

Exploring the Informal and Semi Rural Economy: The Impact of Microfinance in Tanzania

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“Without the services of Opportunity Tanzania, I would not have been able to improve my current business and pay for my children’s school fees. I hope to purchase a house.” With a stammer after every sentence, George Nzali, a client at Opportunity Tanzania, responded to the questions I posed to him during the interview. Loan Officer Jones Kato and I sit on a rusty wooden bench near George’s small business. George sells secondhand baby clothes for a living. Through the services of Opportunity Tanzania (OTL), a microfinance organization, George has been able to increase his stock of clothes, diversify his business, and improve his income.


We are at one of the garages of the Ilala Market District in Dar-es-Salaam, the commercial capital of Tanzania. Surrounding Loan Officer Kato and me are a heap of goods from other merchants. The air is filled with a putrid smell of fresh produce and meat products that have been covered for a long period of time. There is frantic shouting heard across every corner as the merchants try to gather their bearings. Walking through the narrow footpaths of this informal market requires steady, cautious steps in order to avoid the newly formed deep, muddy potholes. The rainfall has been replaced by a waft of humid air that makes sweating inevitable. Despite a recent rainfall having caused an interruption, I return to my interview with George. I am eager to know how microfinance has changed George’s life.

Microfinance is the provision of small-scale loans to low income communities as a working solution to poverty alleviation. In this paper, I explore the impact of microfinance on urban informal and semi-rural lives in Tanzania. Through the provision of loans and basic financial services microfinance allows low-income merchants to improve their earnings and better the livelihoods of their families and communities. In the context of Tanzania, this translates to increased access to education, water, sanitation, basic nutrition, clothing, and shelter. OTL, where I interned this past summer, is part of a

global chain of microfinance organizations under the parent company Opportunity International. Developed by Muhammad Yunus, the founder of the Grameen Bank in Bangladesh,¹ microfinance has impacted millions of impoverished communities around the world. With its record of success in other countries, I wondered whether this innovative style of banking – small loan provisions – can help erase poverty in Tanzania. The following paper attempts to answer this question.

My inquiry relies on portraits of three people who have played an enormous role in my understanding of microfinance. My first portrait is of William Solezi, the chief operations officer at Opportunity Tanzania. William enables me to understand the history of OTL and microfinance in Tanzania. His experiences with OTL elucidate how microfinance stands apart from other forms of development and poverty alleviation. William also sheds light on the importance of good management and effective client targeting as a main component of OTL’s success.

My second portrait, Officer Issa Sama, a loan officer at OTL, elucidates the impact of microfinance in the semi-rural parts of Tanzania. I journey with him one day during one of his field visits. Seeing his clients allows me to compare and contrast the difference between microfinance in the semi-rural and urban informal market places in Tanzania.



My final portrait is of George Nzali, one of OTL's clients in the urban informal marketplace in Dar-es-Salaam. My interview with George provides insights into the strengths of microfinance and the shortcomings of the Tanzanian government. Ultimately, I aim to uncover the strengths and shortcomings of microfinance in poverty reduction in Tanzania, an understanding that I hope will reveal a much broader picture of poverty in Tanzania and the role government can play in its alleviation.

Hii Ni Tanzania Yangu: This is my Tanzania

My higher education experiences and temporarily living in the USA have taught me a great deal about the stereotypical view of a person from an African country. There is a tendency to think of Africa in terms of its poverty, an element of human suffering. The image would be further exacerbated if the person hails from Tanzania, one of the world's poorest countries. In the article "Our Image of Africa is Hopelessly Obsolete," Ian Birrell comments on the disparity in perceptions about Africa. He notes that there is a disconnect between the Western portrayal of Africa and the reality on the ground, specifically pertaining to the recent advances made across the continent: "Too many people remain locked into stale narratives of Africa as a land of suffering in need of our salvation.... The continent is on the edge of economic takeoff similar to those seen so dramatically in China and India. For all the problems that still exist, a recent survey found investors in Africa are overwhelmingly positive."²

My Tanzanian reality is a reflection of the optimism in Africa's future. Growing up in Tanzania, I have enjoyed the rare privilege of attending relatively expensive private schools, living in a comfortably furnished house, and even travelling during family

holidays. This does not necessarily mean that some of the stereotypes do not hold. According to the World Bank, 35 percent of the 45 million people in Tanzania live at or below the poverty line. Much of this poverty is concentrated in the rural parts of Tanzania where only about 14 percent of the population have access to electricity. Only 54 percent of this population enjoys improved access to water.³ This promotes the risk of malnutrition and disease. Access to water translates to access to life, in the form of nutrition, sanitation, irrigation and production. All of this means that a large percentage of the population in Tanzania is mired in life-threatening poverty.

Reconciling my economic situation with the circumstances that many Tanzanians face has been challenging at times. I have thus decided to shape some of my life goals towards improving the livelihoods of other Tanzanians, who may not have grown up with the same privileges that I have.

Organizations such as OTL have stepped in and directed their efforts at reducing these difficult conditions. Their work is primarily concentrated in the urban informal and semi-rural businesses of Tanzania. "Informal" in this context means the Tanzanian population which does not have access to traditional banking and financial resources as their main source of survival. It is often the case that many of these small businesspeople and merchants have migrated from the rural parts of Tanzania in search of a better life for themselves and their families. Setting up a small business such as a duka, (the Kiswahili term for "shop"), a secondhand clothes shop, or a small cafe in a shack provides them with income, which they in turn use to take care of their families. This is where OTL steps in: their clients are those urban and semi-rural merchants who do not have established credit to secure bank loans.


Last summer I returned to Tanzania as a student intern under a fellowship from Brandeis University. Working as a student intern at Opportunity Tanzania, I set out to uncover some of the root causes of poverty in Tanzania and the role that microfinance can play in its alleviation. This journey also led me to discover the role that government can play in managing the economy.

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Faith-Based Banking, Businesses and Poverty Alleviation

"When I first came, things were not so good. There was no sense of organization and structure to how things are done here," said William Solezi, the chief operations officer at Opportunity Tanzania. He grimaced as I asked him my questions. A medium height, middle-aged Tanzanian man, William had worked at Barclays Bank in Tanzania as a project manager before joining OTL.⁴

This was my third day as an intern at OTL. I began the day by interviewing William Solezi, to get an informed insight into the background of the company. We sat in his office, isolated from the rest of the workers at OTL. Honking car horns and running engines could be heard outside the office



gates during the morning hustle and bustle of Dar-es-Salaam. The air conditioned room was filled with a strong aroma of coffee as we both had a cup at his desk to get the day underway.

One of the main reasons for their ineffectiveness was that there was a sense of hierarchy about how they treated their work. They knew more. Tanzanians knew less. “We’ll provide for you, you’re not capable of providing for yourself,” is what these organizations seemed to imply. “A rich person from across the world is helping you.”

OTL has only been functional in Tanzania for three years. In this short period the company has undergone a major transformation, which has ultimately benefited OTL’s clients. William explained to me that OTL had taken over from a previously defunct microfinance organization. The previous company, Faulu, had been mismanaged on several fronts. According to William, the products that they offered their clients as well as their accounting systems were the two main factors that had contributed to their poor performance.

“We had a high portfolio at risk (PAR) when I first came in. It was about 21 percent. Many of the clients were at risk of defaulting on their loans. We did not have

a proper way of managing the loans and monitoring how a client was performing. It was really hard and difficult during the first few months.”

William continues explaining the background to OTL with some frustration. A high portfolio at risk translates to a higher percentage of clients who cannot repay their loans. It would then mean that OTL could disburse fewer loans to fewer clients. The difficulties endured during the first few months can be seen in the displeasure etched across William’s face. As an intern, I had not given much thought to the importance of good management of microfinance organizations.

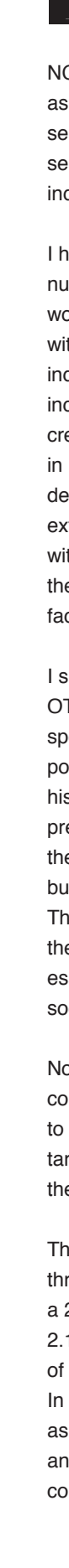
My courses at Brandeis University had only exposed me to the fruits of microfinance in developing countries. From the onset, I did not consider this dimension to financially empowering vulnerable communities. During my first days as an intern, I am taken aback by how much the culture of the workplace resembles that of an established commercial bank. Loan recipients are listed as “clients.” Potential defaulters are classified as “portfolios at risk.” Loan officers are assessed according to how many loans they disburse. The interest rates that they offer are competitive with other microfinance organizations operating in Tanzania. Although OTL actively receives grants and donations from different donors, their target is to become self-reliant. They aim to achieve this mission by reaping a profit from disbursing more loans to different clients.

William continues to explain the history of OTL while steadily sipping on his cup of coffee. As he lifts his cup to take another sip, he pauses to elaborate on how OTL had to undergo a complete transformation in order to change its fortunes. “We had to completely change the management at OTL in order for things to work out better.

Most of the senior management right now has had vast experience in commercial banking before switching to microfinance. We redesigned the types of loans available to clients so that we would not continue losing them to other microfinance organizations.” As he puts his cup down after another sip, William continues to explain, but with more enthusiasm.

The description of the working culture at OTL intrigues me. I had become accustomed to seeing different non-governmental organizations embody different strategies to poverty eradication. Yet, one after the next had failed to address the root causes of poverty. One of the main reasons for their ineffectiveness was that there was a sense of hierarchy about how they treated their work. They knew more. Tanzanians knew less. “We’ll provide for you, you’re not capable of providing for yourself,” is what these organizations seemed to imply. “A rich person from across the world is helping you.” These were the overriding sentiments that I could pick up when I came across various non-governmental organizations and development institutions operating in Tanzania. To me, this seemed to be a very wrong approach to development. Poor Tanzanians are depicted as helpless people. So, it follows that they are in need of saving. These approaches did not match my pragmatic personality. They did not empower people to take their future into their own hands. Instead, the relationships between the organizations and the recipients created financial dependence.

In “Snakes in Paradise: NGOs and the Aid Industry in Africa,” Hans Holmen comments on this phenomenon as he notes the impact that various non-governmental organizations have played in the development process: “NGOs tend to be strong on participatory rhetoric but weak on its practice. For all their virtues,



NGOs may undermine local initiatives as well as facilitate them. The reason seems self-evident. Sub-Saharan Africa seems not to have developed since independence.”⁵

I have witnessed an increase in the number of non-governmental organizations working in Tanzania, only to be faced with the same disappointing development indicators at the end of every year. The increase in top-down NGOs has also created a subculture of dependency, which in my view has also distorted the goals of development in the first place. To a certain extent, this had also left me disillusioned with the role that I can play in improving the living conditions that many Tanzanians face.

I sat upright as William’s description of OTL’s transformation re-energized me. He spoke of the loan recipients as clients, not poor, helpless people. It seemed as though his personality and mine were alike. His previous work experience showed that there is room for entrepreneurship and business when it comes to social justice. There was no disparity between both of these fields that greatly appealed to me. In essence, microfinance serves as a form of social entrepreneurship.

Noticing my resurgent enthusiasm, William continues: “One of our unspoken tactics is to target women. That was one of our main targets when we reshuffled things here and the way we did business.”

The effects were there to be seen. In three years, OTL had gone from having a 21 percent portfolio at risk (PAR) to a 2.1 percent PAR. More than 70 percent of the loan recipients have been women. In development, women are often noted as key agents to unlocking potential and improving the livelihoods of the communities in which they live.

In “Women and Sustainable Development in Africa,” Valentine Udoh James comments on the role of women in traditional African societies and the role that they can play in improving the social conditions of their households: “African women have only a very limited say in their personal day to day lives, or their immediate societies and communities although it is they who feed the family, are responsible for its social well-being and the management of household resources.”⁶

By directly targeting female clients, I observed that OTL has picked up on the pertinent role that women play in Tanzanian households. William affirms this supposition in the office: “Directly targeting them allows for wider social effects.”

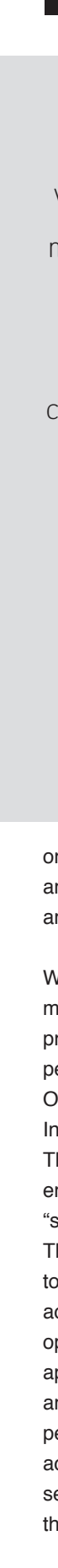
“If women in the developing countries are to continue to assist in the current efforts of development, adjustment programs and resource management issues that will affect their lives must be clearly articulated and have the best interests of women in mind,”⁷ writes Valentine Udoh James. Granting women preferential access to financial services further empowers them to take care of their families and communities. Observing a ratio that held women in the majority translates to widespread effects in their families and communities. Fewer children and elders are at risk of dying from prevalent diseases such as malaria and typhoid. There are lower rates of malnutrition in densely populated households. More children attend school. Some clients can now afford cleaner water and electricity for their households.

OTL previously had just two branches in Dar-es-Salaam. Now there are plans to increase the number of branches to ten, in three cities across the entire country (adding Moshi and Arusha). The management had developed two sets of loan products that were in great demand

by customers. The Pamoja loan, (which means “together” in Kiswahili) allows entrepreneurs to form collective groups of up to 30 people (15 in urban settings, 30 in rural areas) and take out individual loans of up to 1.5 million Tanzanian shillings (\$944 US). The Vuka (“crossing over” in Kiswahili) enables clients in groups of 10, to individually take out loans of up to 7.5 million Tanzanian shillings (\$4721 US). The loans are designed to empower clients to expand their businesses and steadily climb up a ladder and further develop their entrepreneurial acumen. The clients that have managed to climb up the loans ladder could now perhaps afford to build or purchase their own house. All of these societal impacts were implied in the numbers that demonstrated OTLs’ tremendous growth.

Not all of OTL’s clients are mired in poverty, however. In my travels, some of the clients that I saw had already attained a comfortable lifestyle (by Tanzanian standards). Some had houses with running water, electricity, beds, furniture, and some entertainment. I however chose to interpret this as a means of indirect poverty alleviation by promoting job growth among unskilled workers. The more affluent loan recipients would in turn expand their businesses and employ more people, whose circumstances are in need of attention.

I had touched on all the historical and mechanical aspects to OTL that I had wanted to know. One final aspect that I did not yet inquire about was the faith-based approach. What was the relevance of this? Sitting across from William, intrigued by the interview, I inquire about this aspect to OTL’s work as a concluding question. Peering at his watch and then back at me, William explains: “Every week we have devotion and across all the branches we regularly engage in praise and worship. We are not just a microfinance



As we weave in and out of the narrow roads of the villages, Officer Issa drives the motorcycle slowly. The familiar sound of a motorbike signals that someone from a nearby city has just arrived or is about to leave. Out of every corner, as different villagers hear the motorbike, they pop out of their small houses and shops and try to stop him for a few minutes to ask him a few questions.

organization. We are also faith-based and we try to promote greater spiritualism among ourselves and our clients.”

When I entered the OTL offices that morning, the day had commenced with prayers and devotion, a ritual regularly performed by the management at OTL. OTL’s parent company Opportunity International is a faith-based organization. The founders of Opportunity International envisioned microfinance as a means of “serving God through serving the poor.” This umbrella goal has enabled them to apply an ethical approach to banking across the 21 countries in which they operate across the world.⁸ The faith-based approach gave Opportunity International an institutional conscience, which permeated through all of the branches across the world. This conscience I could see was enshrined across the banner in the main lobby with OTL’s vision, mission,

core values and code of conduct. OTL’s vision read: “Our vision is to see the people in poverty have the opportunity to work themselves out of poverty, to provide for their families and to build a fulfilling life.”

I end the interview with William on a lighthearted note. “Do I like my job?” he asks, seemingly caught off guard. “Yes, I like it,” he says after a brief pause. “It gives me something to look forward to every morning when I come into work.”⁹ He has a smile this time. I can also feel his sense of satisfaction at OTL’s progress. It seems as though the management still has a vision for OTL’s growth in Tanzania. They are not resting on their laurels. An innovative type of banking was being used to empower people to improve their livelihoods.

Bringing Opportunity to Semi-Rural Communities, Encouraging Rural Development

“Are you tired? You’ve been quiet for some time.... Since you’re on the back of a motorcycle I have to make sure that you do not fall asleep on me. It might be a little dangerous.”¹⁰ Loan Officer Issa Sama slightly tilts his head to peer behind him and see whether I am awake.

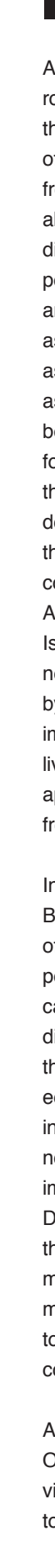
My eyes are droopy with fatigue after a long day’s outing in Himo, a semi-rural community in Tanzania. The wind brushing against my face is the only thing keeping me awake. The scorching Tanzanian sun has changed color into an afternoon orange and a slight chill is accompanying the onset of nighttime. There are a few buses on the road that are winding up the long, ten hour journey from Dar-es-Salaam to Moshi, and are thus on the same route through Himo. On either side of the road I see female farmers with babies strapped to their backs steadily packing up and retreating to their small semi-cemented houses after a long day’s work.

I accompanied Loan Officer Issa on one of his field visits because I wanted to gain an insight into microfinance as it applies to the semi-rural parts of Tanzania. I chose Officer Issa from among the other loan officers at the Himo sub-branch of OTL because I needed to understand how he had managed to retain his position as the best loan officer at OTL.

On paper, his records were indeed impressive. In a period of two years at OTL he had managed to amass a total of 400 clients while retaining a one percent default rate. Of the 400 people that benefited from OTL’s financial services, only five people risked not being able to repay their loans. On this journey, I discovered that the majority of his clients were located in the semi-rural parts of Tanzania.

Officer Issa and I strike up a good rapport from the beginning of the day. I find that he is a very slender, soft-spoken young man. It is this same personality that many clients warmly respond to when we embark on our site visits. Noticing that I am very tired on the back of the motorcycle, he begins to engage me in conversation to prevent me from falling asleep. I notice his eyes darting between the rearview mirror and the road ahead as he juggles the road and his passenger. “Most of the people in these more remote villages do not have access to any sort of financial services. They can’t take loans from major banks. Just as you saw and heard for yourself, most of the clients we just visited are fishermen.”¹¹

Leaving the villages after extensive client visits during the day is extremely difficult. It is about two hours away from the OTL Himo branch. The inhabitants live in semi-cemented, mud-plated, one-bedroom houses. The small houses are clumped together. A large portion of the villagers have families of six or more living inside the houses.



As we weave in and out of the narrow roads of the villages, Officer Issa drives the motorcycle slowly. The familiar sound of a motorbike signals that someone from a nearby city has just arrived or is about to leave. Out of every corner, as different villagers hear the motorbike, they pop out of their small houses and shops and try to stop him for a few minutes to ask him a few questions. Some villagers ask when his next visit will be. Others ask for an appointment, when they can begin processing a Pamoja loan request for their own group. A group of women thank Officer Issa for the work that he had done as a loan officer to the village. "Take this, my child. God bless you. Continue coming back here in the near future." A stout elderly woman hands Officer Issa a handful of dried fish wrapped in newspapers. The deep sense of gratitude by the woman demonstrates the human impact of enabling someone to earn a livable income. I feel a great amount of appreciation for Officer Issa as we depart from the village that afternoon.

In "Microfinance and Public Policy," Bern Balkenhol highlights the 'wider' implications of microfinance to poor communities: "The poverty impact of microfinance schemes cannot be reduced to an analysis of the direct impact on households given that there is a range of indirect impact on local economies that should also be taken into account."¹² Explained here is the notion that rural microfinance has greater implications for the entire community. Directly targeting semi-rural populations through microfinance reduces the need to migrate to cities such as Moshi because more financial resources allows them to continuously reinvest in their own communities.

As I witness this afternoon and as Officer Issa explains, many of the villagers have channeled their earnings towards improving their own individual

communities. This was done through refining their small houses by purchasing cement, and establishing small shops and little entertainment centers. If it were not for these services, many of the male residents would continue making a living in Moshi solely as car washers, bicycle repairmen, or through any sort of income generation that they can put their labor towards.

Many of the villagers relied on Lake Nyumba Ya Mungu ("God's House" in Kiswahili) as their main source of fish. The fish is sold in the village, nearby towns, and when possible in Moshi. Granting these fishermen basic microloans allows them to expand their small businesses by increasing their supply of fish and diversifying the goods that they sell in their small businesses. For some, it also affords the opportunity to sell their fish products to nearby towns and cities they were previously unable to. Under different circumstances gaining access to any sort of basic loans and financial services may have been near impossible because of their location in the semi-rural parts of Tanzania.


"You will notice also that more of these villagers seem more accountable than some of the clients you have encountered in Dar-es-Salaam or Moshi." Officer Issa continues talking as he steers the motorbike past a car. "Yes, why is that?" I reply. I had become more alert as Officer Issa recounted the day's work.

"Most of the clients in Dar-es-Salaam, Moshi or Arusha come from rural areas, like this one. So, they enter the city looking for some sort of opportunity. If they started a small business, they would rent a room in a slum and live there. Here, the houses in this village are the property of the villagers. So they are a lot more fearful of having any of their houses repossessed because they are unable to pay their loans.

Also, they have not had proper exposure to city life, or to any sort of financial services so they try their best to repay these loans because they do not want to lose this opportunity."¹³

As Officer Issa explains the intuition behind his success as a loan officer, he has also put into context many of the things that I witnessed during my stay as an intern with OTL. When I interviewed customers in Dar-es-Salaam about where they were from, many informed me that they had migrated to Dar-es-Salaam from their village a while ago. The loan officers in Dar-es-Salaam who had a higher portfolio at risk found that some of their most difficult clients were migrants from the interior parts of Tanzania. Providing these villagers with access to financial services grants them opportunities that they did not previously have. At the same time, because they are not migrants they have more to lose if they are unable to repay their loans while being in their home village. Officer Issa's position as an officer in Himo manages to take advantage of this. These clients tended to be more accountable than clients from the city.

The broader picture, however, pointed to a lack of emphasis on rural investment on behalf of the government. In "Rural Development: Putting the Last First," Robert Chambers comments on the lack of attention directed towards rural populations in developing nations. He begins by noting the disproportionate labor flows: "Rural parents educate their children hoping they will gain urban employment; officials in districts seek postings to regional headquarters, those in regional headquarter, try to get capital cities, and those in capital cities try to join the brain drain in richer countries."¹⁴ The main emphasis points to a need to reverse this trend of migration in developing countries.



Officer Issa's role as a loan officer works towards disrupting these movements. Chambers' research also points to a need for national government to direct its approach in this manner in order to effectively prevent these movements on a greater level. He focuses on the national government, and not individual companies: "Decentralization is one key to these spatial reversals.... With strong leadership or strong local demands, it is possible, though difficult to force funds outwards, to give more local discretion, to decentralize agricultural processing and small-scale non-agricultural production, to disperse in short parts of the core towards the periphery."¹⁵ Microfinance through OTL in Nyambinda (the village we visited) was, in my view, only doing half of the work. The Tanzanian government needs to adopt this approach to the 74 percent of the Tanzanian population residing in the rural areas. This would entail relocating government buildings, factories, schools, hospitals and housing facilities from the main cities such as Dar-es-Salaam, Moshi, Arusha and Mwanza to the densely populated rural areas. The premise behind this is the creation of greater opportunity.

The motorbike begins to slow down as we turn a corner to temporarily park. I need to board a bus to Moshi, whereas Officer Issa is headed in a different direction. Nighttime has all but descended upon us. "I used to work on Saturdays and Sundays travelling to different villages to look for clients and locate different villages. It's not easy but I enjoy what I am doing,"¹⁶ he says, and looks at me, noticing that the day's activities had left me tired. It has reached a point where I need to say goodbye to Officer Issa. At the T-Junction of the road, we each go in opposite directions. Officer Issa rides his motorcycle, with one less passenger, to Himo Branch as the top loan officer for OTL in the country. I return to Moshi with a

more concrete understanding of the social dynamics behind rural urban migration, poverty alleviation, and the strengths to microfinance.

Secondhand Dealings, Temporary Relief, Permanent Perpetuations

There has just been a downpour at one of the informal marketplaces in Dar-es-Salaam. When I was younger, I did not enjoy visiting these informal marketplaces. The chaotic scenes that follow the downpour reignite this familiar feeling. Sweat is dripping down my face. Small merchants and businessmen are scrambling to and fro to reassemble their belongings after the rain has disrupted their activities. The densely congested marketplace and the muddy potholes make moving around uncomfortable. I try my best to breathe through my mouth to avoid the rancid smell that has just filled the air. George Nzali, a client at OTL, Officer Jones Kato, a loan officer, and I are seated inside a nearby garage. I had asked Officer Kato to visit one of his more successful clients in the informal marketplace because I wanted to have a better idea of the types of businesses that many of OTL's clients in the informal marketplace owned. Officer Kato points to George Nzali as one of his customers that has made the most progress.

As the rain temporarily subsides, we move to a wooden stall that has been covered by plastic bags. Similar stands and kiosks surround this makeshift wooden stall. Underneath the plastic bags are a heap of baby clothes. This is George's business. Like George, many of the stalls surrounding him also have secondhand clothes. Other nearby merchants sell produce such as vegetables, fresh fruit, poultry and other types of meat products. The roofed shops sell finer goods such as flour, soda, cooking oil and kerosene.


I hold one of the secondhand baby garments in my hand and pause for a moment, trying to reconcile what I've learned in books with that which I now hold in my hands.

"So where do you buy these from?" I finally gather the strength to ask George this question.

"I buy them from some Indians who import them and sell them by the kilogram." It seems as though George has also noticed my momentary fixation on his clothes. He informs me that the unit price for one of these small baby garments does not exceed 500 shillings, less than one dollar.

Officer Kato prods me, to find out whether something is wrong. I have remained fixated on this one item of clothing for too long.

With the baby clothes still clutched in my hands, my mind raced to a development economics course that I had taken before travelling to Tanzania. I learned about the development theory of Import Substitute Industrialization [ISI], a theory which espouses that any economy should direct its efforts away from importing goods that can be locally produced. Instead, ISI proposes that on a national level the country should divert its efforts towards producing goods that can be locally manufactured.¹⁷ This way, more employment opportunities are created within the boundaries of a country, more cities spring up in the interior parts of the country. Tribalism decreases as more connections between diverse ethnic groups take place. There are fewer pressures placed on highly populated urban centers. Development and material progress would take place on a national level and less in only a select few cities.



If only more emphasis were placed on producing clothes and cotton derivatives such as textiles within Tanzania, *using Tanzanian cotton*, could this work towards curbing the level of poverty and promote job creation in the interior parts of Tanzania, I wondered? There would be less rural urban migration as more job opportunities were created in the rural parts of the country. As a result, fewer informal settlements would spring up in the city. The cheaper imports of secondhand clothes harm the efforts of local manufacturers and hurt local producers.

The theory of ISI was developed by an Argentinian economist, Raul Prebisch, who analyzed the economies of developing countries. The theory asserts that many developing countries are stationed as exporters of primary products while they import secondhand manufactured goods.¹⁸ One of Tanzania's major exports is cotton, used to manufacture textiles that are used to make clothes. Exports amounted to 26 percent of the gross domestic product of Tanzania in 2011.¹⁹ ISI supports the belief that any government should direct its efforts towards enforcing strict protectionist measures on the economy. A country like Tanzania ought to direct its efforts towards manufacturing these exports so that they can be locally produced and consumed.

I recalled going grocery shopping with my father just before a regular school week would begin. As we would walk around the supermarket, I used to always reach for the more fashionable imported goods in the confectioneries stand. My father, however, would *always* encourage me to buy goods that were made in Tanzania. Back then, I did not think of it as particularly "fashionable" to show up to school with a crummy bag of locally-made confectioneries. I did not understand the lesson that my dad was teaching me. Firmly planted directly in front of the stall,

I shake slightly as I feel the tremor of what he was really trying to encourage me to do: support Tanzanians by purchasing Tanzanian goods. The theory of ISI could be applied to food, clothes and other basic items that could be made across the country.

A 2003 fact-finding report indicated that 34 percent of the 45 million households in Tanzania are engaged in some informal trading at any given point during the year.²⁰ Secondhand clothes traders like George have increased in the informal sector over the years. This has developed to the extent that *mitumba* ("secondhand clothes" in Kiswahili) cooperative trading unions have grown. The unions work together as a collective to price, distribute and market the secondhand clothes that are imported and resold across the country. While this creates opportunities for merchants, on a national level it prolongs the problems pertaining to rural job creation, urban rural migration, increased informal settlements, and more importantly poverty within the nation. A factory set up in the rural areas translates to a large amount of resources being directed towards maintaining this investment. Such resources include electricity, water, training centers, schools, hospitals, and an improved supply of food to cater to the new demands of the working employees. These are just the potential benefits of investing in Tanzanian clothes. Applying this to other goods can have similar effects.

Officer Kato has grown frustrated with my continued silence and tugs at my shoulder. I take one final look at the pieces of clothing that are in my hand and look around. Am I delighted at George's success story? I guess I should be. But I have to ask: What about the impact of secondhand clothes dealings on local manufacturers, and its continued effect on the lives of people in search of work? Are these merchants helping or ailing the

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Tanzanian economy? Theoretically, it's the latter. Is it really my place to make a judgment on how the Tanzanian economy should work over one summer as an intern? After all, who am I to judge? I might be Tanzanian, but I have not lived the struggles of the ordinary Tanzanian. I am here as a student from the USA. Cloaked in American clothes and enjoying the privilege of higher education in a prestigious American university.

After holding on to the secondhand baby garments for a long time, I fold and place them back on top of the heap of clothes at George's makeshift stall. I thank George for his time and cooperation in answering my questions. The difference between theory and practice linger with my steps as Officer Kato and I begin negotiating our way out of the muddy walkways of one of the informal market places in the Ilala Market District of Dar-es-Salaam.

Final Remarks

This paper has explored the dynamics and impact of microfinance when applied to the urban informal and semi-rural communities in Tanzania. The interviews with Opportunity Tanzania's clients from informal marketplaces in the cities of Dar-es-Salaam, Moshi and Arusha have enabled me to develop a greater understanding of the informal economy. This comprehension has also solidified my knowledge of the Tanzanian economy and the government's current role in development. The interview with loan officer Issa, from the Himo rural branch has broadened my interpretation of microfinance when applied in semi-rural settings.

However, my analysis of microfinance in Tanzania has also revealed its shortcomings in poverty alleviation. While microfinance and banking holds one of the keys to unleashing entrepreneurial potential, more has to be done by the government to improve the welfare of Tanzanian citizens. The government has to a certain extent misdirected its priorities. Goods that are consumed by Tanzanians, such as clothes, should also be made and manufactured in Tanzania. This will work towards improving the strength of the Tanzanian currency and hence the economy. Rural job creation and investment will curb the level of rural urban migration and reduce the number of informal settlements that arise from these movements. Such an approach will work towards ensuring that Tanzania becomes a fully autonomous self-driven economy. The new generation of Tanzanians such as George will be entrepreneurs of Tanzanian goods. Microfinance will evolve into proper mainstream commercial banking. Informal settlements such as the Ilala marketplace will become future shopping destinations for a Tanzanian middle class. In order for this to happen,

the Tanzanian government must lay the necessary foundation through focusing its attention away from being an export-driven economy.

I believe such an approach to development can work towards improving the livelihoods of many Tanzanians. If applied by governments in other developing countries, these basic essentials can redirect a country's priorities in the right way. This will eventually lead to decreased dependency on aid and assistance while the livelihoods of citizens continue to improve. As I discovered during my internship this summer, addressing problems such as poverty requires more efforts at targeting the root causes and redressing them before looking for external assistance.

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