard error of estimate	Dublin Watson	F	Sign (P-value)	
0.795	0.756	0,784	0..552	1.674	105.502	(<0.001)	
Constant	B	Std Error	Beta	t	Sig	Tolerance	VIF
CI	.435	.102	.391	4.433	.000	.306	3.242
CS	.278	.087	.250	2.848	.003	.312	3.282
ATT	.318	.107	.220	3.445	.002	.315	3.253

Source: Fieldwork (2025)

4.1.6 Effect of Membership Community Income on Poverty Reduction

Table 4 shows at p=0.000 that Community Membership Income (CI) has a prediction of poverty reduction, which supports the alternative hypothesis that Community Membership Income has a positive and significant effect on poverty reduction

4.1.7 Effect of Membership Community Savings on Poverty Reduction

Table 4 shows, at p=0.003, that membership in Community Savings (CS) predicts poverty reduction, supporting the alternative hypothesis that Community Savings has a positive and significant effect on poverty reduction.

4.1.8 Effect of Community Attitude on Poverty Reduction

Table 4 shows at p=0.003 that Community Attitude (ATT) has a prediction of poverty reduction, which supports the alternative hypothesis that Community Attitude has a positive and significant effect on poverty reduction

4.2 Discussion

The results demonstrate that community savings, community income, and attitude have significant effects on poverty reduction. This shows that the alternative hypothesis has been accepted and the null hypothesis has been rejected. (Kumburu & Pande,2020). The results have indicated the importance of savings, and that has a reflection on the community income, which emphasises the importance of spending in accordance with an individual's ability to save (Kumburu & Pande,2020).These results are similar to past studies (Kipesha, 2013b; Lwesya & Mwakalobo, 2023; Nyamsogoro, 2010), which emphasise the importance of microfinance savings and the promotion of income-generating activities.

However, the findings align with the study by Graham & Issac (2000) on the effect of the Life Cycle Consumption Theory on human behaviours. The findings are also congruent with the Life Cycle Consumption Theory, which indicates that individuals carefully plan their consumption and saving decisions, considering their future income and expected expenses. The life-cycle consumption theory highlights the importance of saving during periods of higher income to maintain consumption during periods of lower income, such as retirement. It emphasises the role of savings in smoothing consumption over the life cycle (A. Deaton, 2005).

The study has also shown, in confirming the theory of Reasoned action (TRA), that attitude plays a role in an individual's behaviour. A person's feelings and perceptions of an idea relate to their decision to adopt that behaviour (Venkatesh et al., 2012). This indicates that the community should have positive thoughts and perceptions to better engage in productive activities, such as community savings through microfinance activities, which will result in income generation (Lwesya & Mwakalobo, 2023).

The integration of Life Cycle Consumption Theory and the Theory of Reasoned Action has contributed to the study's knowledge through the parsimonious utilisation of fewer constructs to explain the dependent variable of poverty reduction, and the model has indicated high explained variance.

Implicitly, policymakers and microfinance institutions in Tanzania should strengthen their institutions by promoting better performance of community activities, leading to improved production and community savings, and ultimately community income growth. This can only be attained when there are better policies to promote saving, policies that ensure a better environment for micro entrepreneurs to conduct business, and credit facilities that are accessible to the majority in the communities. This means that the government, along with all its stakeholders, including local government authorities, should collaborate with microfinance service providers to ensure better business environments for communities in Tanzania. The Government, through the central bank, should set policies and regulations to ensure that microfinance institutions offer better interest rates to the community, thereby promoting savings.

5.0 Conclusion and Recommendations

Overall, expectation, confirmation, and disconfirmation have emerged in this study to be important predictors of tourism satisfaction in Tanzania's cultural and heritage tourism sector. In general, the results on expectation, confirmation, and disconfirmation in the tourism industry can inform policymakers in formulating well-informed policies and strategies that bolster destination competitiveness, elevate visitor satisfaction, and foster sustainable tourism development. Policymakers can foster a favourable tourism environment that benefits travellers and destination communities by addressing key factors that shape tourists' experiences.

6.0 Areas for Further Research

This study has used a few variables to assess how poverty can be alleviated in communities. Further research is needed using other variables, such as community demand, community production, community financing controls, and business environments. This may further assist in understanding the determinants of poverty reduction through microfinance activities. Moreover, the study was conducted in Dar es Salaam, Tanzania, which is only part of the larger Tanzanian community. Future studies should be conducted outside Dar es Salaam by including a much wider spectrum of the sample, with diverse traditions and perceptions of microfinancing activities. The mentioned limitations and gaps are significant for future research aimed at enhancing the determinants of microfinance activities in poverty reduction in Tanzania.

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