ROLE OF OPERATIVE ENVIRONMENT OF MICRO-FINANCE ON POVERTY ALLEVIATION IN TANZANIA: THE NEED FOR A HOLISTIC RESEARCH APPROACH

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ABSTRACT

Micro-finance is globally appreciated and acclaimed for providing poor people with the opportunity to generate incomes and address their plight. Alas, many studies on the impact of micro-finance on poverty alleviation have largely tended to examine the role that micro-finance plays while condoning the influence of other factors (loan repayment terms, level of infrastructure, quality of health, safety levels, gender relations, illiteracy rates, etc.) on this impact. These factors, in their totality, make up what this paper terms the *operative environment of micro-finance*, which determines how micro-finance performs. This study was primarily driven by the goal of understanding the environment in which micro-finance activities operate in rural and urban Tanzania. Thus the study has two objectives: (1) to investigate the various factors forming the operative environment of micro-finance and their impact on the performance of micro-finance institutions and other stakeholders; and (2) to assess the need for a holistic research approach in studying the impact of micro-finance. Unsuccessful, doomed

An intensive literature review reveals that micro-entrepreneurship in Tanzania is too constrained by the internal and external operative environments it operates in to facilitate micro-entrepreneurs in poverty alleviation. In the process, the factors forming this operative environment are in every respect responsible for explaining the extent to which micro-finance can be a successful or failed policy instrument. Therefore, this paper serves as a reminder for researchers and practitioners alike that they need to evaluate the performance of micro-finance with poverty alleviation in a comprehensive manner. This should be based on the totality of the environment within which microfinance operates, instead of singling it out as a standalone strategy. In other words, they must do so with an understanding that micro-finance is not a panacea and, therefore, it cannot address poverty fully on its own.

1.0 INTRODUCTION AND CONTEXT

1.1 Background

Micro-finance is globally appreciated and accredited for its role in fighting poverty as evidenced by many countries around the world that use it. The United Nations (UN) endorses micro-finance as a suitable tool for helping poor people and bringing about community prosperity (Bernanke, 2007). This global gravitation towards micro-finance in the development process is parallel with its primary objective of providing poor individuals and households with access to affordable micro-loans and other financial services for self-employment; through which they can boost their incomes and alleviate poverty (Bernanke, 2007; Westover, 2008). As such, micro-finance presents itself as a viable solution against poverty for the poor (especially those in rural areas and mostly women) who are often excluded from mainstream banking on the pretext of being unbankable (Boudreaux & Cowen, 2009; Consultative Group to Assist the Poor [CGAP], 2012).The unbankability of the poor emanates from their being regarded as a burden by the mainstream banking sector, owing to high risks of providing loans to them in the absence of collateral. Banks also isolate the poor to avoid high administration costs associated with processing small loan amounts for them. Micro-finance institutions (MFIs), on the other hand, are willing to disburse small loan amounts to the poor without always having to be backed up by collateral. By so doing, micro-finance practically enables the poor to access capital for self-employment and income generation purposes. The significance of micro-finance is widely recognised, given the fact that poverty is a worldwide malaise. Nonetheless, poverty affects certain regions of the world, particularly sub-Saharan Africa, South Asia and Latin America exceedingly severely (Yunus, 2007). Poverty is also more pronounced in rural areas and among women. Hambly and Sarapura (2009) note that rural areas accommodate about two-thirds of the world's poor, with women comprising two out of every three impoverished individuals. In Tanzania, 60% of women live in conditions of extreme poverty [United Republic of Tanzania (URT), n.d.]. Though omnipresent, the poverty incidence is most severe in remote and semi-arid regions of the country (Morris et al., 2001; YouFeedThem [YFT], n.d.). Rural families living in these regions endure the plight because of their exclusive dependence on livestock and food crop production (YFT, n.d.). This close relationship between poverty and overdependence on the agricultural sector is a result of the cyclical and structural constraints to which the agricultural sector is exposed. Examples of such cyclical and structural constraints include frequent floods and droughts, a shortage of irrigation facilities, lack of extension services, and a dearth of market linkages (e.g., Aikaeli, 2010). Other examples include the poor state of infrastructure, particularly roads, means of transportation, electricity and telecommunication (e.g., Ter-Minassian, Hughes & Hajdenberg, 2008); gender discrimination (e.g., Pitamber & Hamza, 2005); illiteracy (e.g., Pitamber & Hamza, 2008); poor personal safety (e.g., Msami, 2009), and diseases (e.g., Egan, 2009).

Micro-finance strategy in Tanzania is driven by the overarching goal to enable the poor to access loans, so as to finance their micro-enterprises for self-employment purposes (Fraser & Kazi, 2004). Ironically, though agriculture is the leading sector and employs most of the population, it alone cannot address the rural employment challenge adequately. Hence, micro-finance facilitates entrepreneurship for job creation, by enabling entrepreneurs to create productive links between the non-farm economy and agriculture (Kinda & Loening, 2010). There are a number of MFIs delivering this kind of service in the country, with Savings and Credit Cooperative Societies (SACCOS) constituting the majority of them.

Although they may access loans from MFIs, the poor in Tanzania are constrained by a number of challenges that hinder them from obtaining adequate loan amounts and investing the loans successfully. For example, prior savings are a compulsory condition for loan qualification with MFIs such as SACCOS (Wangwe & Lwakatare, 2004), with the loan amount being limited to up to three times the value of money in the savings account (Ministry of Cooperatives and Marketing of the United Republic of Tanzania [MCM], 2004). Since the poor do not have enough to save to qualify for adequate loan amounts needed, their capitalization is usually too small to make them achieve significant returns on investments. Again, the problems of poor infrastructure, erratic weather conditions, gender discrimination, illiteracy, poor safety and diseases, among others, make it even more difficult for many poor people to undertake micro-enterprise activities successfully. These factors collectively create the so-called *operative environment of micro-finance*, which determines the effectiveness of micro-finance for poverty alleviation.

Operative environment of micro-finance refers to the suitability and delivery mode of micro-finance products and services as well as the circumstances within which they are utilized for the development of micro-entrepreneurship and poverty alleviation. The operative environment is divided into two interrelated parts – *internal* and *external*. The internal operative environment simply refers to the types and delivery modes of micro-finance products and services, such as the provision of micro-loans and insurance services, related access qualification criteria, terms of use and modalities of repayment. The external operative environment, on the other hand, refers to the circumstances within which micro-finance products and services are utilized in a setting that is external to the area of MFIs. These include the socio-economic (e.g., gender relations, safety, education, infrastructure, etc.), environmental (e.g., weather, soil, geographical distance, etc.) and regulatory (e.g., taxes, ease of formalizing business, etc.); factors that determine whether or not micro-finance products and services are utilized in a productive environment.

Quite unfortunately, and rather erroneously, the performance of micro-finance as it relates to poverty alleviation tends to be attributed to the capitalization component alone without accounting for the role of its operative environment as a whole. Examples include the works of Khandker (2005), Morduch (1998), Ssendi and Anderson (2009), and Vogelgesang (2001). Poverty is a multi-dimensional phenomenon that requires a multi-faceted approach to be tackled effectively (Roodman, 2009). Micro-finance is only one of the approaches for poverty alleviation. Therefore, since micro-finance is definitely not a panacea, it logically follows that any assessment of its impact on poverty alleviation must entail a holistic research approach that fully evaluates the contribution of its operative environment.

1.2 Objectives of this paper

This paper is primarily driven by the goal of fostering an understanding of the environment within which micro-finance operates in rural and urban Tanzania, as a strategy for assessing its contribution to the performance of the sector in poverty alleviation. This environment is technically referred to as the operative environment of micro-finance.

The first objective is to examine various factors that define the operative environment of micro-finance in Tanzania that, in turn, determines the performance of micro-finance as reflected in the success or failure of micro-entrepreneurship. The rationale behind this is the need to answer the question: *does the operative environment of micro-finance matter in evaluating and understanding the impact of micro-finance on poverty alleviation?*

The second objective builds upon the first, in effect requiring development stakeholders to adopt a holistic research approach by examining the overall environment within which micro-finance operates to better understand its impact on poverty alleviation. Information generated using this approach is expected to protect micro-finance from unfair or misleading judgement about its performance, which could complicate the sharing of research facts with and among multiple end-users.

1.3 Significance of this paper

This paper demonstrates that the effective promotion of micro-entrepreneurship with the support of micro-finance aimed at fighting poverty must not be taken for granted. While a number of factors constitute the operative environment, the performance of micro-entrepreneurship initiatives has largely been attributed to micro-finance alone, as if it functions independently to combat poverty. This study shows that a combination of factors (including various forms of capital) builds the powerful force required against poverty and, as such, it is the force as a whole that should explain the consequences and not just partial components. The argument here is that it is erroneous and misleading to hold micro-finance entirely responsible for the performance of micro-entrepreneurship and the resultant impact on poverty while isolating all relevant contributing factors. Therefore, stakeholders should have a complete evaluation checklist to correctly assess and fully understand the role that micro-finance (once singled out) plays in addressing poverty and how it is aided or constrained by its environment, whether immediate or remote.

Consequently, the paper is expected to stimulate constructive discussions among the key players in the field of micro-finance and poverty alleviation at large, as well as to encourage further research into the subject matter to better comprehend and operationalize the concept of operative environment. Apart from producing useful and unbiased information, the holistic research approach being proposed is intended to re-focus research to adequately inform policy and decision-making processes. It is also expected to assure effective use of resources for research, policy formulation, decision making, and related knowledge sharing processes and activities.

2.0 STATE AND EXTENT OF POVERTY IN THE WORLD AND IN TANZANIA

2.1 Poverty and micro-finance

Rural and urban communities worldwide are constantly seeking solutions to address challenges and opportunities they face. These are related to changing social, economic, and even environmental situations. Within the context of a globalizing environment, communities are seeking localized means of decision making and planning by identifying different strategies to address ever-changing dynamics. Governments are working hand-in-hand with national and international stakeholders to identify viable solutions to address and cope with these changes. One of the challenges for which solutions are sought is poverty and its dynamics. This section reviews the state of poverty in the world, with Tanzania in mind as an example of world's poorest countries for which micro-finance can be used to effectively fight poverty.

2.1.1 Overview of state and extent of poverty in the world

It is observed that, of total world income, 42 per cent goes to the richest 10 per cent of the world's population and just 1 per cent goes to the poorest 10 per cent (The Conference Board of Canada, 2014). Half the world's population is said to live on less than $2.50 a day, whereby 75 per cent the of the third world countries population lives on less than $2 a day (Poverty Program, 2013). Poverty remains to be a worldwide scourge that dominates the agenda of many world governments, organizations, households and individuals; but it has eschewed a definite and universal solution.

Poverty in the world is generally noted to be reflective of rurality and gender. Hambly and Sarapura (2009) observe that rural areas accommodate about two-thirds of the world's poor. With their economies overwhelmingly agrarian, rural areas of developing countries set a classic example of poverty-stricken areas the world over.

> *Three of every four people in developing countries live in rural areas – 2.1 billion living on less than $2 [US] a day and 880 million on less than $1 [US] a day, and most depend on agriculture for their livelihoods (Kinda & Loening, 2010, p. 173).*

It is estimated that women constitute 70% of people in the world living in extreme poverty (Lefton, 2013; Moghadam, 2005). Severity of poverty among women tends to correlate positively with their geographical locations, with those living in rural areas suffering the most. It is said that women comprise two out of every three impoverished rural individuals (Hambly and Sarapura, 2009). This overall dominance of poverty among women is referred to as the *feminization of poverty* (Goldberg & Kremen, 1990; Martin, 2008; Moghadam, 2005).

Specifically, as noted by Women Watch (1999), women are generally poorer than men owing to processes that affect them differently. Evidence of this claim is partly cited in the observation that rural households headed by men tend to have higher per capita income than those headed by women, a situation explained by the unequal distribution of resources between men and women (Aikaeli, 2010). Women lack employment opportunities and income, which render them to a distinctive state of material deprivation (Masika, de Haan &

Baden, 1997; Ssendi & Anderson, 2009; Women Watch, 1999). Quintessentially, the economic positions of women are often adversely affected because of their being overlooked in the social policy agenda (Parsons & Parker, 2005) and their limited access to capital and productive resources (Masika et al., 1997; Russell, 2001; URT, n.d.; Women Watch, 1999). As exemplified by the case of Canada, women are constrained by limited access to formal education and training, along with physical isolation because of the dynamics of community, geographical distance, and lack of or poor transportation (Burn, Bruce & Marlin, n.d.). They are generally unable to access improved health, housing, and education; have poor and limited bargaining position and power at family and community levels; and are unable to shield themselves from violence both at home and in the world. These factors expose women to greater challenges than men in relation to their struggles to overcome poverty. No wonder, therefore, the effects of poverty on women are far-reaching and compromise the socio-economic well-being of entire communities and the world as a whole. For example, poverty among women has been observed to subject their children to physical and social underdevelopment (Microcredit Summit Campaign [MCSC], 2009).

Despite all these constraints, women remain major economic contributors because of their devotion to working harder and for longer hours than men. According to the UN (2009), they are the major players in agricultural production and income generation in rural communities worldwide. More than 80% of basic foodstuffs in sub-Saharan Africa and the Caribbean are produced by women, while in Southeast Asia women contribute by up to 90% of the labour that goes into rice cultivation (UN, 2009). Lefton (2013) also notes that "women own only 1 percent of property, earn 10 percent of all income, and yet they produce half of the world's food" (n.p).

2.1.2 Overview of state and extent of poverty in Tanzania

Since independence (1961), the Government of Tanzania has actively addressed poverty eradication as its central objective (URT, n.d.). It has frequently introduced and implemented social and economic policies geared towards tackling the problem of poverty both at national and individual levels. Recent evidence of these efforts is cited in the adoption of the National Poverty Eradication Strategy (NPES) in 1997 with the goal of providing a guiding framework for poverty eradication initiatives for the purpose of reducing absolute poverty (URT, n.d.). NPES focuses on five key sectors that include education, health and nutrition, water, agriculture and rural roads. The government also formulated the Development Vision 2025 in 1999 that lays out a vision for addressing abject poverty and achieving improved social conditions by the year 2025 (URT, n.d.).

Despite these efforts, Tanzania remains one of the world's poorest countries, with the Human Development Index score ranking the country at 151 out of 182 countries (Aikaeli, 2010). Apart from its pervasiveness at the national level, poverty in Tanzania is significantly a rural phenomenon (Aikaeli, 2010; Sarris & Karfakis, 2006; YFT, n.d.). In addition to being rural in character, poverty reveals itself more with women than men. It is observed that 60% of women in Tanzania live in conditions of extreme poverty (URT, n.d.), with female-headed rural households having lower per capita income than their male counterparts (Aikaeli, 2010). The incidence of poverty is said to be severest in remote and semi-arid regions of the country (Morris, et al., 2001; YFT, n.d.), owing to a limited diversification of economic activities, whereby the agricultural sector, particularly food crop production and livestock keeping, dominates.

Clearly, regardless of geography and gender, poverty is highly undesirable and numerous policies and programs have been designed and implemented to fight it. Micro-finance was specifically designed to address the problem of poverty by providing poor people with access to credit and affordable financial services, following their being sidelined by the mainstream banking system. The role of micro-finance in poverty alleviation is reviewed in the ensuing section.

3.0 ROLE OF MICRO-FINANCE AND INFLUENCE OF ITS OPERATIVE ENVIRONMENT IN POVERTY ALLEVIAITON

3.1 Micro-finance as a solution to poverty

This section reviews the rationale for and significance of micro-finance in relation to poverty within a broad global perspective and in a Tanzanian-specific context.

3.1.1 A global perspective of micro-financing

Micro-finance is critically acclaimed as a just and sustainable solution for poverty alleviation in the world regardless of the wide differences in social and economic contexts within which it operates (Alami, 2010; Bernanke, 2007; Morduch, 1998). The primary objective of micro-finance is to provide poor individuals and households with access to affordable micro-loans and other financial services[1], mainly for entrepreneurship and self-employment purposes to boost their incomes (Bernanke, 2007; Westover, 2008). This way, micro-finance overcomes the phenomenon of exclusion of the poor, especially those in rural areas and mostly women, from mainstream banking owing to their being unbankable (Boudreaux & Cowen, 2008; CGAP, 2012). Unlike mainstream banks, most MFIs do not require borrowers to put up collateral, thus allowing the poor to apply for loans and enabling them to access capital.

The UN commends micro-finance as a valuable technique for helping poor people and fostering community prosperity. To underscore the global emphasis, it declared 2005 the "International Year of Micro-credit" (Bernanke, 2007, p. 1; Boudreaux & Cowen, 2008, p. 27). The following year in 2006, the Nobel Peace Committee referred to micro-finance as "an important liberating force" and awarded the Nobel Prize to Muhammad Yunus in recognition of and appreciation for his creativity in relation to micro-financing (Bernanke, 2007, p.1; Boudreaux & Cowen, 2008, p. 1). Yunus, the founder of Grameen Bank, is recognized for conceptualizing the movement that has come to be known as micro-finance[2].

Micro-finance programs are reputed for the positive role they play in the development and growth of local economies, by transforming individuals and households from subsistence living to living conditions characterized by increased disposable income levels (Westover, 2008). As broadly cited in numerous studies based on qualitative research or case studies, micro-finance has won itself a place in the global agenda as a successful tool for overcoming poverty through increasing income levels of individuals and families, including improving healthcare[3], nutrition, education[4], and empowering women (Westover, 2008).

Empowerment of women and facilitation of their human rights are considered to be the lynchpin of the struggle towards overcoming poverty and fostering sustainable development, a pledge concertedly made by world leaders during their meeting at the UN in 2000 (UN News Centre, 2010; Yunus, 2007). Indeed, the UN plays a pivotal role in leading the world

[1] Other than loans, some MFIs provide services such as savings, insurance, money transfers and business development (CGAP, 2012). Others, such as those in Bangladesh, also provide their clients with social services like education on health, gender, and legal rights (Morduch, 1999).
[2] About 94 countries in the world deliver micro-finance programs on the basis of Grameen Bank's model (Rana, 2008).
[3] Research has also demonstrated the ability of micro-finance programs to increase access to healthcare, including making preventative healthcare measures more affordable to the poor (Westover, 2008).
[4] Micro-finance leads to increasing number of children being enrolled into schools and actually staying enrolled longer (Westover, 2008, referring to Morduch, 1998).

toward the emancipation of women from various forms of exploitation, oppression and poverty.

> *…significant progress in realizing women's rights is crucial to achieving sustainable development and globally agreed targets to slash poverty, hunger, illiteracy and a host of other socio-economic ills (UN News Centre, n.p - quoting the former UN Deputy Secretary General, Dr. Asha-Rose Migiro).*

In view of this global consciousness and commendable consensus, it is easy to appreciate that a focus on women constitutes the most fundamental tenet of micro-finance theory (CGAP, 2012; Ogden, 2008)[5]. Women have won their place in the micro-finance domain because of their superior ability to challenge poverty in addition to their being a good credit risk compared to men (Ogden, 2008; Yunus, 2007). It is widely acknowledged that loans given to women benefit families and communities more so than loans given to men (Bakhtiari, 2006; Coghlan, 2009; MCSC, 2009; Parsons & Parker, 2005; Women's Trust Inc., 2007).

> *Women have greater long-term vision and are ready to bring changes in their life step by step. They are also excellent managers of scarce resources, stretching the use of every resource to the maximum (Ogden, 2008, n.p, quoting Muhammad Yunus).*

Essentially, by providing women with means of self-employment and income generation, the impact of micro-finance transcends beyond the horizon of individual borrowers and at a much larger magnitude than that noted for men. Active women entrepreneurship, built on the principles of their strong commitment and devotion to their local communities, is central to their distinguished role in improving standards of living and making communities and even entire countries better places in which to live (Cookson, 2010; Western Economic Diversification in Canada, 2009). Women's interests in investment vary from those of men. Studies reveal that women tend to invest more in nutrition and education than men do, thus interrupting cycles of extreme poverty by creating a better future for their children and communities at large (Masika et al., 1997; Ogden, 2008). Furthermore, by enabling women to provide income, micro-finance empowers them and thus helps to break down gender inequalities through presenting them with opportunities to take on leadership roles and responsibilities (Westover, 2008). Generally, by enabling women economically, micro-finance empowers them socially in terms of upgrading their social status within the home and promoting their human rights, thus empowering them even more to overcome poverty and gender discrimination. As a point of caution, however, this broad claim that micro-finance is a policy success through women has sometimes been controversial; on two fronts. One, research has shown that the impact of micro-finance tends to vary by income group regardless of gender, whereby the moderately poor usually benefit more than the poorest clients (Mahajan, 2007; Westover, 2008). Two, it is argued that by targeting women on grounds of their higher repayment rates than men, micro-finance has not really solved the problem of defaults because men can push women (wives) to get loans for them (Westover, 2008). As a result, women may be sunk into additional problems of becoming answerable to MFIs concerned, having to repay the loans themselves or face consequences. Thus, contrary to the broad claims that micro-finance is a crucial tool for overcoming gender oppression, participation of women in micro-finance programs may plunge them into domestic violence

(Westover, 2008) if men (husbands) are also tied to the debt as guarantors of the loans or through ownership (or co-ownership) of collateral assets where these are involved in supporting the loanees' credibility.

3.1.2 A Tanzanian perspective on micro-financing

Tanzania's history of micro-finance is largely traced to early 2001 with the approval of the National Micro-finance Policy, which marked an official recognition of micro-finance as a tool for poverty eradication in the country (Kore, 2005; Randhawa & Gallardo, 2003). All along, the government has been very keen to implement micro-finance programs both before and after the introduction of the policy. For example, Small Enterprise Development Agency and Akiba Commercial Bank were already in operation since 1995 and 1997, respectively (Tanzania Association of Microfinance Institutions, n.d.). The government's interest in micro-finance was aroused by globally-renowned MFIs such as Opportunity International (U.S., 1971), Accion International (Brazil, 1973) and Grameen Bank (Bangladesh, 1976). Of these organizations, and as for most parts of the world, Grameen Bank and its founder, Muhammad Yunus, have been a very special influence to the development of micro-finance in Tanzania.

> *Late Mwalimu Nyerere had visited Grameen Bank in the eighties and much interest was generated in this strategy for poverty alleviation. ...Professor Muhammad Yunus was in Tanzania in June, 2007...on an invitation from President Jakaya Mrisho Kikwete [who] sought advice ...on the best way to implement microcredit in Tanzania (Grameen Bank, 2008, p. 2).*

The overarching goal of micro-finance in Tanzania is to provide the poor with access to loans for financing their micro-enterprises for self-employment purposes and income generation (Fraser & Kazi, 2004). Typically, credit from MFIs is used to finance entrepreneurial activities such as retail shops, an array of agri-businesses, tailoring, fishing, carpentry and wood works, and selling of second-hand clothes. Other goals include providing a range of other financial services to the poor, empowering women, overall improvement of living standards, and developing the business sector to facilitate achievement of high standards and reducing market failure (Kessy & Urio, 2006).

The micro-finance policy forms a foundation for the evolution of an efficient and effective system of micro-finance to cater to the needs of the low-income segment of the society as well as contribute to economic growth and poverty reduction (Stevenson & St-Onge, 2005). It lays out a framework for the development of micro-finance operators, states guiding principles for operating the system, describes roles and responsibilities of the actors, and identifies guidelines for coordinating mechanisms (Stevenson & St-Onge, 2005). The mandate to coordinate implementation of the policy is vested in the Central Bank.

Since the introduction of the micro-finance policy, the micro-finance sector in the country has increasingly become more vibrant, with many public and private MFIs entering the field to serve the poor and low-income people (Kore, 2005; Wangwe & Lwakatare, 2004). Five categories of institutions provide micro-financing. They include banks[6]; member-based organizations and associations, including co-operatives[7]; non-governmental organizations[8];

[6] Examples include Akiba Commercial Bank, CRDB Bank, Exim Bank and the National Micro-finance Bank.
[7] Mainly SACCOS, but also some cooperative unions.

large companies financing through contract farming; as well as government and public sector institutions[9] (Wangwe & Lwakatare, 2004).

MFIs use individual lending model (ILM) and group lending model (GLM)[10] to issue small loans starting from Tshs 50,000 (approximately 30 USD), while collateral is demanded for clients requiring large loans starting from Tshs 500,000 (approximately 330 USD) (Kessy & Urio, 2006). The greatest demand for credit ranges from Tshs 50,000 to Tshs 500,000 (Stevenson & St-Onge, 2005)[11]. GLM is preferred by MFIs because of its effectiveness in ensuring high loan repayment (Economic and Social Research Foundation [ESRF] & Pathways Accreditation and Continuous Education [PACE] Development Ltd, 2000). Members of GLM are jointly responsible for loan repayment, an arrangement that forces them to exert pressure on each other to ensure that one's defaults do not translate into the responsibility of others. The effectiveness of GLM's modus operandi is outstanding. For example, repayment in Dar es Salaam increased to over 80% with the introduction of the model in 1998-1999 (Kuzilwa, 2005). However, in their study, Maximambali et al. (1999) realized that GLM shifts the responsibility of MFIs to the respective borrowers, tasking them with the onerous duty of ensuring repayment and dealing with defaulters. Maximambali et al. noted that while this strategy relieves MFIs of administrative costs, it burdens the micro-entrepreneurs with more work and the consequence of repaying for defaulting or unsuccessful members. Apparently, borrowers around the world show more preference for ILM than for GLM. ILM subscribers prefer the model to GLM because it frees them from the risk of having to repay for defaulting members and being answerable to two masters (i.e., fellow group members and respective MFIs) concurrently.

3.2 Operative environment: why it matters

Roodman (2009) avows that poverty is a multi-dimensional phenomenon whose intervention requires a multi-faceted approach. This implies that approaches to aid an understanding of the impact of micro-finance on poverty must observe that poverty is overcome as a result of the interplay of many factors aside from the provision of micro-finance. After all, micro-finance is not a panacea in the sense that it cannot function alone to dissolve the poverty cycle (Hulme & Moore, 2006). Discarding views that micro-finance is a magic potion, Boudreaux and Cowen (2008) suggest it can only function well and have an impact on poverty in the presence of other factors such as good infrastructure, political stability and a sound macro-economic environment. Unfortunately, numerous studies that have evaluated the impact of micro-finance on poverty have tended to jump into broad and, yet, objectionable conclusions that micro-finance is helping or not helping without accounting for its operative environment.

[8] Examples include Promotion of Rural Initiative and Development Enterprises Limited, Mennonite Economic Development Associates, Small Enterprise Development Agency, and the Foundation for International Community Assistance.
[9] Examples include the Small Industries Development Organization, Presidential Trust Fund, Women Development Fund, Youth Development Fund, and local councils.
[10] Tanzania practices GLM as per the Grameen Bank's model, which is also used by many other countries such as Bolivia, Chile, China, Ethiopia, Honduras, India, Malaysia, Mali, the Philippines, Thailand, the U.S., and Vietnam (Morduch, 1999).
[11] All these ranges include minimum and maximum lending amounts which respective banks and other MFIs revise from time to time, but usually upward.

A few examples of such studies include Khandker (2005)[12], Morduch (1998)[13], Ssendi and Anderson (2009)[14], and Vogelgesang (2001)[15].

Several practitioners and scholars acknowledge the need to evaluate micro-finance relative to its operative environment. For example, Anton Simanowitz (Director of Imp_Act, United Kingdom) emphasizes the need to understand the inputs responsible for observed outputs before making generalizable conclusions about the impact of micro-finance (Roodman, 2009). This logical claim is also supported by Salaudin Ahmed of the Bangladesh Rural Advancement Committee, who argues that micro-credit is not a machine that brings wealth to poor people but rather a process that supports them financially to be able to apply their other skills, knowledge and experiences to dissolve the poverty cycle (Roodman, 2009). Indeed, as Gebeyaw Aychile of National Bank of Ethiopia argues, credit is only one of the inputs for a successful entrepreneurship and intervention against poverty, whereby other inputs include such factors as the business regulatory environment, physical infrastructures and climate (Roodman, 2009). Another valuable lesson is drawn from Kuzilwa (2005), who notes that many of the problems constraining entrepreneurs in Tanzania are not related to capital but are rather caused by macro-economic and institutional barriers, including the poor state of infrastructure and fierce competition. The Canadian International Development Agency is also in favour of this holistic view, avowing that for micro-finance to be successful it must entail the cultivation of entrepreneurship through the support of other relevant programs and initiatives such as the provision of basic education, improvement of health, and development of infrastructure (Kilgour, 1999). Such supportive programs and initiatives are vital for alleviating poor people (micro-entrepreneurs) from strategic difficulties and, thereby, providing them with a suitable environment to invest and realize progressive returns.

To reiterate, the concept of operative environment can be viewed from two angles of internal and external dimensions. This categorization is for the purpose of fostering a better understanding of the concept to clearly assess and comprehend the impact of micro-finance on poverty. A complete assessment must account for both the internal and external operative environments because they jointly determine and explain the overall effectiveness of micro-finance on poverty. This section reviews the importance of the concept of operative environment from the internal as well as external contexts.

3.2.1 Why the internal operative environment matters in micro-financing

MFIs themselves are accountable for the performance of micro-finance subject to the manner in which they design and deliver their programs. Some argue that MFIs do not deliver what the poor need first and foremost from micro-finance. For example, Hulme (2007) and Mahajan (2007) observe that most MFIs are driven by the overarching desire to disburse loans as opposed to meeting the overriding demand for a variety of basic financial services by

[12]This study examines the impact of micro-finance based on evidence from Bangladesh. It reaches a broad conclusion that micro-finance helps in poverty alleviation at individual and community levels without zooming in on and acknowledging the pertinent role of the operative environment.

[13]Study uses Bangladesh as a case study to answer the question on whether or not micro-finance really helps the poor. It concludes without any acknowledgement whatsoever of the operative environment that micro-finance largely helps in reducing vulnerability of the poor to poverty and not poverty itself as such.

[14] Study based on Tanzania and recognizes that the external operative environment of micro-finance matters in explaining whether or not micro-finance is a successful policy. Unfortunately, it does not consider the operative environment, whether internal or external, in its methodology while examining the impact of micro-finance on poverty among the poor rural women.

[15]This study investigates the impact of micro-finance on productivity and growth of entrepreneurship by citing evidence from Bolivia. It finds that the impact largely ranges from being neutral to positive depending on the number and volume of loans as well as sizes of operations. Unfortunately, the study is ignorant of the role the operative environment plays in leading to and explaining this impact.

the poor[16]. Where for example services for savings are provided, for the most part, they only serve MFIs' covert goals of making profit while hypnotizing the poor with money prizes and taking advantage of their plight. For example, Hulme notes that their saving services, as they currently operate, are designed to function mainly as collaterals for micro-enterprise lending. To underline their surreptitious motives, MFIs like the Kenya Women's Finance Trust and a number of other East African MFIs have been uncompromising for clients who wish to stop utilizing their loan services and only make savings by asking them to forgo their memberships (Hulme, 2007). Some MFIs are more deceptive and, in the same way, more harmful than others in their determination to achieve their profit-making goals. African MFIs are generally put on the spot for relying too much on selling loans to people whose capacity to absorb them was seldom evaluated (Rippey, 2007). Rippey adds that in some African countries the market for micro-finance is reaching saturation in terms of the capabilities of the poor to absorb any more credit, and this is partly owing to the fact that "customers are treated as 'commons', a property open to be exploited by all institutions" (p. 109). Again, because of the heavy orientation of MFIs towards micro-enterprise lending and less interest in providing savings services per se, clients have been left with no choice but to pretend they want micro-enterprise loans to cater to their pressing social needs such as paying school fees, covering medical bills, and buying food (Hulme, 2007). As CGAP (2012) confirms, research around the world has revealed that only half or less of loan proceeds go into starting or financing micro-enterprises – with the remainder going into resolving a wide range of social or domestic issues. In the end, such borrowers find themselves entangled and buried into debts that subject them to pressures from MFIs and debt collectors way beyond their abilities to bear.

Micro-finance is, again, implicated for being blind to problems that seriously affect clients' abilities to repay their loans. Hulme (2007) questions how MFIs can be credible to make bold claims that poor people always manage to repay their loans – citing them as being successful with exploiting business opportunities. Hulme relates these claims to a myth, since a proportion of poor borrowers often fail to repay their loans because of their lack of business skills and knowledge amid circumstances beyond their control (e.g., sicknesses, thefts, natural calamities, etc.). Because of their lack of concern about the issues that affect clients' abilities to repay their loans, MFIs do not give their clients enough time to generate profits before they can start making loan repayments, thus trapping them into debts and related troubles. Melik (2010) gives an example of Bangladesh where borrowers are generally supposed to start making their repayments right from the first week after receiving the loan, which does not give them enough time to start realizing returns on capital. Such time constraints are actually more serious among borrowers investing in farming and animal husbandry (Melik, 2010). This is because, given the nature of their activities, it takes them a long time to realize returns on their investments, in addition to their activities being prone to natural mishaps like floods, droughts, pests and diseases. As a result, and contrary to obvious or promoted expectations, micro-finance can actually do more harm to the poor than produce desirable results for them. For example, Melik points a finger at MFIs in Bangladesh for continuing to demand regular repayments even after the crops of farmers are totally destroyed by floods. As an immediate remedy, some people may seek loans from whichever sources (including multiple MFIs) to rescue themselves from debts and related consequences, even though only temporarily. Failure to repay also forces people to sell their properties, such as cattle, chickens, household items and even land (Melik, 2010). Some may have to send their children to work to help with repayments (Melik, 2010), including having to put up with

[16] The poor need saving services more than they need loans from MFIs. They also need insurance coverage (Mahajan, 2007).

higher workloads than normal (Westover, 2008). Failure to maintain their loan repayment schedules has also subjected people to threats (including those of physical nature) from debt collectors and the police, shaming in public and breaches of privacy from MFI staff and group members, and seizure of their properties (Hulme, 2007; Melik, 2010; Rippey, 2007; Schmidt, 2011).

> *Microfinance institutions in Busoga [Uganda] have robbed poor women and the youth blind. More than two thousand women who had borrowed heavily in the last six months have either had to sell off their pieces of land [or] domestic animals to repay the loans, and where some have failed, they have had to flee to nearby islands or face horrifying prison sentences (Rippey, 2007, p. 114).*

In extreme cases, micro-finance has been implicated in murder. In Bangladesh, for example, the press regularly reports female suicides caused by problems of repaying loans (Hulme, 2007). Consequently, instead of helping with poverty alleviation, micro-finance plunges borrowers into vicious debt cycles and a relentless dependency on micro-credit (Melik, 2010; Westover, 2008).

Another good example of inaptness of micro-finance to the real situations facing the poor is observed in unrealistic interest rates that MFIs charge their clients. CGAP (2012) notes that MFIs actually charge higher interest rates to their low-income and poor clients than banks charge their wealthier clients. For example, in Bangladesh, as Melik (2010) learns, interest rates on repayment can begin at only 15%, but, if it is a flat rate, they can rise to between 40% and 100% in a short period of time. Because of high interest rates, micro-finance is blamed for having seldom allowed micro-entrepreneurs to realize promised profits (Morduch, 1999). Relating these high interest rates to a conundrum, Boudreaux & Cowen (2008) cannot help but to wonder "how can people in new businesses growing at 20 percent annually afford to pay interest rates as high as 100 percent?" (p. 28). Nonetheless, according to CGAP, MFIs are compelled to charge high interest rates because of three main reasons. The first reason is related to high administration costs of making small loans to a number of people. For example, more administration costs (such as staff time) go into making 1,000 loans of 100 USD each than a single loan of 100,000 USD by banks. Second, unlike banks, MFIs are usually faced with the challenge of having to account for the risk of giving loans in the absence of collateral and salary for automated scoring. Lastly, MFIs try to operate also in remote and less populated areas in order to reach small clients, which makes lending more expensive. Because of these three reasons, MFIs are compelled to price their loans high enough to cover all related costs so as to sustain their operations.

Again, while simply referring to micro-finance as a death trap, Dr. Qazi Kholikuzzaman Ahmad[17]observes that poor people usually take up loans without knowledge of possible adverse consequences, with 60% of them taking loans from multiple sources (Melik, 2010). Dr. Ahmad points out that they usually do not understand that it could take them even 10 or 20 years to complete their loan repayments (Melik, 2010). Ironically, MFIs are said to be well aware of the troubles their clients might fall into. However, to protect their underhanded interests, they do not always tell clients everything that they need to know while deciding to take loans. As Rippey (2007) elaborates, MFIs do not reveal to their clients about such things as the real cost of credit, the risks associated with borrowing, and the pressures to which they

[17] Dr. Qazi Kholikuzzaman Ahmad is chair of the Palli Karma Sahayak Foundation, a body that oversees micro-finance activities in Bangladesh.

will be subjected to for taking subsequent loans regardless of how they performed on previous loans.

Clearly, MFIs themselves create the internal operative environment of micro-finance, and play a critical role in determining poor peoples' success in utilizing the finance facilities. In this context, experience in certain parts of the world reveals that micro-finance is not being delivered in conditions that are always friendly enough to the needy, thereby preventing the latter from achieving their objectives, be they for employment and/or poverty alleviation. On the other hand, it is possible that the MFIs themselves are so cornered that they run into a dearth of choices; but the fact remains that the manner in which they operate their micro-financing plays a substantial role in determining whether or not their clients will be successful.

3.2.2 Why the external operative environment matters in micro-financing

The poor in Tanzania are confronted by numerous challenges in their dire situation. Morris et al. (2001) mention several factors responsible for the physiological and socio-economic deprivations faced by the poor, including inadequate agricultural inputs, insufficient or unsteady food supplies for the household, distant productive land, and limited access to health and education. Additional factors include lack of power over decisions, dependency, disability, oppression against female-headed households, unreliability of rainfall, poor development of infrastructure, and limited access to markets (Morris et al., 2001). Ironically, some people also argue that the poor are responsible for their own plight. Ssendi and Anderson (2009), for one, see poverty in Tanzania as emanating from people's own lack of motivation, determination and self-drive. These factors, as well as others, form the external environment within which micro-finance operates. Now let us tread through a few selected economic and social attributes that constitute the external operative environment and see how they relate to poverty and what this may imply for the success of poverty intervention programs (e.g., micro-finance). The key point of reference is Tanzania.

Employment (overdependence on agriculture and associated risks)

Even though only a few people partake in higher education in Tanzania (e.g., 36 per cent in 2009) (Ministry of Education and Vocational Training, 2012), employment on the basis of education qualifications is a huge struggle in Tanzania owing to a dearth of employment opportunities. New entrants in the labour market are estimated to be between 800,000 and 1,000,000 of educated youth each year, thereby resulting in high number of unemployed youth (Mcha, 2012). The struggle for employment for those with lower levels of education is therefore acute. As a result, a significant part of educated (as is the case with the uneducated) Tanzanians find refuge in informal, self-employment activities, even though what some of them really want is to be salaried employees.

It should be recalled that agriculture is the most dominant economic activity in Tanzania. It alone accounts for more than 40% of the country's GDP, and three-quarters of merchandize exports (Kinda & Loening, 2010). The sector employs 80% of the country's workforce, whereby the remaining 20% is engaged in manufacturing, commercial and service sectors. On the other hand, around 60% of the country's Gross Domestic Product (GDP) is accounted for by informal sector activities, including, among others, those related to agricultural production (Kinda & Loening, 2010). The poor, particularly those in rural areas, rely heavily on agriculture for income generation. This state of over-reliance on agriculture in the face of poverty and general socio-economic hardships is contributed by numerous cyclical and structural constraints. It is noted that agricultural production in Tanzania is characteristically small-holder peasant farming, whereby the average size of land cultivated (mostly by hand) ranges from less than 1ha to 3ha per household (Sarris & Karfakis, 2006). An approximate total of 5 million hectares are cultivated annually, of which 85% is dedicated to food crops (Kinda & Loening, 2010). Cyclical and structural hurdles are deeply rooted in rural areas – whose residents are dependent on seasonal rain-fed agriculture amid insufficient irrigation, lack of extension services, lack of credit, shortages in infrastructure, and a dearth of market linkages (Aikaeli, 2010). These constraints co-exist with erratic weather conditions including droughts and floods (Aikaeli, 2010; Kinda & Loening, 2010; Shepherd, Kayunze, Vendelin, Darko & Evans, 2011; Sarris & Karfakis, 2006), farmers' limited skills and poor application of technology (MPEE, 2006), poor land quality in some parts of the country, unaffordability of agricultural inputs, and endemic livestock and human diseases (Shepherd et al., 2011). Together, they affect the quantity and quality of agricultural output (MPEE, 2006; Shepherd et al., 2011), and in so doing posing a major risk for income generation among those engaged in the sector. Consequently, though constituting the backbone of the economy, the sector of agriculture performs way below its potential in reducing poverty. As a matter of fact, and in view of these challenges and amid limited alternatives to income generation activities in other sectors, agriculture also can play an indirect role in further impoverishment of the poor, especially for those who invest heavily in it. Shepherd et al. sum-up that "agriculture is a clearly risky business, with many and varied sources of risk" (p. 13).

Infrastructure

Straub (2008) and World Bank (2007) find that infrastructure and economic growth are positively related, whereby telecommunications, road and electricity networks have the strongest economic growth impacts (in Ter-Minassian, Hughes & Hajdenberg, 2008). Partly quoting Prud'homme (2004, p. 16), Fjeldstad et al. (2006) also confirmed that "infrastructure promotes private sector activity because it lowers the cost of …inputs used by enterprises, and it enlarge[s] goods markets" (p. 2). However, the state of infrastructure in Tanzania has ever since been so poor that its contribution to the economic and social development of the country and its people has clearly been deficient. Let us look at two important sectors of electricity and transport to elaborate this point.

Electricity: Power supply in Tanzania is very low. Only 14 percent of the Tanzanian population had access to electricity in 2010, with supply to rural areas amounting to around three percent (Gaddis, Morisset & Wane, 2012). Frequent outages and high costs are a common phenomenon in Tanzania (Egan, 2009), thus adding to life hardships and constraining peoples' fight against poverty. Numerous complaints are common from the public about being over-billed. At the same time, businesses that try to get connected to the electricity network face costly and daunting bureaucratic procedures and corruption. For example, it takes, on average, at least 45 days (urban) and more than 140 days (rural) for a new business to get a power connection (International Bank for Reconstruction and Development [IBRD], 2007). Interestingly, corruption makes it possible for a business to circumvent established bureaucratic processes and get a power connection sooner.

IBRD (2007) found that both rural and urban entrepreneurs in Tanzania commonly perceive that their businesses are negatively affected by limited access to electricity and erratic supply of the same. According to Africa Infrastructure Country Diagnostic ([AICD], 2010), an excessive erratic power supply complicates the survival of small businesses, and renders the economy less competitive. Thus, much as lack of electricity constitutes a disaster mostly to rural micro-enterprises, the presence of electricity does not have a very significant contribution to micro-entrepreneurship in urban areas. In other words, as far as the operative environment of micro-finance is concerned, the lack of or poor access to electricity largely hinders micro-finance from alleviating poverty.

Meanwhile, the limited supply and overall poor development of the electricity infrastructure in Tanzania relates closely to the state of the telecommunication infrastructure. As the IBRD asserts, the development of the two tends to take place simultaneously. Alternatively stated, the country's telecommunication infrastructure is also poorly developed, thus constituting a barrier to poverty alleviation and general development efforts. However, the use of cell phones among micro-entrepreneurs assists their businesses to grow since, as observed by IBRD (2007) as well as Sife, Kiondo and Lyimo-Macha (2010), cell phones reduce transaction costs and physical risks. In addition, as Fjeldstad et al. (2006) found, cell phones enable micro-entrepreneurs to partake in numerous activities and, thereby, increasing their chances of generating more income. Their ability to operate cell phones, as implied by Sife et al., accelerates communication of information. Good information flow "can increase productivity; enhance access to services; widen markets; simplify transactions; substitute for physical transport; prevent crime; improve governance, and create new socio-economic opportunities, among many other benefits" (Sife et al., 2010, p. 2).

Transport: Both road access and means of transportation are limited in the country, and especially in rural areas (Aikaeli, 2010; IBRD, 2007). The road infrastructure is poorly developed and many roads are seasonal, thus confining people to isolation during rainy season (AICD, 2010; IBRD, 2007). Only 28% of the rural population live within 2 kilometers of a year-round passable road (Ter-Minassian et al., 2008). According to Aikaeli (2010), poor roads impact the agricultural sector most severely, which as indicated earlier is the main economic sector in rural Tanzania. Where roads are less often passable, the per capita income of the community involved drops primarily because access to markets is constrained (Aikaeli, 2010). As a result, many products in rural areas may not be sold or may be sold at undeservingly low prices (Aikaeli, 2010). This way, the problem of poor road conditions in rural areas makes micro-finance less effective with alleviating poverty, as opposed to urban areas where road conditions constitute a supportive operative environment for the micro-finance's goal.

Additionally, only a few rural communities have access to reliable public transport services. This state of isolation, related to limited road access and means of transportation, slows down economic development and strands people in poverty. This is so because people have limited access to economic support services and opportunities (e.g., markets and market information) as well as social services (e.g., healthcare and security) that contribute to their social well-being and economic performance. As a consequence, they spend more time and incur more expenses than usual to travel from one place to another. The poor state of infrastructure also escalates the cost of transporting agricultural products from farms to markets.

Gender discrimination

Men and women in Tanzania face gender discrimination linked to oppressive laws and harmful socio-cultural practices (MPEE, 2006). In fact, Fjeldstad et al. (2006) found that corruption constitutes a constraint on the business operations of micro-entrepreneurs in Tanzania, regardless of the sectors they are in. However, traditional gender stereotyped roles subject women to more oppression than men. A study by The International Labour Organization (2003) found that most of the women entrepreneurs in Tanzania associate the constraints they face in running their businesses with gender discrimination. Women are hardly recognized as major economic contributors and, consequently, are denied opportunities to partake in self-development and direct economic activities. Gender discrimination among Tanzanian women varies by marital status, whereby those in marriage suffer the most on account of patriarchal control. MPEE (2006) notes that the economic, social and domestic roles of women are centered on child-bearing and child-rearing, including subjecting them to early pregnancies and, as a result, restricting them from pursuing personal development activities. Women lack property rights (MPEE, 2006; URT, n.d.), face violations of physical integrity (Pitamber & Hamza, 2005), and are generally restricted from participating in the formal education and employment sectors (MPEE, 2006). Quite unfortunately, gender discrimination and poverty cause and sustain one another, thus subjecting Tanzanian women to socio-economic and cultural living conditions that exacerbate their tragedies.

Women who are not in marriage, on the other hand, are better off because they are not likely to be subjected to patriarchal control at the domestic level. As Masika et al. (1997) note, female household heads may enjoy greater self-esteem, increased personal freedom, more flexibility to work, more control over finances, and absence of physical and/or emotional abuse. Consequently, they may be empowered to pursue their personal interests, including being more available and free to partake in their self-employment activities (Masika et al., 1997).

Education and training

A sizeable segment of Tanzanians, especially women, have not been to school. Statistics show that 79% of men and 67% of women in the country were literate between 2011 and 2012 (UNESCO, 2012). Generally, fewer primary school leavers partake in secondary education. From a gender perspective, while the proportion of boys and girls tends to be almost equal at the primary school level, more boys than girls continue with secondary and tertiary education (United Nations in Tanzania, 2011). These inadequately educated and illiterate boys and girls turn out to be household heads in their adult life, with studies showing that educated household heads have a positive economic impact on their families, whereas the opposite is also true. For instance, an analysis of poverty in Uganda revealed that households whose heads are more educated tend to be wealthier (Aikaeli, 2010). Thus, illiteracy in Tanzania is positively related to poverty in terms of causing and sustaining it. The pronounced lack of access to education is also partly caused by poverty in its various social, economic and cultural forms. For example, girls may be discouraged from going to school because they are seen as a source of wealth by their elders and are, therefore, forced into early marriages in exchange for bride price (money, cattle, etc.). Children going to school (especially in rural areas) may be turned into labourers by being forced to spend most of their school life attending to non-academic errands (e.g., being hired to perform farming activities, providing construction materials and building houses for the influential and wealthy village members etc.). Because of school drop-outs and poor participation in academic programs, these boys and girls stand a rather limited chance to escape illiteracy and, broadly, poverty. In fact, as the literature reveals, the low level of education of Tanzanian entrepreneurs contributes to the management difficulties on the side of proprietors and, consequently, poor development of micro-enterprises (Egan, 2009). Aikaeli (2010) and Kuzilwa (2005) note that entrepreneurs with a considerable stock of human capital (education and/or vocational training) are better suited to adapting to an enterprise's ever-changing environment. However, a study by IBRD (2007) notes that formal education plays a more significant role in the development of micro-entrepreneurship than vocational training. Comparing the two, IBRD discovered that the marginal rate of return of 1 year of formal education ranges between 4.8% and 17.5% while that of vocational training ranges between 1.4% and 2.8%. Thus, the poor education levels of the many Tanzanian household head micro-entrepreneurs constitute a constraining factor to the successful utilization of micro-finance programs with the goal of fighting poverty.

Though true, the claim that households whose heads are more educated tend to be wealthier faces a cultural challenge in Tanzania. This is because educated and relatively successful family members are usually subjected to the duty of assisting their siblings and other (including extended) family members with expenses for education and general socio-economic welfare. This, on the one hand, reduces the impact of education in emancipating the recipients from poverty and, on the other hand, is a cause of impoverishment as incomes derived from being educated have to be shared across individuals and households. In one way or another though, those receiving help are relieved because, as wisdom holds, a grief shared is a grief halved.

Meanwhile, even though micro-entrepreneurs typically undertake or participate in other types of business activities prior to taking micro-loans, that prior business experience does not seem to positively influence their keeping of financial records. This, consistent with what Kinda and Loening (2010) found, limits their knowledge of the performance of their businesses in addition to implying that they do not distinguish business matters from other financial needs. Potentially, failure to keep financial records poses a great challenge to the performance of micro-finance in the context of alleviating poverty, as the micro-entrepreneurs concerned do not seem to be interested in, or aware of, how their businesses are performing. Seemingly, though prior experience may matter in other areas of doing business, its impotency in facilitating the keeping of financial records may stem from the manner in which the experience is acquired. A study by IBRD (2007) found that most of the Tanzanian entrepreneurs learn their management skills from relatives, friends, or through self-learning, with only a few having attended formal vocational training. While the process of acquiring management skills without vocational training may get crippled by the poor education of both the givers and receivers of the knowledge, vocational training offered by MFIs, as Kessy and Urio (2006) as well as Makombe et al. (1999) found in their studies, is focused more on repayment of loans as opposed to enabling a successful utilization of the same. Lack of performance-oriented training denies entrepreneurs the basic knowledge of sustaining their businesses, thus contributing to their failure with generating income and alleviating poverty (Makombe et al., 1999). As such, training, as it is currently provided, does not augment the overarching goal of micro-finance, that of enabling the alleviation of poverty.

Safety

Tanzanians are used to be victims of crimes and they fear crime that can compromise their safety and hinder their progress. Households are faced with crimes related to such things as theft of livestock, theft of bicycles, and burglaries (United Nations Office on Drugs and Crime [UNODC], 2009). At the individual level, the most common crimes include corruption and consumer fraud, while others include sexual offenses, threats and robbery (UNODC, 2009). In 2012, 41 per cent of adult Tanzanians reported that they (or someone in their family) had feared crime in their home over the previous year (Gaddis, Morisset and Wane, 2013). Living in fear of crime has many negative effects on citizens, including changing the manner in which they conduct their day-to-day activities. For example, working hours may be reduced, resources (especially money) may be diverted to increasing personal safety, or time spent outdoors may be cut (Msami, 2009). Crimes (including possible loss of life, money, valuable assets and general moral deterioration on the side of the victims) and reactions to fear of crime compromise development initiatives of individuals and households. Because of fear of crime, while some people may increase spending on safety instead of reinvesting into their businesses, others for their own safety may fear venturing into certain lucrative businesses that attract crime, and simply succumb to *poverty*. Tanzanians believe in peace and tranquility so firmly that they would pursue the most odd of causes in order to maintain the two.

Even at the enterprise level, and particularly with specific reference to micro-entrepreneurship, a study by Trulsson (1997) found that theft is a big problem in enterprises in Tanzania. Because of it, entrepreneurs avoid employing anyone outside extended family members because of their lack of trust in people beyond their close relatives (in Egan, 2009). However, as Egan observed, employees selected on the basis of family ties may have low levels of education, thus exposing businesses to managerial problems or, contrary to presumption, may not be that honest.

Diseases

Tanzania's economic development continues to be adversely affected by diseases, which are a major factor in increasing the vulnerability of poor people. The most prevalent diseases include malaria (the leading killer) and HIV/AIDS (Egan, 2009; MCDGC, 2005; MPEE, 2006). For example, apart from shortening life expectancy and affecting the productive and reproductive age-groups (particularly 20-49 years), the HIV/AIDS epidemic increases the number of orphaned children, whose total was more than 800,000 by 2006 (MPEE, 2006). Orphanage and general neglect of children constitute a burden to other family members and increase the size of households. An analysis of poverty in Uganda affirmed that the larger the size of the household the poorer the household (Aikaeli, 2010). This finding is also true for Tanzania, whereby large households tend to be poor due high levels of dependency. The situation is rather more adverse for female-headed households, particularly those in rural areas. Furthermore, poverty and diseases have forward and backward linkages. While diseases such as the infamous malaria and HIV/AIDS play an active role in causing and sustaining poverty, poverty also plays a role in contributing to their prevalence. For example, poverty may encourage prostitution for quick financial gains to overcome immediate economic hardships, hence contributing to the spread of HIV/AIDS cases. Again, because of poverty, poor families may be constrained from affording or prioritizing preventive and curative measures against malaria and a host of other diseases.

Specifically referring to micro-entrepreneurship, Egan (2009) found that having to attend to businesses in person has colossal ramifications on the side of Tanzanian micro-entrepreneurs, mostly because they frequently fall sick of malaria. The women micro-entrepreneurs having to attend to their businesses in person are likely to suffer more severely than their male counterparts, because women tend to be also the main caretakers of their families. This is more vivid especially when family members fall sick, in addition to the women's reproductive roles. For example, Katapa (2005) found that in households with AIDS patients, women had to spend a lot of time nursing the sick and, as a result, compromise their contribution to economic activities. Katapa realized that poverty in such households tends to get worse. Women entrepreneurs in Tanzania also tend to close their businesses during maternity leave, which affects their income generation as well as their relations with clientele (International Labour Organization, 2003). It is therefore logical to conclude that, in the context of operative environment of micro-finance, business people, particularly female business owners who have to attend to businesses in person compromise their performance considerably, hence the process of alleviating their poverty.

This review of the concept of operative environment establishes a solid ground for explaining why the environment within which micro-finance operates is critical for its success relative to overcoming poverty. This is because the effectiveness of micro-finance in this case is directly conditioned by the state of its circumambient environment. The more conducive the operative environment, the greater the impact of micro-finance on eradicating poverty, and the opposite is also true. The factors discussed in this section are only a sample of factors constituting the external operative environment of micro-finance. They serve to show the kind of environment within which poor Tanzanians utilize micro-finance to secure self-employment and combat poverty. The poor face many challenges while seeking refuge in the agricultural sector. The poor state of infrastructure is compromising their poverty emancipation efforts; gender discrimination causes and aggravates their plight; and so do illiteracy, lack of safety, and diseases. Amid such a wide array of challenges, it is logically incorrect to assume that micro-finance, as a standalone policy instrument, possesses the power of a *magic wand* with which to exterminate poverty.

4.0 CONCLUSIONS AND RECOMMENDATIONS

As the above literature review revealed, MFIs play a key role in facilitating or constraining poverty alleviation efforts, depending on the manner in which they design and deliver micro-finance programs and services. Such programs and services carry inherent conditions that determine the suitability, or otherwise, of the operative environment internal to micro-finance itself relative to enabling income generation and poverty alleviation. The literature reveals that micro-finance activities in Tanzania, and some other parts of the world, are operated in a complex internal environment for them to succeed in alleviating poverty.

However, we have also seen that the external operative environment of micro-finance is as important as the internal operative environment. While the internal operative environment provides and regulates micro-loans and other micro-finance products and services[18], it is within the external operative environment where such micro-loans are actually utilized in the process of addressing poverty. Thus, it is within the external operative environment that the real action occurs. The external operative environment of micro-finance in rural and urban Tanzania is largely unsupportive of the successful utilization of micro-finance to alleviate poverty.

In a nutshell, the operative environment of micro-finance is crucial for the effectiveness of micro-finance with alleviating poverty. The complex internal and external operative environments of micro-finance render the generation of income by the support of micro-finance to be rather difficult and, in most cases, impossible for many micro-entrepreneurs. It should thus not be surprising that most of the rural and urban micro-enterprises perform poorly.

Subject to the critical role that the operative environment plays in facilitating and constraining the performance of micro-finance, this study strongly recommends a holistic research approach to better understand and critically evaluate the contribution of micro-finance to poverty alleviation. It is inappropriate for researchers to discount the significant contribution of the operative environment of micro-finance or consider it only partially in their evaluation of the performance of micro-finance. They need to consider that micro-finance is only but a seed planted in the ground, whose success or failure to germinate depends on the condition of the seed itself and, inextricably, its growth environment (i.e., soil fertility, moisture levels, knowledge of the farmer, etc.). Thus, a properly designed and context sensitive holistic approach to research is of the essence if the impact of micro-finance is to be accurately evaluated and understood. Researchers must begin with a thorough review of the literature pertaining to their study areas to gather both internal and external factors that, broadly, make up the operative environment of micro-finance. Their survey questions must be designed in such a way that they will generate data that will clearly specify: (1) whether micro-entrepreneurs are successful or not with using micro-finance and (2) how the operative environment contributes to this outcome. This is a very important approach because micro-finance does not operate alone to overcome poverty, since poverty is a multi-dimensional phenomenon that requires a multi-faceted approach to be addressed. Studies that ignore the full accounting of the operative environment relative to the performance of micro-finance are perilous to development and poverty alleviation efforts. This is because they tend to arrive at biased conclusions and make misleading recommendations for improvement to the various

[18]Other than loans, some MFIs provide products and services linked to savings, insurance, money transfers and business development (CGAP, 2012). Others, such as those in Bangladesh, also provide their clients with social services like education on health, gender, and legal rights (Morduch, 1999).

stakeholders concerned. Such researchers may blindly surmise that micro-entrepreneurship is constrained by a limited access to adequate loans. Such a conclusion or recommendation may influence the pouring of funding into the coffers of MFIs to be disbursed to micro-entrepreneurs in the form of micro-loans, while in fact the real problem was not inadequate micro-credit, or not only that. The major problems could, in fact, have been unfriendly loan terms, lack of safety, poor human capital of the micro-entrepreneurs, lack of power supply, etc. These problems cannot be solved by providing more micro-loans. Actually, providing poor people with (more) micro-loans under these circumstances is prone to causing them more problems, because they can hardly utilize the loans successfully, hence plunging themselves into deadly debt problems that could push them into worse magnitudes of poverty. A holistic research approach, on the other hand, will inform the relevant stakeholders in an appropriate manner about the steps to take. In some cases, it may even suggest that micro-finance is inappropriate in certain geographical locations or for certain business types because the condition of its operative environment is terribly unconducive to make the micro-finance instrument effective.

It is about time researchers extended their knowledge and skills beyond their comfort zones and worked in a more focused and realistic manner towards mapping the real issues that influence the contribution of micro-finance to poverty alleviation. Researchers need to be mindful of the fact that the conclusions and recommendations they draw from their studies influence action and shape future research, which make them very dangerous if not originating from and supported by adequate evidence.

Finally, researchers in different parts of the world need to delve further into the concept of operative environment of micro-finance to appraise its scope of applicability and effectiveness in the context of evaluating the impact of micro-finance on poverty alleviation. In the process, they need to document the key factors it embodies and create a more concrete checklist to guide studies based on holistic research on collecting relevant and adequate data, but also allow for the comparability and replicability of such studies across space and over time.

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This paper originates from my original work on my Master's Thesis at Brandon University (Manitoba, Canada), entitled *Operative Environment of Micro-Finance: A Call for a Holistic Research Approach - the Case of Rural and Urban Tanzania* (2012). If you require a copy of the thesis, which carries ample data, please email me at: ian.shangwi@gmail.com.