

**THE IMPACT OF MICROCREDIT IN THE PERFORMANCE OF SMALL  
AND MEDIUM ENTERPRISES IN TANZANIA: A CASE OF TEMEKE  
MUNICIPALITY**

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REQUIREMENTS FOR THE DEGREE OF MASTER OF PROJECT  
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**CERTIFICATION**

The undersigned certifies that he has read and hereby recommends for acceptance by The Open University of Tanzania a dissertation titled “The impact of Microcredit Finance in the Performance of Small and Media Business Enterprises: A Case Study of Temeke Municipality” in partial fulfillment for the requirements for the award of the degree of Master of Project Management.

.....

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.....

Date

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**DECLARATION**

I, **Justina Monge**, do hereby declare that, this dissertation is my own original work and that it has not been submitted for any academic award in any other university for a similar or any other degree award.

.....

Signature

.....

Date

**DEDICATION**

This dissertation is dedicated to the loving memory of my late father, Stephen Monge. His inspiration, encouragement and support in diverse forms would always be remembered and cherished. It is also dedicated to my lovely mother Grace Monge, The Open University of Tanzania, Business School, friends, class mates and every one that participated towards the accomplishment of this study.

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**ABSTRACT**

This study discusses the impact of Microcredit in the performance of Small and Medium Scale Enterprises (SMEs) in Temeke Municipality Dar es salaam Tanzania. The study has the following objectives: To assess the impact of MFIs loan in the business expansion of SMEs, to assess whether or not MFIs training help SMEs to improve their financial status, to assess whether MFIs provides a better chance for small and medium business to improve their productivity capacity, to assess quality of services provided by SMEs after receiving loan. The different methodologies were deployed, including interviewing micro credit clients through questionnaire and interviewing management team in order to generate and acquire necessary information. Descriptive statistics and Microsoft excel which involves frequencies and simple percentage graphical charts and illustrations were tactically applied in data presentations and analysis. The findings of the study reveals that significant number of the SMEs benefitted from the MFIs loans in both economic and social-well-being of individual clients, even though only a few of them were capable enough to secure the required amount needed. Interestingly, the majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, financial credibility, number of employment, sales revenue, net profits, and decreased liabilities. It, therefore, implies that improvement in the provision levels of micro credit will result in increased significant impacts on performance of business enterprises.

## TABLE OF CONTENTS

<b>CERTIFICATION .....</b>	<b>ii</b>
<b>COPYRIGHT .....</b>	<b>iii</b>
<b>DECLARATION.....</b>	<b>iv</b>
<b>DEDICATION.....</b>	<b>v</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>vi</b>
<b>ABSTRACT .....</b>	<b>vii</b>
<b>LIST OF TABLES .....</b>	<b>xii</b>
<b>FIGURE .....</b>	<b>xiii</b>
<b>LIST OF ABBREVIATIONS .....</b>	<b>xiv</b>
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>1.0 INTRODUCTION .....</b>	<b>1</b>
1.1 Background of the Study .....	1
1.2 Statement of the Problem.....	3
1.3 Research Objective of the Study.....	4
1.3.1 The Main Objective .....	4
1.3.2 Specific Objectives .....	5
1.4 Research Questions.....	5
1.5 Significance of the Study.....	5
1.6 Organization of the Dissertation.....	6
1.7 Limitations of the Study .....	6
<b>CHAPTER TWO .....</b>	<b>7</b>
<b>2.0 LITERATURE REVIEW .....</b>	<b>7</b>
2.1 Introduction.....	7



2.2	Conceptual Definition.....	7
2.2.1	Microfinance.....	7
2.2.2	Small and Medium Enterprises.....	8
2.3	Theoretical Reviews .....	8
2.4	Review of Empirical Evidences.....	10
2.4.1	Empirical Review Outside Tanzania .....	10
2.4.2	Empirical Review in Tanzania.....	13
2.5	Research Gap.....	15
2.5.1	Overall Assumption of the Conceptual Framework Model.....	16
2.5.2	Indicators of Growth.....	17
	<b>CHAPTER THREE .....</b>	<b>18</b>
	<b>3.0 METHODOLOGY .....</b>	<b>18</b>
3.1	Introduction.....	18
3.2	Research Strategies.....	18
3.2.1	Research Population .....	18
3.2.2	The Study Area .....	18
3.3	Sampling Design and Procedure.....	19
3.3.1	Sampling Size .....	19
3.4	Data types and Sources .....	20
3.5	Data gathering and Procedures .....	20
3.6	Data Processing, Analysis and Presentation.....	21
3.7	Study Variables and Their Measurement .....	22
3.8	Reliability and Validity.....	22
3.9	Expected Results of the Study .....	23

<b>CHAPTER FOUR.....</b>	<b>24</b>
<b>4.0 INTRODUCTION .....</b>	<b>24</b>
4.1 Characteristics of Respondents.....	24
4.1.1 Sex of Respondents.....	24
4.1.2 Respondents Age Group.....	24
4.1.3 Educational Level of Respondents .....	25
4.1.4 Marital status of the Respondents.....	26
4.1.5 Type of Business.....	26
4.1.6 Business Maturity .....	27
4.1.7 Period of Borrowing .....	28
4.2 Research Findings.....	28
4.2.1 Assessment of the Impacts of MFI Loans in the Business Expansion of Small and Medium Enterprises.....	28
4.2.2 Assessment on whether or not MFIs Training Help That Small and Medium Enterprises to Improve Their Financial Status.....	31
4.2.3 Assessment on Whether MFIs Provide a Better Chance for SMEs to Improve Their Productivity Capacity .....	32
4.2.4 Assessment on Quality of Services Provided by SMEs After Receiving Loan	34
<b>CHAPTER FIVE.....</b>	<b>36</b>
<b>5.0 DISCUSION OF FINDINGS, CONCLUSION AND RECOMMENDATION.....</b>	<b>36</b>
5.1 Introduction.....	36
5.2 Discussion of Findings .....	36

5.2.1 Assessment of the Impacts of MFI Loans in the Business Expansion of Small and Medium Enterprises .....	36
5.2.2 Assessment on Whether Or Not MFIs Training Help That Small and Medium Enterprises to Improve Their Financial Status .....	37
5.2.3 Assessment on whether MFIs provide A Better Chance for SMEs to Improve Their Productivity Capacity.....	38
5.2.4 Assessment on Quality of Services Provided By SMEs after Receiving Loan	39
5.3 Conclusion .....	40
5.3.1 Assessment of the Impacts of MFI Loans in the Business Expansion of Small and Medium Enterprises .....	40
5.3.2 Assessment on whether or not MFIs Training Help That Small and Medium Enterprises to Improve Their Financial Status .....	40
5.3.3 Assessment on whether MFIs Provide a Better Chance for SMEs to Improve Their Productivity Capacity.....	41
5.3.4 Assessment on Quality of Services Provided By SMEs after Receiving Loan	41
5.4 Recommendation .....	42
5.5 Area of Further Study .....	44
<b>REFERENCES</b> .....	<b>45</b>
<b>APPENDIX</b> .....	<b>50</b>

## LIST OF TABLES

Table 4.1: Sex of Respondents .....	24
Table 4.2: Respondents Age Group.....	25
Table 4.3: Education Level of Respondents.....	26
Table 4.4: Marital Status of the Respondents.....	26
Table 4.5: Type of Business .....	27
Table 4.6: Business Maturity.....	27
Table 4.7: Period of Borrowing.....	28
Table 4.8: Sufficient fund.....	29
Table 4.9: Experienced Employees .....	29
Table 4.10: Access to Market.....	30
Table 4.11: Ability to Adopt New Technology.....	30
Table 4.12: Ability to Compete .....	31
Table 4.13: Sufficient Inventory and Business Assets .....	31
Table 4.14: Level of Sales Volume .....	32
Table 4.15: Equipment and Machinery .....	32
Table 4.16: Input Accessibility.....	33
Table 4.17: Access to Infrastructure.....	33
Table 4.18: Design of products .....	34
Table 4.19: Services Delivery Process .....	34
Table 4. 20:Business Environment .....	35

**FIGURE**

Figure 2.1: Below Provide the Conceptual Framework of the Study ..... 15

**LIST OF ABBREVIATIONS**

- MFI's .Microfinance Institutions  
SMEs Small and Medium Enterprise  
URT United Republic of Tanzania

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

The aim of this study is to examine the impact of Microfinance in the performance of small and medium enterprises (SMEs) and owners in Tanzania. It was conducted by examining the contribution of Micro credit finance in the performance of SMEs and also assessing the outcome of Micro Financial Institution (MFI) loans on the livelihood of SMEs owners. The direct and indirect costs are assessed in terms of how favourable it is to SMEs in accessing MFI loans.

#### **1.1 Background of the Study**

Financial services for small and medium enterprises has emerged over the past 30 years from a narrow notion of microcredit, with the greatly objective of extending credit facilities to SMEs especially to those who are poor and low income earners, who being rejected by banks, for creating better chances for self-employment and hence improve economic condition of low income and poor people.

The work conducted by World Bank represents that 30 percent and 33 percent of employment in developing countries like Tanzania are generated by informal and formal economy respectively. The above mentioned two groups provide 63 percent of the GDP (Ayyagari et al, (2005).

Further studies suggest that, access to and cost of finance is the most constraint for the SMEs sector in the business environment (Green et al, 2002). It becomes very

difficult for the SMEs to meet their investment target due to the limitation of access to financial service from formal financial institutions (Kessy and Temu, 2009).

This self-employment generation within small business, requires basic skills and investment in working capital, as a result of low level of income whereby capital accumulation may be difficult. Therefore, through loans the poor can accumulate such capital and expand investment in employment generation activities (Hossain, 1988).

Loan is important in improving living standard of majority of the peoples within the societies. Therefore, loans allow the households or enterprises to get the satisfaction of economies of scale and new technology benefits according to Grade (1984), as respectively shown.

The important thing to note here is that, in order to break the vice line of low income, low saving, and low investment, there should be credit availability to small business and low income individuals which could promote their economic strength (Yunus 1984). And all of this can be acquired through hardworking and effective plan work.

The National Microfinance Policy implemented in 2001 and addresses matters which related to microfinance. It calls for the creation of mechanism of implementation which includes adjusting the regulation, addressing microfinance institution's standards and capacity building of microfinance institution.



The policy it provides further the framework within which micro finance laying out principles that guides the develop operations of the financial and saving as guide for coordinated intervention by the respective participants in the system. Also this policy can be referred as a tool which results to the contribution of the country economic growth as well as reduction of poverty.

The National Trade Policy, 2003. According to this policy, MFI and SMEs shall be protected and focused on objectives, targeted groups and areas in which the policy shall be implemented in order to give a room of accessing finance investment environmental as well as capacity of MSMEs.

Considering the above policies, it is important to assess the aspects of micro credit finance and its impact to the contribution of capital growth of small and medium entrepreneurs. According to World Bank (2000) argued that, it is very difficult to access credit especially when it comes to the SMEs.

## **1.2 Statement of the Problem**

It should be noted that productivity, performance and profitability of SMEs depends much on both financial and non-financial services. According to Mosley (2001), micro credit seems to be a cheap way of getting loan to SMEs.

Insufficient of information concerning cost of finance gives a reason for a lot of unknowingly costs to SMEs before and even after disbursement. But there are other costs such as contract cost, cost of entry, cost of passbook and loan application form as well as security cost which should be deposited before disbursement date. Hence,

SMEs incurred all interest rate costs in order to obtain loan and sometimes can be termed as transaction costs.

According to Chijoriga and Cassimon (1999), long procedures and time is required for loan processing. The transaction cost involved in the process of getting finance from MFIs based on procedure and time. It was further revealed that there is strictly monitoring and supervision imposed by institutions due to existing of high asymmetric information among clients and their finance institution.

Under the business environment of high transaction cost still SMEs manage to utilize the services, due to this point it was worth asking if the micro credit have an impact in the performance of SMEs at enterprises and household level considering the actual cost of finance institution.

For instance in Temeke, a major challenge for starting up, survival and growth of business is funds accessibility, which hinder the contribution of SMEs to the economic growth, development and opportunities for employment expansion. The stimulation of this work, therefore, is to assess the impact of micro credit institutions in the performance of small and medium enterprises in the three wards (Mbagala, Temeke, and Keko) of Temeke Municipality Dar es salaam.

### **1.3 Research Objective of the Study**

#### **1.3.1 The Main Objective**

To examine the impact of Micro credit finance in the performance of business enterprises in Tanzania.

### **1.3.2 Specific Objectives**

Specifically the study was attempt:

- i) To assess the impact of MFIs loan in the business expansion of SMEs.
- ii) To assess whether or not MFIs training help SMEs to improve their financial status.
- iii) To assess whether MFIs provides a better chance for small and medium business to improve their productivity capacity.
- iv) To assess quality of services provided by SMEs after receiving loan

### **1.4 Research Questions**

To be able to meet the above objectives, the study adapted the following questions:

- i) What are the impacts of MFIs loan in the business expansion of SMEs?
- ii) Are the MFIs training help SMEs to improve their financial status?
- iii) Do MFIs provide better chance for small and medium business to improve productivity capacity?
- iv) What is the quality of services provided by SMEs after receiving loan?

### **1.5 Significance of the Study**

It is worth mentioning that, most researchers in this area of study are very important to the development of socio-economic activities in developing countries such as Tanzania.

Normally the activities of MFIs and their impacts in the performance of small and medium size businesses in Tanzania, needs information in designing a policy framework in order to enhance the development of the SME industry.

It would also instruct the public on the role played by MFIs in the SMEs sector and assist MFIs to adopt the necessary measures which are needed to ensure the desired growth in the SME industry.

Therefore, the study would be served as a source of references to other researchers or members of the general public who are in need of information in the respective subject. And help the researcher in accomplishing her career.

### **1.6 Organization of the Dissertation**

The dissertation is divided into five chapters. Chapter one provides for an introduction of the whole study while chapter two deals with relevant theories and literature is reviewed as well. And methodology of the study is explained in chapter three but the findings of this study are presented in chapter four while chapter five provides a room for the discussion of findings, conclusion and recommendations.

### **1.7 Limitations of the Study**

Insufficient of both research funds and time to cover a wider research population is the major limitation which faced by the researcher. And this research covered only one region of Tanzania

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter discusses works of various scholars and authors who contributed their information concerning this study. And it consists of theoretical literature, empirical literature, conceptual framework and research gap.

#### **2.2 Conceptual Definition**

##### **2.2.1 Microfinance**

Otero (1999) defines “microfinance as the provision of financial services to the poor who are above the official poverty line and to the core poor households”. According to Ledgerwood (1998) microfinance services are given based on payment behavior of the borrower which shows the capability of the borrower to recover the debt.

According to Schreiner and Colombet (2001) state that “microfinance program is appropriate when there are improvements in credit accessibility especially to those who are in need of assistance rejected by banks” apart from loan provision microfinance also provide non-financial services such as training.

##### **2.2.2 Microcredit and Microfinance**

Microcredit and microfinance are different terms and they differ in content, although the two terms are used interchangeably because they are related. Therefore according to the study conducted by Sinha (1998) states that “microcredit refers to micro loan, whereas microfinance is appropriate when involves NGO’s and other financial institutions in the loan supplement along with non-financial facilities.”

And some argued that, microcredit is a component of microfinance which only involved in providing credit to the poor, whereas microfinance is far from that since it also provides non-financial service to un-served markets. Basically the primary social objective of microfinance is to reach under-served market both in urban and rural areas.

### **2.2.2 Small and Medium Enterprises**

The SMEs stands for Small and Medium Enterprises sometimes referred to micro, small and medium enterprises (MSMEs). Any activity involved in production and distribution of outputs to meet the expectation of client can be referred to as small and medium enterprises as respectively explained by Kessy and Urio (2006).

Tanzanian government defines SMEs based on the number of employments, whereby it was considered to the facts that, micro enterprises range to 0 up to 5 employees, 5 up to 49 employees for small businesses, medium business comprises with 50 up to 99 employees and more than 100 employees for big enterprises. And investment expenditure demand differ from each level of enterprises.

According to the United Republic of Tanzania (2003) the definition sometime do not include informal sectors especially those who are engaged in low income generation activities in Tanzania.

## **2.3 Theoretical Reviews**

The transaction cost theory explained in the article titled “The Problem of Social Cost” by Ronald Coase (1937) and expectancy theory proposed by Victor Vroom in

1964 explained by Salaman et al, (2005)., was used as the theoretical framework in this study.

The theory explains that “in order to effect and manage a market transaction is done through discovering who is the one that wishes to deal with, to conduct negotiation leading up to a bargain, to inform people that one wishes to deal and on what terms. Hence, all of these is done in order to make effective inspection which is needed to ensure that terms of the contract are observed.”

Therefore, in order to manage and effect any market transaction taken into account is through drafting. And this is done so as to prevent many transactions that would be carried out in a world in which the pricing system worked without cost.

Training and technical assistance, time involved in loan processing, management practices, searching a lender, credit contract preparation, selecting qualified loan, preparation of necessary documents needed by microfinance institutions, negotiation, group forming, and transportation of all these factors move up the transaction cost as explained clearly by (Bhatt and Shui-Yan 1998).

The expectancy theory had been proposed by Victor Vroom in 1964. “This theory is based on the hypothesis that individuals adjust their behavior in the organization on the basis of anticipated satisfaction of valued goals set by them. The individuals modify their behavior in such a way which is most likely to lead them to attain these goals. This theory underlies the concept of performance management as it is believed

that performance is influenced by the expectations concerning future events” (Salaman et al, 2005).

## **2.4 Review of Empirical Evidences**

### **2.4.1 Empirical Review outside Tanzania**

Amin et al (2001) the consumption and income done for 229 households used to identify household that are poor and vulnerable from three microcredit institutions namely Grameen Bank, Bagladesh rural advancement committee (BRAC) and association for social advance (ASA). The findings revealed that though microcredit programs are unsuccessful at reaching those who are in need of assistance (vulnerable poor) due to limitation of subsidized credit, still programs are successful in reaching the poor.

Little evidence of an impact on the program participants was found by Coleman (1999). He went further agreed with Adam, D. and von Pischke's J.D (1992) assertion that “debt is not an effective tool for helping most of poor people to enhance their economic condition” and there was other reasons for the poor to be poor rather than lack of credit accessibility.

There was favorable contribution to poverty alleviation as a result of micro credit finances through its positive impact on income and assert level. But it should be remembered that each institution has its own effective strategies of poverty reduction. Hence, the higher the amount of loan the more poverty reduction since there will be expansion of demand for labour amongst the poor as illustrated in the work conducted by Mosley (1999) as respectively explained.



Mosley and Hulme (1998) in their work found that, most of micro credit institutions especially in developing countries targeted on low income earners due to the fact that most of them do not need very big amount of funds. And there is greater impact on household's income of higher-income compared to those below poverty line who were negatively affected.

The loans were also used to maintain consumption level and working capital instead of being used for a fixed assets investment and improved technology. Due to insufficient amount and time of repayment some argue that installments come from selling house properties and not from profits of business.

According to work done by Fatchamps (1997), insufficient amount of loan hindered the investment in new equipment, machinery and it becomes too hard to cope with new technology, hence, failed to reach new market with new products. He further said that financial assistance is very important to the innovation and expansion of small farmers and artisanal fishermen. The general understanding is that external accessibility of finance is a major problem for small entrepreneurs.

Pitt and Khandker (1998) argued that, microcredit's roles in smoothing consumption. This is due to the fact that other factors considered remaining constant such as labour and capital, especially when credit finance increases also the results increases in employment. Whereas the increase in income can negatively affect labour supply and causes the decline in employment.

Therefore, credit finance program increases opportunities of self-employment, income and improve economic condition of poor households. Wages decreased as well as employment in the wage market also decreased. This may not happen if and only if the wage-employment gap was filled by a new employment from the previously unemployment and generation of additional employment for underemployed.

Mosley (2001) in his study on microfinance institutions and poverty in Bolivia involved a small sample of four microfinance revealed that apart from microcredit finance being a cheaper way of getting loan to SMEs. Also bringing finance facilities to the poor was the core social objective of microcredit finance.

In all aspects of economic growth amongst the four institutions studied had balance positive impacts on the livelihood of households in income and asset level, and negative affect to risk-averse households. It was also found that microfinance was successful in reducing poverty compared to other financial institutions. It was further found that, in comparison with labour-market and infrastructure measures and in reducing poverty completely was insufficient.

Nichols (2004), in his case study in the rural China found that, MFI's clients enjoyed positive benefits of the services since their income have increased which enables them to educate their children and meet medical expenses, hence, led to the improvement of the living condition of the villagers especially women, since some were able to become small entrepreneurs and improved their sense of responsibility.

#### **2.4.2 Empirical Review in Tanzania**

In Tanzania a lot of studies concerned microfinance institutions have been conducted and most of the time those who benefited much were poor households than the core poor households. Kulizwa and Mushi (1997) are one amongst them; in their study, examined the role of credit in generating entrepreneurial activities whereby sample surveyed were businesses which have got an access to credit. The findings revealed that, there were directly relationship between outputs of enterprises and access to credit.

For those small and medium enterprises owners who have been trained and given opinions concerned business management performed better and expand their business than those who did not. It was recommended that accessibility of credit cannot be easier to small and medium entrepreneurs unless good and conducive environment to microcredit institution was created.

According to Chijoriga (2000), the study was about performance and financial sustainability of MFIs in Tanzania. 28 MFIs and 194 MSEs were selected and used as a sample survey in Dar es Salaam, Arusha, Mbeya, Morogoro and Zanzibar. It was found that most of MFIs lacks clear and understandable mission and objectives which lead to the poor performance of Tanzanian microcredit institutions.

The study was further revealed that, many of them depend on donors support to operate business and carry out their business plan which cost them; since they lack cooperative ownership to decide on their own. In and around urban areas the MFIs

activities are widely circulated compared to rural areas. Lack of skills among the employees of microfinance program is one among the constraints in the performance of MFIs.

The study carried out by Rweyemamu et al (2003) in Mwanza and Mbeya regions involved 222 respondents surveyed and the findings found that, interest rate was a critical problem to SMEs in the respective regions. It was further revealed that most of borrowers live far from MFIs and poor MFIs infrastructure in the regions increases the transaction costs of credit services.

In additional, long procedures along with insufficient amount of loan disbursed by microcredit institutions was also found as the problem to SMEs. Some of the branches in Mwanza and Mbeya experienced high default rate especially during their startup which hindered the performance of services.

Also 352 SMEs were selected as a sample surveyed in four regions of Tanzania namely, Dar es Salaam, Mwanza, Arusha and Zanzibar on the contributions of MFIs and poverty reduction. Amongst the various lending strategies which used by MFIs was solidarity group. Solidarity group was the most method which used as per Kess and Urio (2006) PRIDE (T) Ltd as respectively.

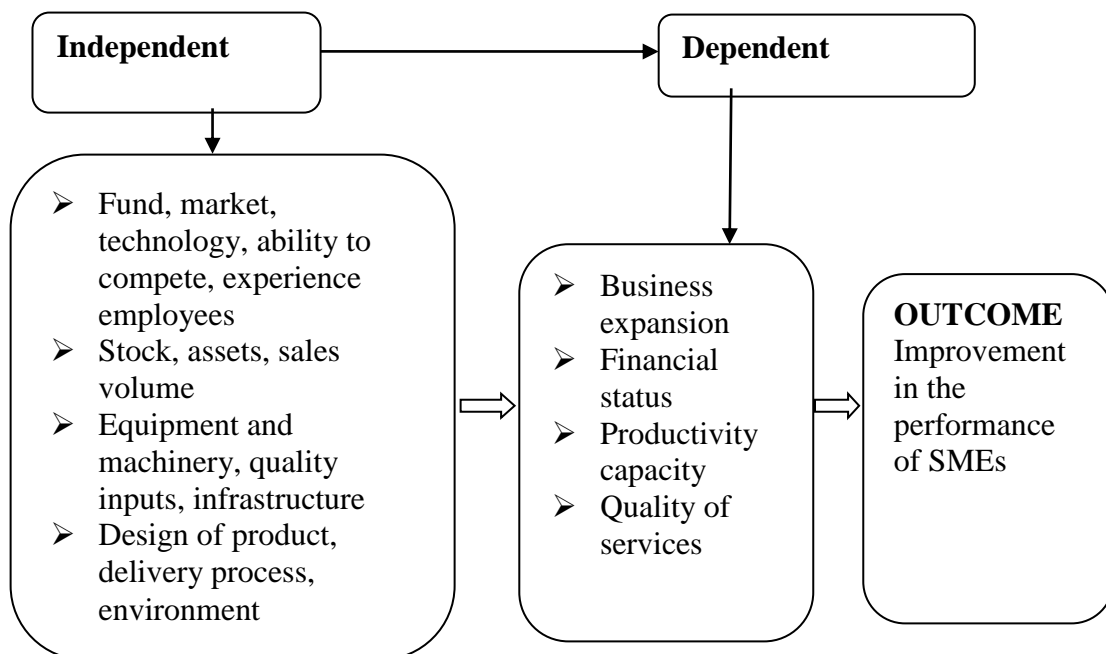
The study found that MFIs assisted their clients in the creation of more employment opportunities. It was further revealed that SMEs experienced irregular business support in terms of training and in case training was provided still it did not meet or satisfy the client's expectations since it favoured institution's interest especially on

how to pay installment on time. Too short grace time, and inadequate funds was also found the problem to entrepreneurs.

## 2.5 Research gap

The impact of microcredit on the enterprises performance has not received adequate research attention in Tanzania. This means that, the study attempt to fill research gap by examining the situation in Tanzania and providing empirical evidence on the impacts of microfinance towards small and medium business performance within the country.

Therefore, none has been able to trace the impact of microcredit on small business performance due to the reasoned that, it is yielded mixed results which were inconclusive and contradictory as well.



**Figure 2.1: Below Provide the Conceptual Framework of the Study**

### **2.5.1 Overall Assumption of the Conceptual Framework Model**

The developed conceptual framework from literature review has three parts: first part comprises of independent variables, second part indicate the dependent variables and the third part focused on outcomes. And the aim was to make comparison of SMEs performance before and after receiving MFIs services.

The conceptual framework was reflected by the output of small and medium enterprises progress at the household level. And that is why MFIs services have no impact to the performance of SMEs only, but also in the livelihood of owners and the whole community to the large extent which results to the developed household level.

This is due to the spirit of responsibility which was built by microcredit institutions result into an increase of household's wealth and improve their living condition since they can manage to meet the daily living expenditures due to profits obtained on businesses.

According to Coase (1960) point out that in any credit facilities intervention there is transaction costs involvement. Whereas Cassimon and Chijoringa (1999) the aggregate cost of credit for the borrowers includes all cost involved in the time spent and process of finding a lender. The conceptual framework, therefore, reflecting the effect of transaction cost SMEs incur during credit accessibility from the MFIs services. High transaction cost caused by poor MFI's infrastructure as some argued that the result was into ineffectiveness utilization of scarce fund which received from MFIs, hence it limit the improvement of SMEs and household growth. However performance is influenced by the expectation concerning future events.

### **2.5.2 Indicators of Growth**

The study found that each level of SME's growth were existing different range of indicators. Therefore, sales revenue, profits, financial credibility, market share, number of employment, customer satisfaction and decline in liabilities are used as indicators of improvement in SMEs performance in enterprises whereas SME's income, households basic expenditure, reduced vulnerability level, accumulation of fixed assets as well as sense of well-being used as indicators of livelihood of SMEs owners as explained by Sebastad et al, 1995 as respectively shown.

## **CHAPTER THREE**

### **3.0 METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines on how the research was conducted and data analyzed, with sections discussing the research design, target population, sample size, data collection instrument and the data analysis methods that were used.

#### **3.2 Research Strategies**

The study adopted a cross-sectional correlation and quantitative design. [Easterby Smith et al.(2008); Robson (2002)]. This design provides a clear understanding of the relationship between credit finance, MFI credit terms and SME performance in Temeke Municipality.

##### **3.2.1 Research Population**

The research population was the owners of SMEs (entrepreneurs) and key informants from micro financing institution like BRAC's offices. This population is given some priority due to the need of getting empirical evidence in Tanzania. However, for comparison purposes, the control group was including households which do not access micro financing services.

##### **3.2.2 The Study Area**

The research was conducted in only one region of Tanzania, namely Dar es Salaam. The choice of Dar es Salaam Region was made due to the fact that, the region has a



large number of SMEs and high concentration of MFIs which are well distributed in order to enable the region to provide a good source of data for the study. The impact of credit finance towards the performance of SMEs in this area was analyzed by looking on its contributions form and the response of SMEs towards the contributions of this institution to them. Geographically, this study based on Temeke Municipality in three wards namely Mbagala, Keko and Temeke. The selection of Temeke Municipality is conducted because the researcher found it convenient place since it holds both informal and formal business enterprises.

### **3.3 Sampling Design and Procedure**

This study used two sample type namely, purposive sampling and random sampling. Purposive sampling involves the use of researcher's judgments to select the case that make up the sample of households. This type of sampling helps to reach selected sample quickly and easily to the ideas of the corresponding population, hence, this sampling method was very useful to the research (Dawson, 2002).

Random sampling also was used in this study whereby in choosing respondents, selecting criteria involved factors like; time frame of the study, reliability, exact and accuracy of information, as well as financial resources and household's coverage (Kothari, 2004)

#### **3.3.1 Sampling Size**

The study population comprised 78 small and medium enterprises, out of which 65 (83.3%) SMEs were selected using simple random sampling technique. The sample size was computed as shown by the formula:

$$n = N / 1 + N(e)^2$$

Where  $n$  is the sample size ,  $N$  is the target population,  $e$  is the level of precision (Yamane 1967)

Therefore,

$$n = 78 / 1 + 78(0.05)^2 = 65$$

### **3.4 Data types and Sources**

The sources of data in this study base on both primary and secondary data.

Primary sources of data and information is collected during interviews, observations and questionnaire while Secondary data is collected from journals, newspapers, internet and other available documents and reports concern small and medium enterprises.

### **3.5 Data gathering and Procedures**

The following methods were used in data collection for this study.

- i) Documentation: The information and data collected through an existing surveys, reports and information.
- ii) Structured questionnaires were used to gather information from entrepreneurs through questionnaires in order to obtain significant information which helps in understanding the impact of microcredit towards the performance of small and medium enterprises.
- iii) Semi-structured questionnaires were used to guide conversation that involves a selection of microfinance institutions beneficiaries especially stakeholders who were involved in providing MFI's services to reach un-served people

who are in need of assistance in order to improve their business's performance.

- iv) Observations which involve direct examination of behavior used in the fieldwork for the purpose of revealing issues beyond those which were covered in the structured and semi-structured questionnaires (Kothari, 2004).
- v) Key informants interviews (KIIs). The reasons behind key informant's selection were only to get knowledgeable and specific information from various issues which related to the impact of microcredit services and performance of entrepreneurship. Microcredit institution's employees and some of small and medium business owners have got an access to credit and used microfinance services. And conducive environment were prepared for the interviewer so as to meet the interviewees. The interview last only for an hour while the questions used as aid to gather necessary information needed for the study.

### **3.6 Data Processing, Analysis and Presentation**

Analysis is the application of reasoning to understand and interpret the collected data (Kothari 2004). Data analysis implies that the collected data should be condensed to the best manageable level of group for further analysis. In this study analysis is conducted by looking at the beneficiaries of MFI towards the growth of SMEs' performance.

Therefore, data collected during the study was reduced in to summary form and processed by using Statistical Packages for Social Sciences (SPSS) in which descriptive statistics were employed. This involves computation of frequency

(number and percentages). And the results of data were organized and presented by using tables, words, frequencies and percentages.

### **3.7 Study Variables and Their Measurement**

The business expansion were measured according to sufficient fund, availability of market, experienced employees, ability to compete an ability to adopt new technology. Financial status were measured based on inventory, sales volume and assets, while productivity was measured based on equipments, machinery, quality inputs, infrastructure. On the other hand, quality of services was measured according to the design of products, services delivery process, and environment. Also the researcher used likert scale to measure some of the responses of the variables

### **3.8 Reliability and Validity**

Kothari (2004) asserts that, data validity is the correctness and reasonable of the information extracted from the source. The researcher obtained the valid data, with the reason that found from the primary data sources. The primary data collected had meaningful for the completion of the study.

Data reliability is a cornerstone of making a successful and meaningful study. In order to collect reliable data, the researcher was designed the interviews and questionnaires through an elaborate procedure which involved a series of revisions under the guidance of the study supervisors to ensure that fieldwork was conducted by use of high quality data collection. Also quotes from interview and statement from questionnaires was used as references to ensure reliability. In order to measure

internal consistency, researcher was using Cronbach's alpha method. Researcher was use checklist of questions when making personal interviews with respondents so as to achieve data consistency and completeness.

### **3.9 Expected Results of the Study**

The expectation of the study is to know the relationship between micro credit finance terms, credit services and performance of business enterprises, small and medium enterprises (SMEs) in Tanzania

## CHAPTER FOUR

### 4.0 INTRODUCTION

This chapter provides for the results based on the analysis of the impact of microcredit in the performance of small business enterprises in Tanzania at Temeke Municipality which covering the total of 65 respondents from three wards namely Mbagala, Temeke, and Keko. Normally it involves characteristics of the respondents, the Livelihood of owners of small and medium enterprises, direct and indirect costs, credit terms, relationship between MFI and SME performance.

#### 4.1 Characteristics of Respondents

##### 4.1.1 Sex of Respondents

And the findings in Table 1 show clearly that, the respondents in this study were 65 in number. 55.4 percent who are females are the once who are ready to respond towards the questions asked to them while 44.6 percent were male.

**Table 4.1: Sex of Respondents**

variables	Frequency	Percent
Female	36	55.4
Male	29	44.6
Total	65	100.0

##### 4.1.2 Respondents Age Group

The result in table 2 below shows that, all respondents belonged in the working age group (economically active). That means majority of the respondents who were

interviewed are the ones who were economically active. Hence, if they are fully economically and socially empowered they can be good resources in the production process. Therefore 89.2 percent of the respondents in this study were aged on 18-52 years and those are the ones who are capable to work and engaged in the MFIs and SMEs as respectively shown. 10.8 percent of the respondents are above the age of 53+.

**Table 4.2: Respondents Age Group**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
18-25	12	18.5
26-34	24	36.9
35-43	14	21.5
44-52	8	12.3
53+	7	10.8
Total	65	100.0

#### **4.1.3 Educational Level of Respondents**

Generally, findings in Table 3 provides for the educational level background in which 38.5 percent of the respondents attained primary education. 61.5 percent represent the other remaining respondents who have attained the higher level of education as respectively shown.

Therefore, the literacy level found in this study is high. The high literacy rate can be catalyst for adoption of a new technology which enables business to adopt new method of economic activities that requires frequent reading of different documents.

**Table 4.3: Education Level of Respondents**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
Primary	25	38.5
o-level	17	26.2
a-level	5	7.7
Tertiary	3	4.6
Degree	15	23
Total	65	100.0

#### **4.1.4 Marital status of the Respondents**

Results in table 4 based on the status of the respondents which shows that, 50.8 percent of the respondents were married while 49.2 percent of the remaining respondent were single, widowed and divorced illustrated.

**Table 4.4: Marital Status of the Respondents**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
Single	22	33.8
Married	33	50.8
Divorced	4	6.2
Widowed	6	9.2
Total	65	100.0

#### **4.1.5 Type of Business**

Table 5 based on the assessment conducted particularly on the type of business which involves most of the respondents. So it provides that 67.7 percent of the respondents engaged themselves in trading business and hence the implication in trading is that, the most dominant business activity carried out by the most SMEs. While 32.2 percent of the respondents were dealing with agriculture, manufacturing



and education which related to the business are the least dominant activity carried out by the SMEs.

**Table 4.5: Type of Business**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
Agriculture	1	1.5
Manufacturing	19	29.2
Trading	44	67.7
Education	1	1.5
Total	65	100.0

#### **4.1.6 Business Maturity**

Also table 6 deals with the maturity of the business whereby the results shows that 4.6 percent of the respondents have engaged in business between 0-1 years. But 95.4 percent of the other respondents are engaged in the business for more than 1-6+ years.

Therefore, this shows that majority of the respondents knows the business well and they have knowledge on how to conduct their businesses as well as to overcome their problems in case of any challenges arises.

**Table 4.6: Business Maturity**

<b>Number of years</b>	<b>Frequency</b>	<b>Percent</b>
0-1	3	4.6
1-3	23	35.4
3-5	24	36.9
6+	15	23.1
Total	65	100.0

#### 4.1.7 Period of Borrowing

The researcher also conducts an investigation specifically on the period of borrowing for SMEs, and results are indicated in the table 7 that, 92.3 of the respondents are the ones who borrowed for more than 1-6+ years. But 7.7 percent used to borrow capital for less than a year. This implies that the rate at which businesses are adopting to use borrowed capital is still low since; only 7.7 percent were involved in less than one year.

**Table 4.7: Period of Borrowing**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
0-1	5	7.7
1-3	25	38.5
3-5	15	23
6+	20	30.8
Total	65	100.0

## 4.2 Research Findings

### 4.2.1 Assessment of the Impacts of MFI Loans in the Business Expansion of Small and Medium Enterprises

Figure 2, shows the assessment of the impacts of MFIs loans based on the livelihood of small and medium enterprises owners. 92.3 percent agreed that MFIs provided sufficient fund and only 6.2 percent disagreed, 1.5 neither agreed nor disagreed.

**Table 4.8: Sufficient fund**

	<b>Frequency</b>	<b>Percent</b>
strongly agree	36	55.4
Agree	24	36.9
un-decided	1	1.5
Disagree	3	4.6
strongly disagree	1	1.5
Total	65	100.0

Also the findings further provided that, 90.8 percent agreed that MFIs loan help them to hire experienced employees while 7.7 percent disagreed. 1.5 percent of the respondents were undecided

**Table 4.9: Experienced Employees**

Variables	Frequency	Percent
strongly agree	25	38.5
Agree	34	52.3
un-decided	1	1.5
Disagree	4	6.2
strongly disagree	1	1.5
Total	65	100.0

Basing on the fact of access to market towards them, 83.1 percent of the respondents agreed that vulnerability is reduced while 7.7 percent of the respondents disagreed. 9.2 percent of the respondents were undecided.

**Table 4.10: Access to Market**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
strongly agree	27	41.5
Agree	27	41.5
un-decided	6	9.2
Disagree	4	6.2
strongly disagree	1	1.5
Total	65	100.0

Furthermore, 86.2 percent of the respondents agreed that MFIs loan increased their ability to adopt new technology, while 9.2 percent disagreed. 4.6 percent of the respondents were undecided.

**Table 4.11: Ability to Adopt New Technology**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
strongly agree	29	44.6
Agree	27	41.5
un-decided	3	4.6
Disagree	5	7.7
strongly disagree	1	1.5
Total	65	100.0

On ability to compete, 83.1 percent of the respondents agreed that their capacity to compete have been increased, whereas 10.8 percent of them disagreed. 6.2 of the respondents were undecided, as shown in table 12.

**Table 4.12: Ability to Compete**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
strongly agree	26	40.0
Agree	27	41.5
un-decided	4	6.2
Disagree	5	7.7
strongly disagree	3	4.6
Total	65	100.0

This implies that, fund, market, experienced employees, ability to adopt new technology and to compete as a result of MFIs loan lead to the increased of branches, increased number of customer, employment opportunities and profits has increased, as well as SMEs were able to enjoy economies of scale.

#### **4.2.2 Assessment on whether or not MFIs Training Help That Small and Medium Enterprises to Improve Their Financial Status**

Table 4.12, provides the analysis which is conducted by considering sufficient inventory and business assets.

Therefore 100 percent of the respondents admitted the existence sufficient stock and assets due to loan provided by MFIs as illustrated in Table 4.13 below.

**Table 4.13: Sufficient Inventory and Business Assets**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
Yes	65	100.0

Table 4.14 provides the following findings that, 78.5 percent of the respondents admitted that their sales volume is high. 21.5 percent of the respondents they experienced low sales volume.

**Table 4.14: Level of Sales Volume**

Variables	Frequency	Percent
Low	14	21.5
Moderate	31	47.7
High	20	30.8
Total	65	100.0

Therefore, the above variables implies that, SMEs managed to reduce direct and overhead costs, increased net profits and income, improved market share and, reduced liabilities, hence, improved financial credibility due to influence of loan on sales, stocks and asset

#### **4.2.3 Assessment on Whether MFIs Provide a Better Chance for SMEs to Improve Their Productivity Capacity**

Table 4.15 provides the assessment of the variables which are used to analyze productivity capacity such as equipment and machinery, inputs and infrastructure. It shows that 72.3 percent of the respondent accepted that loan assist them to acquire the required equipments and machinery, while only 27.7 percent declined.

**Table 4.15: Equipment and Machinery**

Variables	Frequency	Percent
Yes	47	72.3
No	18	27.7
Total	65	100.0

Regarding inputs accessibility, the results show that, 80.0 percent of the respondents admitted having inputs accessibility after getting a loan, whereas 20.0 percent have difficulties in accessibility.

**Table 4.16: Input Accessibility**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
Easier	20	30.8
Moderate	32	49.2
Difficult	13	20.0
Total	65	100.0

Concerning access to infrastructure, the results show that, 78.5 percent of the respondents admitted that the access is easier, while 21.5 percent of the respondents face difficulties. This information is presented by table 4.17.

**Table 4.17: Access to Infrastructure**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
Easier	16	24.6
Moderate	35	53.8
Difficult	14	21.5
Total	65	100.0

Hence, low overall operational cost, improved balance of trade, price has been reduced, as well as improved customer lead time due to improvement of productivity capacity as a result of loan on equipment and machinery, infrastructure and quality inputs.

#### 4.2.4 Assessment on Quality of Services Provided by SMEs After Receiving Loan

Factors which are being used in the determination of the quality of services are design of products, services delivery process, and business environment. Table 4.18 demonstrates that, 76.9 percent agreed that MFIs loan improve design of products and 23.1 percent refused.

**Table 4.18: Design of Products**

Variables	Frequency	Percent
Yes	50	76.9
No	15	23.1
Total	65	100.0

Table 4.19 deals with services delivery process. This study provides that 86.2 percent of the respondents admitted that the delivery process provided by SMEs staff was good, while only 13.8 percent said it was fair.

**Table 4.19: Services Delivery Process**

Variables	Frequency	Percent
Good	56	86.2
Fair	9	13.8
Total	65	100.0

84.6 percent of respondents accepted that through loan they were able to create conducive environments to provide products of high quality. And 15.4 percent are not, respectively.



**Table 4. 20: Business Environment**

<b>Variables</b>	<b>Frequency</b>	<b>Percent</b>
Yes	55	84.6
No	10	15.4
Total	65	100.0

The implication here is that, due to design of product, services delivery process and environment reduced number of customer's complaint, waiting time for assistance has reduced as well as customer satisfaction has improved.

## **CHAPTER FIVE**

### **5.0 DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATION**

#### **5.1 Introduction**

This chapter discusses the findings by comparing what is established in this study with what other scholars have been established before in the literature review. It helps to draw conclusions as well as recommendations and other areas for future research. So this discussion is according to the study objectives.

#### **5.2 Discussion of Findings**

##### **5.2.1 Assessment of the Impacts of MFI Loans in the Business Expansion of Small and Medium Enterprises**

The results indicated that the majority of the respondents agreed on the increase of their fund, ability to cope with new technology and to compete, access to market as well as increased number of experienced employees as the result of loan. And this leads to the increased of branches, increased number of customer, creation of employment opportunities and profits has increased, improvement in standard of living as well as SMEs were able to enjoy economies of scale.

Similar sentiments were expressed by Kobla (2009) examines the impact of microfinance banks on small scale enterprises in the South Tongu district through the use of descriptive statistics. The study revealed that beneficiaries who benefitted considerably from the products of microfinance enjoyed increase in income, increase in equipment, creation of employment, and improvement in standard of living.

Also Brune (2009) examines empirically the impact of micro-finance institutions on the development of SMEs, concluded that there is empirical evidence for significant positive impact of micro-finance institutions on development of SMEs.

Therefore, growing bodies of knowledge have proven that microfinance was, and still continues to positively influence at household and individual levels.

### **5.2.2 Assessment on Whether Or Not MFIs Training Help That Small and Medium Enterprises to Improve Their Financial Status**

The findings indicated that, loan along with training provided by MFIs help small and medium enterprises to maintain and improve their financial status of their business in terms of inventory, sales volume and assets which help SMEs reduce direct and overhead costs, increased net profits and income, improved market share and, reduced liabilities.

According to Obadeyi (2015) in his study titled the impact of microfinance on the development of small business in Nigeria, the study reveals that microfinance helps in creating sufficient finance and wealth, generating employment opportunities as well as enhancing household income.

Therefore, the researcher's findings are not a seclusion with other studies elsewhere in the developing countries, though the researcher thought that SMEs in order to maintain financial credibility should be well educated concerning how much to pay and for what amount of loan due to the existence of insufficient knowledge on the matter of costs.

### **5.2.3 Assessment on whether MFIs provide A Better Chance for SMEs to Improve Their Productivity Capacity**

The study revealed that, MFIs loan help their clients to secure quality inputs, equipments and machinery needed, access adequate and efficient infrastructure for the business. Hence, leads to low overall operational cost, improved balance of trade, and price has been reduced, as well as improved customer lead time.

According to Ayopo (2011), examine the effects of micro-financing on micro and small enterprises survival, growth, productivity and performance in south-west Nigeria. The findings revealed that though microfinance is not sufficient for growth and expansion of small business but it has positive effects on productivity and performance of entrepreneurs.

The Asia Pacific Economic Cooperation (APEC) (2003) revealed that the roles of micro finance institutions are very important for development of SMEs. At least two main goals of giving access for SMEs through development of micro finance institutions, namely: increasing business activity of enterprises through working capital or investment fund, and promoting and developing spirit of entrepreneurship. Therefore, without a close relationship between MFIs and SMEs their goals may not be achieved.

Hence, sufficient amount of loan together with proper utilization of loan can improve the performance of business productivity and generate more revenue and manage to

repay back installment flexibly, therefore the researcher concurs with the above authors.

#### **5.2.4 Assessment on Quality of Services Provided By SMEs after Receiving Loan**

According to the findings it is indicated that due to the improvement in design of product, services delivery process and environment as a result of microcredit services cause the reduction number of customer's complaint, waiting time for assistance has reduced as well as customer satisfaction has improved.

Also, the research thought that, MFIs should put more emphasis on improving the environment business which small and medium enterprises are operated in can help business to grow and improve quality of services provided.

Waithanji, S. W, (2011) studied the effect of microfinance credit on the performance of SMEs in kiambu Kenya, there should be provision of enabling environment for SMEs to grow, hence, there should be strategies developed which will enhance increased access to microfinance credit by SMEs.

Researcher discovered that, the impact of microcredit toward provision of quality services by small and medium business has not received adequate research attention in Tanzania. On realizing this gap, research came up with an idea that, MFIs should provide training as quality of services concern, and the great benefits of that is higher customer satisfaction which leads to an increase in demand repurchase, and retaining of customers.

It won't only help them to perform well but also it will help MFIs to know the progress of client's businesses and identify potential clients for disbursement.

### **5.3 Conclusion**

#### **5.3.1 Assessment of the Impacts of MFI Loans in the Business Expansion of Small and Medium Enterprises**

The study revealed that through microcredit, individuals do manage to come out from a poor life style, since the income of households increased, which enabled them to fulfill their basic needs and hence vulnerability have been reduced.

Furthermore, microcredit can enhance the expansion of business of their clients when they decide to incorporate their services with training, supply of equipments and regular monitoring. Therefore, provision of sufficient funds could advance the creation of a new class of small entrepreneur leading to the expansion of middle class and a wider distribution of income.

#### **5.3.2 Assessment on whether or not MFIs Training Help That Small and Medium Enterprises to Improve Their Financial Status**

MFIs provide good and affordable financial services and help small and medium enterprises to maintain the self-sufficient financial sustainability, which directly have a positive impact on their livelihood.

High unknown costs, apart from interest rate, have been mentioned as being among the challenges in accessing credit facilities of MFIs which leads to poor performance;

since some of the respondents found it very difficult to manage hence using their small working capital instead.

### **5.3.3 Assessment on whether MFIs Provide a Better Chance for SMEs to Improve Their Productivity Capacity**

It has been noted that, through loan productivity capacity of small and medium enterprises has been improved as a result of ability to acquire equipments, quality inputs and easier access to infrastructure.

It is worth noting that MFIs provide better access to credit than the traditional banks. However, the research reveals that a good number of MFIs require tangible collateral security before loans are granted. This negatively affects the SMEs productivity because some are unable to provide the requested collateral.

### **5.3.4 Assessment on Quality of Services Provided By SMEs after Receiving Loan**

The findings show that MFIs have also contributed toward the performance of SMEs through the provision of non-financial service such as business, financial and managerial training programmes, good customer care and frequent business follow up which reduces misappropriation of loans.

Furthermore, good design of products and services delivery process skills helps small business owners, managers and potential entrepreneurs to meet the challenges of

today's business environment in order to manage the ever-changing world and plan for future of their business.

This would be achievable because it is argued that “in order to pursue growth strategies effectively an entrepreneur requires business and marketing skills in order to improve management and marketing efficiencies” (Fisher, 1998).

Generally, most entrepreneurs have indicated that the operations of MFIs had positive impacts on their businesses in terms of increased financial credibility, market share, number of employment, sales revenue, net profits, and decreased liabilities.

#### **5.4 Recommendation**

In view of the findings made and conclusions drawn from the study the following recommendations are provided to help in the enhancement of an accelerated and sustained performance in the SME sector and also provide recommendations to help in the improvement of the services of MFIs.

- i) Therefore, it is recommended that MFIs and SMEs should be done sustainably. The Government should ensure that the institutions adhered to the laws and regulation of the country in a reasonable manner. MFIs and SMEs should be used in consideration to benefit the present and future generation. And this should be integrated into economic and other development plan which should be taken into account by applying financial objectives.



- ii) The researcher recommends that the performance of SMEs does not rely on access to credits and the creation of favourable and formidable business environment. And the factors which used to measure the success in MFIs may not be a success if their activities do not reflect in the performance of SMEs. Hence the activities should focus on the objectives of the institution.
- iii) Researcher also found that proper and extensive activities should be provided for clients who are granted loans. The credits should be client oriented and not product oriented. Therefore MFIs have a great responsibility to ensure that the proper use of credit which was important tools when it comes to the business acceleration.
- iv) Researcher recommends that financial training should be provided by MFIs on their regular basis. MFIs can research into very profitable business lines and offer credit to clients who having the capacity to exploit such business in order to reduce the rates in case of any default arises.
- v) Researcher also recommended that it is important to consider the reliability and ethical practices in order to avoid the occurrence of other indirect costs that may never be in knowledge of abilities to SMEs owners. This means that SMEs were driven by the credit terms as the basis for choosing the MFIs.
- vi) Clients lack proper written records and how they separate business incomes from their private resources. It becomes complicated to measure incomes based on perception and not written records. Hence it recommended to SMEs to keep records which show their sales, expenses and profit.

- vii) In order to maintain business potential it is recommended that, SME owners should use loan for business purpose and not in personal use like in traditional ceremonies such as “kutunzana”

### **5.5 Area of Further Study**

This study focused on SMEs in Temeke Municipality. However, Tanzania is such a big economy thus not warranting generalization of these findings in one business centre. Therefore, it is recommended that a follow up study should be conducted on how best SMEs can make the use of equity finances such as Venture Capital, Business Angels and other alternative sources of finance available to SMEs in Tanzania.

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**APPENDIX****QUESTIONNAIRE**

**Dear Respondent,**

This is a Masters of Project Management research study on “The impact of microcredit in the performance of small business enterprises: A case study of Temeke Municipality”. The questionnaire is seeking your invaluable opinion on this subject. The results of this dissertation could go a long way in providing (awareness with appropriate knowledge when dealing with small business enterprises. In order to achieve suitable micro finance services and hence results to the improvement of our country economy.

Please, answer the questionnaire as fully as possible. Your responses will remain totally confidential and at no time be directly attributed back to you. Instead, they were aggregated with responses from other subjects in the survey. Please do not write your name on the questionnaire.

Thank you.

Justina Monge



**SECTION A: RESPONDENT'S CHARACTERISTICS**

**(Tick where appropriate please)**

**Gender**

Male..... Female.....

**Age**

18-25  26-34  35-43  44-52  53+

**Education (Tick where appropriate please)**

i) PRE.....ii) O-Level.....iii)A-level.....

iv) Tertiary.....v) Degree.....

Other (Specify).....

**Marital status (Please tick where appropriate)**

i) Single..... ii) Married..... iii) Divorced..... iv) Widowed.....

**Business type**

Agriculture  Manufacturing  Trading  Education

Health  Other (Specify).....

**How long has your business operated (Years)? (Please tick where appropriate)**

0-1  1-3  3-5  6+

**Period of borrowing? (Tick where appropriate please)**

0-1  1-3  3-5  6+

**SECTION B: Business expansion**

Please read carefully and tick (✓) the appropriate option

In the table below indicate the extent to which each of these variables has benefited from MFI loans in a scale of 1 to 5 i.e 1= strongly agree, 2= Agree, 3= Un-decided, 4= Disagree, 5= Strongly disagree.

Variables	1	2	3	4	5
Sufficient fund					
Experienced employees					
Access to market					
Ability to adopt new technology					
Ability to compete					

**SECTION C: SMEs financial status**

Does loan help SMEs to acquire sufficient inventory and increase business assets?

(a) Yes ( )

(b) No ( )

(c) If yes, explain how

.....

.....

.....

2. What are the level of sales volume?

(a) Low ( )

(b) Moderate ( )

(c) High ( )

**SECTION D: Productivity capacity**

1. Do you be able to get the required equipments and machinery for business operation?

- a) Yes ( )                      b) No ( )

2. Inputs accessibility after receiving loan is

- a) Easier ( )  
b) Moderate ( )  
c) Difficult ( )

3. The significance of MFIs loan to the access to infrastructure is

- a) Low ( )  
b) Moderate ( )  
c) High ( )

**SECTION E: Quality of services**

1. Does MFIs loan provide a room for improvement in design of products?.

- a) Yes ( )                      b) No ( )

2. SMEs services delivery process is

- a) Good ( )  
b) Fair ( )  
c) Bad ( )

3. Does business environment allow SMEs to improve quality of services?

- a) Yes ( )                      b) No ( )

4.If yes, explain

.....  
.....  
.....

Thank you for taking the time and effort to completing this questionnaire. It is greatly appreciated. Please, hand over the completed questionnaire to the researcher or place it in the pre-paid envelope (herewith enclosed) and return it within two weeks of the date of the questionnaire receipt.

For correspondence or in case of any queries, please contact:

Name: Justina Monge

Mobile:0712681723, 0759043316