The impact of participation in Microfinance programmes on poverty alleviation in Tanzania; an empirical analysis: the case of Vicoba

Tanzania has remained one of the poorest countries in the World with rural populations taking the larger proportion of poverty incidence. Access to finance for production and consumption is one of the solutions suggested by theory and empirical studies to alleviate poverty in rural Africa. Such financing has been seen to work best through households and self help groups. Literature from Tanzania has mixed claims: one school of thought suggests that micro finance has indeed reduced poverty while the other is reserved. Recent evidence from policy documents suggests that Village Community Banks (VICOBA) stands out among microfinance institutions that have led to poverty alleviation in Tanzania. This study investigates the determinants of participation in microfinance and its impact on household poverty in Musoma district. Primary data, gathered from 116 households both members and non members of VIC DBA, was applied on a two stage model that evaluates determinants of participation in micro finance and finally the impact of this participation on household incomes. Probit and Heckit models are applied in the first stage (participation) while two stages least square (2-SLS) model is applied to the income equation. Results indicate that characteristics of the household head (gender, years of schooling, marital status and occupation), household characteristics (household size in terms of number of members) and village characteristics (distance to the market centers) affect participation in microfinance. On the other hand, years of schooling, household participation in microfinance, distance of households from main roads and interest rates affect incomes. Of essence, participation in microfinance is seen to alleviate household poverty. The study recommends policies that promote gender equity, development of rural infrastructure, development of multiple or strong microfinance institutions in remote village areas, mandatory publication of interest rates by MFI's and a more supportive business climate for microfinance institutions.