

ABSTRACT

I analyzed the causes of high default rate in microfinance for individual loans product in Tanzania and its mechanism of lending contract and compare it with group lending .Using PRIDE Tanzania data set, I first showed that the portfolio at risk for the individual product is too high compared with that of group lending called traditional product by PRIDE Tanzania.

Secondly, I analyzed the real causes of such high default rate by looking on the correlation between inflation rates, cost of loan charge by PRIDE Tanzania to client and default rate. Further, the other factors which may cause the default rate were analyzed such as poor loan screening, poor monitoring and weakness in internal control as whole.

The shortcoming in MFIs formula for calculating portfolio at risk in relation to both loan repayment and stop disbursement in decision making process was also analyzed.

The need for individual loans and its contribution in income generating was also examined and challenges in the formula used on computation of portfolio at risk adopted by microfinance.

Also the challenges faced by microfinance on delivery of the service of both individual and group lending and how to overcome them, was evaluated during the study.

The analysis further to the important of product diversification was briefly explained as one of the weakness of microfinance in Tanzania and problem of timing product reviewed was also addressed as another weakness of microfinance particularly PRIDE Tanzania.

The un-served market segment by both Microfinance and commercial banks is also analyzed with its existence and viability. The gap which exists is supposed to be covered by designing new products to cover for the demand of such clients.

The high cost of loan fund is also analyzed in deep and under the policy implications the probable solution in the short term is identified while long term solution need further investigation by both Tanzania Government and players in microfinance industry.

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