THE CONTRIBUTION OF MICROFINANCE INSTITUTIONS TO THE
GROWTH OF SMALL MEDIUM ENTERPRISES (SMEs): A CASE STUDY
OF KINONDONI DISTRICT, DAR ES SALAAM

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS THE DEGREE OF MASTER OF ARTS IN MONITORING
AND EVALUATIONS OF THE OPEN UNIVERSITY OF TANZANIA

2020

CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Senate of the Open University of Tanzania a dissertation entitled**: "The Contribution of Microfinance Institutions to the Growth of Small Medium Enterprises (SMEs): A Case Study of Kinondoni District, Dar es Salaam"** in partial fulfillment of requirements for the Degree of Master of Arts in Monitoring and Evaluation of The Open University of Tanzania.

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Date

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DECLARATION

I, **Diana Mpoki Mwaipopo**, do hereby declare that this dissertation is my own original work and that it has not been presented to any other University or Institution of Higher Learning for a degree or similar award.

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Signature

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Date

DEDICATION

To my dearest beautiful Children Dathen, Darith and Damoreth; I hope this work will inspire them to achieve more than I did and to know that Education is the key of life and that Education has no limitation whatsoever age you are.

ACKNOWLEGDEMENT

I wish to acknowledge with sincere gratitude the advice, comments, assistant and encouragement, I received from many people in the process of producing this dissertation.

Through the preparation of this study I was privileged to work under Dr. Hamidu Shungu of Open University in Tanzania as my supervisor, His valuable criticism, guidance and easy accessibility helped me a lot in shaping my research proposal and in producing the dissertation in the present form.

I am also grateful to my dearest Husband Theonat Mushi who never stopped encouraging me to pursue my studies to this end his support and advice is what has complimented this work to this quality.

Thank you all for making it possible in one way or another for me to accomplish this important Study.

ABSTRACT

Micro and Small-Medium Enterprises play a crucial role in the development process of industrialization and economic growth. More than twenty percent of employment in Tanzania comes from over 3 million enterprises, which accounts for 27% of the Gross Domestic Product (GDP). Access to finance has been an obstacle faced by most SMEs. Along with it, the cost of finance is also an issue. Despite having a tremendous increase in number of SME there are little documented evaluations in Tanzania that examines role of financial institutions; banks and microfinance institutions; on the growth of SMEs. The study design used was a sectional. Convenience sampling was used to sample business owners. A self-administered questionnaire using structured questions was used to collect quantitative data. The study involved 323 business owners in Kinondoni Municipal Council. Quantitative data analysis was done through descriptive statistics where frequencies and percentages were computed. Inferential statistics was also used by using Spearman's rank-order correlation for non-parametric variables and chi-square to determine the relationship and association respectively between variables. Results were presented in tables and charts. Results indicated that Small-Medium Growth contributed by Microfinance institutions was by 58%. It was also revealed that adequacy amount of loan had significance association with SME's growth (x^2=8.472d.f=1, p=0.004). Also, there was a weak negative monotonic correlation between access to loan and collateral asked (r_s= -0. 264, n=323, p<0.01). Results also showed a weak positive monotonic correlation between SME's growth and utilization pattern (r_s= 0.366, n=302, p<0.01). The study demonstrates the growth of SME's with interplay of cost associated with access, accessibility of loans and utilization pattern.

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LIST OF ABBREVIATIONS

BOT   Bank of Tanzania

CBPL   Creative Business Promotion Law

CRDB   Cooperative and Rural Development Bank

EAC   East African Countries

FYDP   Five Years Development Plan

GDP   Gross Domestic Product

MFI   Microfinance Institution

NEEF   National Economic Empowemenr Funds

NMB   National Microfinance Bank

PBRP   Property and Business Reform Program

TZS   Tanzanian Shilling

VICOBA   Village Community Bank

CHAPTER ONE

INTRODUCTION

1.1   Background of the Study

1.1.1   Micro, Small, and Medium Sized Enterprises

Micro, Small and Medium Size Enterprises (MSMEs) in both developing and developed countries play important roles in the process of industrialization and economic growth. Research shows that MSMEs have the highest rates of job creation (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011) and the biggest potential for growth. Empirical evidence from a wide variety of countries and in different levels of development reveals that SMEs contribute to economic development through: value addition to local resources using simple and affordable technology hence generating income in both rural and urban areas (Mfaume & Leonard, 2004); savings mobilization (Beck, Levine, Laeven, & Demirgüç-Kunt, 2005); and production of goods and services that meet the basic needs of the poor (Cook & Nixson, 2000).

In Tanzania, (according to the 2016 Budget Speech of the Minister of Industry and Trade), the SMEs sub-sector has a total of 3.1 million enterprises which has employed 23.4% of the workforce of the Nation and has contributed to 27% of the Gross Domestic Product. In addition, based on the Census of Industries of 2013 which was launched in 2016, Tanzania has a total of 49,243 industries, whereby 85.13% are micro industries, 14.02% are small industries, 0.35% is medium industries and 0.5% is large industries. These statistics assert that 99.5% of all industries are SMEs. This situation is not at all surprising because such profile is also common in almost all countries in the world. For example, in Japan, small industries, very small industries

and medium industries constitute almost 99% of the Industrial Sector; in Kenya it is 98; Malaysia 97.3%; Indonesia 99.9%; Canada 98% and Germany 99%.

Amongst the greatest obstacle facing MSMEs that hinders their growth across the world and particularly in developing countries is the difficulties they face accessing long term, low cost loans (Owualah, 1999).(Rodolphe et al., 2004) analyzed the proportion of population having access to banking sector in Tanzania and Ghana and found that only 5 to 6% of the population accesses the banking sector. This constraint leads to many SMEs in Tanzania to rely on personal savings to start up and driving their businesses which most of them do not grow and some die. As efforts to address this obstacle, governments in developing nations have embarked on different strategies to enhance growth and expansion of SMEs. In Eastern Africa, there has been significant progress in the policy environment and accessibility to finance in all the East African countries (EAC, 2012).

1.1.2 Micro, Small, and Medium Sized Enterprises Development in Tanzania

Sustaining employment is central to the current Government's agenda and the main reason for the pursuit of an industrial economy in Tanzania. The key to sustainable industrial growth and job creation lies in the growth of domestic companies and the attraction of local and foreign investors to invest capital and expertise into the economy. Tanzania, like most countries in Africa faces a challenge of unemployment. Each year, about 800000 Tanzanians join the labor force, which is incapable of providing jobs to the majority of these new entrants.

The high level of unemployment has forced a large number of the working population to opt for self-employment in the informal sector either as micro, small or medium

enterprises (MSMEs). Most MSMEs tend to be labour intensive; they create employment at relatively low levels of investment per job created. It is for this reason that the Government and other stakeholders have sought to support and nurture the growth of MSMEs.

During the Socialism and Self Reliance era, the Government sought to build a support structure from MSMEs by establishing and supporting the Small Industry Development Organization (SIDO). The establishment of SIDO highlights the fact that small enterprises have always been viewed as the engine through which productive activities of Tanzania will be channeled. SIDO fulfils a wide range of functions including supporting the establishment and development of SMEs in both rural and urban areas.

Following the transition from a social economy to a mixed economy in the end of the 1980s, Tanzania consistently embarked on various political and socio-economic reforms aimed at improving the business environment, promote private sector-led economic growth and consequently reduce poverty.

The Tanzania SME Development Policy was formulated in 2003 to address several constraints limiting MSMEs growth including: unfavorable legal and regulatory frameworks, undeveloped infrastructure, poor business development services, limited access to finance; and ineffective and poor coordination of institutional support framework.

The policy objectives also highlight the importance of simplifying business registration and licensing procedures together with the simplified tax system and tax

incentives to small businesses. In 2004, the Government of Tanzania initiated a program titled Property and Business Reform Program (PBRP/MKURABITA) that supported the growth of informal sector enterprises.

In the same year, the Government established the National Economic Empowerment Fund (NEEF) for extending concessionary loans and provision of credit guarantees to SMEs and cooperatives. Also, in the Bank of Tanzania (BOT) launched the Credit Guarantee Scheme for SMEs in 2005. The scheme is geared towards promoting and supporting SMEs by creating an enabling environment for expansion and facilitation of access to financial resources (BOT, 2005). The fund guarantees borrowing entrepreneurs from the SME sector to access credit from commercial banks.

In addition to the efforts of the Government of Tanzania, other development stakeholders have also played a role in ensuring the growth and development of MSMEs. For instance, since 2012, the Tanzania Government has been facilitating a guaranteed external finance by the African Development Bank through the Africa Guarantee Fund. The fund targets all SMEs with valid operating licenses regardless of sector, industry, location, and ownership; with the objective of generating enhanced growth in the SME sector, thereby creating increased employment opportunities in the economy, particularly for the youth.

Also, in Eastern Africa, there has been significant progress in the policy environment and accessibility to finance in all the East African countries (EAC, 2009). Lastly, domestically, several mainstream banks such as CRDB, Akiba Commercial Bank, Azania Bancrop, NMB, Standard Chartered Bank, Barclays Bank and others have special departments which process loans for SMEs.

1.1.3 Support of MSMEs in the National Development Framework

In recognition of the role that SMEs play in job creation, the focus of the current Five-Year Development Plan (FYDP II) is on the support of agro-processing industries and light manufacturing industries including food, beverages and tobacco, furniture and textiles.

These value chains account for a greater proportion of manufacturing jobs so that they continue to play a critical role in the creation of further employment opportunities, thus directly linking industrialization to reduction of income poverty and ultimately human development through job creation. Small and Medium Enterprises (SMEs) all over the world are known for playing a vital role in socio-economic development. SMEs are major job creators, income generators and poverty alleviation, be it in the formal or informal sector.

1.2 Problem Statement

It is a known fact that Tanzania as one among the developing countries strive to achieve industrial development. Over the years the strategy of attaining this development has focused on private owned small medium enterprises (SMEs). SMEs are seen to be the driving force of economic growth and development as they create many job opportunities as well as rural development(United Republic of Tanzania, 2010). Several projects that ensure provision of loans to small entrepreneurs have been introduced in Tanzania. These include, among others the Small Entrepreneurs Loan Facility (SELF) project, Mwananchi Empowerment Fund, and the Economic Empowerment and Employment Creation Program.

However, access to finance has been a stumbling block faced by most SMEs. Along with it, the cost of finance is also an issue. Large and successful businesses are rarely facing these problems and are increasingly financed by large microfinance institutions (President's Office Planning Commission, 2011). It was found out 35% of MSMEs obtained loans from family and friends; 29.2% from microfinance institutions; 14.3% from Savings and Credit Cooperative Societies (SACCOs); 10.3% from banks; 7.5% from donors; 3.1% from money lenders; 1.6% from suppliers; 1.5% from savings clubs; 1.2% from the local government and 0.3% from Village Community Banks (VICOBA) (Ministry of Trade and Industry, 2012).

Despite the tremendous increase in number of SMEs in Tanzania there are little documented evaluations that examines role of financial institutions; banks and microfinance institutions; on the growth of SMEs specifically in Kinondoni Municipal Council. Therefore this study intended to examine the contribution of microfinance institutions to SMEs growth specifically looking at finance accessibility and costs associated with loan provision to SMEs.

1.3   General Objectives

The main objective of this study was to examine the contribution of microfinance institutions to SMEs growth in Kinondoni District.

1.3.1   The Specific Objectives

(i)   To examine the accessibility of finance for SMEs growth

(ii)   To assess the costs associated with accessing financial services to SMEs growth

(iii)   To examine the utilization patterns of finance accessed by SMEs

1.4   Research Questions

(i)   How does access to financial services affect growth of SMEs?

(ii)   What are the effects of costs associated with access to finance on SMEs growth?

(iii)   What is the utilization pattern of the finance obtained by SMEs?

1.5   Rationale of the Study

SMEs are known to play a major role in social economic development in Tanzania through employment creation, income generation and stimulation of growth in both urban and rural areas (Nkonoki & Ericsson, 2010). In 2010, the SMEs contributed about 40% of the GDP and were the second main employing sector after agriculture in Tanzania (Gamba, 2019). Through a critical analysis of the reasons behind the success or failure of micro and small businesses to graduate to higher levels, the study will generate relevant policy implications which when properly implemented will benefit the Tanzania business community and the country. This study will also fill the literature gap on whether or not loans have helped the micro and small businesses to graduate. Findings from the study will provide a concrete insight to be used as a framework for future studies.

1.6   Scope of the Study and Limitations

1.6.1   Scope of the Study

Microfinance encapsulates an array of issues such as microfinance and rural development, microfinance and the development of poor countries but the study will look at microfinance institutions and SMEs. Geographically, the study looked in Tanzania with emphasis on the Dar es Salaam Region and Kinondoni District in particular. The Kinondoni District is chosen because access to credit poses as a major

challenge to the majority of SMEs due to inability to access credit from formal financial institutions hence the reliance on number of MFIs operating in the district.

1.6.2   Limitations of the Study

The study should have taken the state of microfinance institutions in Tanzania as a whole but time and other resource constraints confined the study to only one urban district. This made it difficult to generalize the results to cover the whole country; however, it is believed that since the issues of microfinance institutions in one district are not different entirely from other districts the results could still be used for policy making. Nonetheless a lot of important issues were covered to make this work useful contribution to existing literature and for further research and policy direction on the effects of microfinance institutions on SMEs in Tanzania.

1.7   Organization of the Report

The study is organized and presented in five chapters. Chapter One covers the introductory information about the study, which involves background to the study, statement of the problem, objectives of the study, significance of the study, research questions, scope of the study, limitations of the study and the organization of the report. Chapter Two covers the review of related literature.

In this section, books, articles, and other works, which have been done by other researchers on the subject, are reviewed and analyzed for their relative importance and relevance to the Tanzanian context. Chapter Three covers the methodology and comprises the study design, sampling technique, sources of data, data collection methods and instruments, sample size and sampling technique, and data analysis

methods. Chapter Four covers data analysis. Statistical tables, and other analytical tools are used to draw meanings from data into information to aid discussions. The fifth chapter covers the summary of findings, conclusions and recommendations as well as areas for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of various works that have been done by other scholars in an attempt to address issue concerning in an attempt to address issue concerning the contribution of microfinance institutions to the growth of small medium enterprises and some theories of microfinance institutions that have been done by other scholars and which are relevant to Tanzanian Situations. This chapter also provides definitions terms used in the study. The study regarding the contribution of microfinance institutions to the growth of small medium enterprises or set of important theoretical, conceptual and analytical as well as empirical issues which need to be addressed as there is intense discussions and controversy in the field, (Bonister D and Lichfield N 2011).

2.2 Classification of Businesses

Micro and Small Enterprises (MSE s) which are part of Small and Medium Enterprises (SMEs) are defined differently in a given economic setting. Individual countries tend to classify SMEs in accordance with their policy needs; but financial institutions such as banks may categorize SMEs in accordance with the market segmentation (ACCA, 2011). In the European Union for example, three categories are used (Dababneh et al., 2015). Medium enterprises are categorized in accordance with the headcount of less than 250, annual turnover of €50 million or an annual balance sheet of € 43 million. Small enterprises employ less than 50 workers; with an annual turnover of € 10 million or annual balance sheet total which is less than or equal to €

10 million. Micro enterprises within the European Union employ less than 10 workers; the annual turnover is less than € 2 million or the annual balance sheet total which is less than or equal to €2 million.

This categorization, however, is by no means homogeneous even by the standards of international institutions. The World Bank for example, looks at SMEs as those that employ a maximum of 300 workers, with annual turnover or maximum assets of $ 15 million (Gibson & van der Vaart, 2008). This categorization differs from that of the European commission by both inflated headcount by more than 50 employees and reduced annual turnover or maximum assets by less than two-thirds. Other institutions however, have refrained from using the financial criteria to define SMEs. The United Nations Development Program (UNDP), for example, has resigned to only using headcount rather than annual turnover or annual balance sheet (Ibid). And even in its headcount categorization the UNDP has been somewhat conservative, defining SMEs as those that employ a maximum of 200 workers.

The reality for developing countries is, however, different; in Tanzania for example, given her low level of development, conservative criteria for determining SMEs are used. The headcount criterion places a maximum of 100 employees for an SME (URT, 2003). The total capital for the investment for SMEs is a maximum of TZS 800 million which is in the region of US$ 450,000. Logically, as (Gibson & van der Vaart, 2008) argue, it follows that the determination of the size of businesses in a particular country is dependent on the wealth of that economy, measured by per capita income. It can therefore be stated that the wealthier the economy, the larger the size of businesses categorized as SMEs. Accordingly, investors that are considered to belong

to the SME category in Europe and North America may be large scale investors by the standards of developing economies like Tanzania.

The criteria for classifying SMEs however, should not be taken as fixed. For example, the employment criterion might be too slippery to be captured, particularly in micro businesses that mostly use family labour. The Tanzanian SME policy is aware of this and it acknowledges the probability of overlaps between the criteria. Therefore, the Tanzania SME policy concludes that whenever there are overlaps, the level of investment should be the main criterion to classify the enterprise. However, the investment criterion is not without flaws. (Mead & Liedholm, 1998) observe that this is the most difficult criterion for a reason that business owners, particularly in developing countries are very reluctant to expose their invested income for fear of paying taxes.

2.3 Growth of Small and Medium Entrepreneurs

The definition of growth of SMEs, like their range classification, is also context sensitive. According to(Gupta, Guha, & Krishnaswami, 2013), the growth of SMEs can be measured by looking at the income generation of the business, value addition of the products/services, and expansion in terms of the volume of the business. (Gupta et al., 2013)also holds that only qualitative factors can be used to measure growth.

For example, the market position, quality of the products and the goodwill of the customers can show that a certain SME is growing. However, for other analysts, when a firm hires more workers it is evidence that the enterprise is actually growing. (Seker & Correa, 2010)for example, hold that the definition of growth rate is usually

determined by employment growth. For them, an enterprise's growth or stagnation is measured by job creation or job destruction. (Woldie, Leighton, & Adesua, 2008)believe that turnover is the best measure inasmuch as it is mostly preferred by the enterprise owners.

These growth criteria are generally acceptable because of their measurability. However, not all the criteria can be used by the entrepreneurs themselves in all settings. Although expansion of the volume of the business and income generation are the often-used yardsticks, but firm owners in developing countries like Tanzania may have their own perception of growth in their businesses. For example, when the business can provide capital for a new start up business, the owner would consider it to have grown. During data collection for this study many enterprise owners associated the perception of growth with the ability of their businesses to generate income that is used for other activities that are not directly related to the business itself. Business owners felt that their businesses are growing if they were able to build a house or pay their children's school fees.

2.4 Theoretical Literature on Growth of Small and Medium Entrepreneurs

Analysts of SME growth usually perceive it as a life cycle. The underlying assumption is that all SMEs go through stages, where they start, grow, mature and decline. However, as (Gupta et al., 2013) argue, there is incongruence as to whether the growth is predictable or merely opportunistic and unpredictable. It is safe, therefore, to conclude that the growth process is nonetheless not a smooth one. SMEs go through many challenges to grow and mature or collapse before they can even get to the maturity stage.

Greiner is credited for laying down the foundation of the life cycle of enterprises' growth. Greiner holds that enterprises move through five apparent stages of growth, which are creativity, direction, delegation, coordination and collaboration (Gupta et al., 2013). Greiner was however, quick to state that the growth stages are mired by challenges and crises. The life cycle perspective received a momentous theoretical backing in early 1980s when (Churchill & Lewis, 1983) developed a model expanding on the initial work on SMEs stages of growth. In this model, the first stage of an enterprise is existence.

In most cases, enterprises operate without formal structures under the close supervision of the owner. Survival is the second stage where the enterprise owner must work to get an additional capital to expand the business. This stage might also involve the addition of human resource in order to properly manage the business. Success is the third stage, when the enterprise begins to record profit. The fourth stage is taken off where the business starts to expand and to explore opportunities. The final stage is resource maturity where an enterprise's focus is the control of quality, finance and looking for niche in the market. Churchill & Lewis assume that when an enterprise has developed to the resource maturity stage, it will no longer be called 'small' in the categorization of SMEs. Unlike Greiner stages of growth, the life cycle model by Churchill &Lewis (1983) assumes that creativity and proper management is essential at every stage of the enterprise growth cycle.

The model developed by Churchill & Lewis (1983) on the SME growth seems more relevant for developing countries like Tanzania. For example, the existence stage fits hand in grove with the micro stage of enterprises in Tanzania. Many enterprises in

Tanzania begin at a micro stage characterized by informal operation. According to the Tanzania SME policy (2003) apart from being largely informal, micro enterprises engage up to 4 employees who are usually family members. It is also a reality that many businesses stay at micro level and a few of them survive and move to the stage of success when proper managerial operations are called to action including an additional capital to expand the enterprise. In its analysis of this category of SMEs in Africa, the Business Times (in Woldie et al 2008) observed that the mortality rate for SMEs remains very high.

2.4.1 Determinants of SMEs Growth

As noted above, SMEs face many challenges and crises in their quest for growth. According to (Woldie et al., 2008)although much importance is attached to the existence of SMEs, given their ability to create jobs and augmenting income, their overall performance especially in Africa has been dismal. Woldie et al (2008) presents multiple findings to substantiate this argument. According to(Woldie *et al*., 2008) a study by Mead, in five African countries came up with a conclusion that only 1 percent of enterprises that started with 1-4 employees grew to the size of about 10 employees but majority did not expand.

In another study by Kilby (in Woldie et al, Ibid) of the 116 enterprises examined for over 30 years in Nigeria, it was revealed that only 2 of the 21 enterprises with less than 10 employees increased the level of employees. More critical was a study carried out by Oshagbemi in 1993 (Woldie *et al., 2008)*, which found out that fewer than 5 of every 20 enterprises survived in their first year of operation. Earlier, in 1988, Friedman studied 214 micro enterprises in Northern Nigeria for a duration of 8 years

and noted that only 4 had actually graduated to small and medium sizes (Woldie et al., 2008). Onyeiwn (1992), in his study of the Eastern region of Nigeria also reported that half of the SMEs do not survive beyond half a century.

In an attempt to explain this dismal performance, (Woldie et al., 2008) developed a framework that sums up the determinants of SME growth. In this framework, two main factors with their sub-factors are examined. Firstly, the framework looks at the characteristics of the owner or manager and how this can influence the growth of the enterprise. The variables that are examined in this category are; the age of the owner, where by younger owners are likely to expand their enterprises than older managers/owners.

Gender is also looked at as a very important factor for the growth of SMEs. Male owners are more likely to expand their enterprises than female owners in as much as females are usually discriminated when they look for loans. Formal education is another variable examined in this category. The underlying belief is that SME owners with formal education are likely to run their businesses properly. Motivation is also considered a key variable, whereas owners who are motivated by money will most certainly work to expand their businesses. Previous experience is equally critical inasmuch as owners/managers who have the experience to run an SME in the past are likely to expand their businesses.

Regarding firm characteristics, age of the firm is considered the most important variable for the business growth. Younger firms are said to grow faster than older ones. Size of the firm is another variable of which firms of larger size usually grow

faster than the smaller ones who fight to survive. Legality of the firm is also considered to have an influence on SME growth. Firms with a corporate status enjoy limited liability and greater incentive to pursue risky projects.

Finally, the sector in which the business operates has a greater influence on its growth. There are sectors that attract higher growth of the SME than others. Zhou & de Wit (2009), however, hold that in addition to the owners' attributes and the characteristics of the firms, the environment is an equally important determinant of the SME growth.

According to Zhou & de Wit (Ibid: 11), many firms "start small, live small and die small". This is partly explained by the fact that these businesses start in the environment dominated by mature industries thus they fail to capture the market base and die small. They hold that it is easier for mature industries to expand their business than startup that lack experience of the market in that particular area.

(Seker & Correa, 2010) are of the view that enterprises' growth may be affected by three broad factors, namely the level of technology and human resources; the level of development of that country and the environment in which the enterprise operates. As such, in a developing economy, (Seker & Correa, 2010) believe that the regulatory services and the physical and financial infrastructure may not function well to encourage the growth of SMEs. Along the same line of argumentation (Honjo & Harada, 2006) emphasize that the Government must play a role such as supporting new businesses, research and development as well as commercialization of products and services if the businesses are to grow.

2.4.1.1 Access to Finance

In the study of small and medium enterprises in Turkey, (Seker & Correa, 2010)observed that better access to finance significantly contribute to the growth of firms. In their analysis, they concluded that small enterprises are constrained by many factors to access funds than medium enterprises thus do not grow at the required pace. As such, the firms that finance their investment through external sources or can access a loan from financial institutions are the ones that experience growth. A study carried out by (Akoten, Sawada, & Otsuka, 2006) in Kenya reaches the same conclusion that the growth of micro and small enterprises (MSEs) is largely determined by credit access.

According to (Akoten et al., 2006) in Kenya, lack of financial investment from the credit markets is not only a serious obstacle to their growth, but also the main reason for the MSEs closure. (Akoten et al., 2006)observed that younger owners/managers were not likely to get funds from micro-finance institutions (MFIs) because of stringent borrowing conditions. Therefore, these owners, majority of them managing micro enterprises are forced to turn to their relatives and friends for borrowing, the financial support which may not be forthcoming.

However, the access to credit argument has been empirically refuted by some studies as the single most important factor for the growth of MSEs. (McPherson & Rous, 2010), for example, studied MSEs in East Java, and reached the conclusion that access to finance was not the main factor for MSEs growth. McPherson and Rous (Ibid) noted that the Government of Indonesia in collaboration with donors and non-governmental organizations had invested diligently to financially support MSEs. They

point out programs such as subsidized credit for some specific MSEs and providing repayment guarantee to banks that offer credit to MSEs.

However, empirical evidence revealed that despite getting all the financial support these enterprises did not achieve the required growth levels. Instead, it was revealed that there are other equally critical factors that are not related to credit but have compelling grounds for the MSEs growth. McPherson & Rous lists them as availability of entrepreneurial skills to the owner/manager; presence of skilled human capital; and existence of business opportunities in the subsector in which the enterprises operate.

One can also argue that not all owners/managers borrow funds from formal financial institutions or informal financial arrangements with the sole purpose of expanding their businesses. Although formal financial institutions may put expanding business as a condition for getting the loan, borrowers may use the credit for other reasons. In Tanzania for example, owners of micro enterprises are likely to use the credit to build houses or pay for their children's school fees. As such, while the business receives no investment it will nonetheless service the loan. Consequently, the potential for that enterprise to grow is dim.

2.4.1.2 The Formalization Debate

According to (Gibson & van der Vaart, 2008)SMEs should primarily be understood as economic activities regardless of whether or not they are formally registered. This is because in third world countries the majority of SMEs and micro enterprises are not formalized. Lack of formalization is taken as a conscious choice by business owners

because of the unattractiveness of the formal sector. It is argued, for example that owners avoid their businesses being formalized because of higher tax burdens, social security contributions or just unwarranted regulations during the registration process (Rand &Torm, 2010:2). Formalization in this context refers to formal registration of the business for the owner to acquire a tax code and a registration certificate.

In their study of Bolivia firms, (McKenzie & Sakho, 2010) observed that formalization as in tax registration for smaller firms had a negative implication in terms of profit as compared to larger firms. It was noted that the business owners of smaller enterprises who chose to remain informal had higher chances of making profit thus experiencing business growth than those who formalized their businesses. However, this argument is disputed by Rand &Torm (2010), who argue that although informality is by and large a growing attribute of SMEs in developing economies, it should not be cerebrated if these SMEs are to grow. According to Rand &Torm (Ibid) the informal sector is generally associated with low productivity, lack of social security for workers and poor working conditions.

According to Rand &Torm (Ibid: 13) formalization establishes property rights to the business owner that can aid them in accessing loans from formal financial institutions. This will in turn lead to more investments to expand the business which would then result in a better performance of the enterprise. Their argument stems from the fact that many formal financial institutions may require evidence of the existence of the business before they can approve a loan. As such, businesses that exist in the informal sector may be barred from borrowing from such financial institutions.

2.5 Empirical Literature Review

Several studies have been conducted on microfinance services. This study chose instead to review the literature on the impact of Microfinance institutions on small and medium sized business that are based in Africa. The main reason for a focus on Africa is because those are the geographic, political and economic contexts that are best relatable to Tanzania (Kinondoni).

2.5.1 Accessibility of Finance for SMEs Growth

Several scholars have researched on the challenges that SMEs face related to access to finance and how access to finance has have varying effects to businesses. For instance, Copstake, et.al (2000) did a study on the impact of microcredit on poverty in Zambia. The programme was not directed towards the poorest business operators but one third of the clients who were below national poverty line. Those who graduated from their first to a second loan on average experienced significantly higher growth in their profit and household income, as compared with otherwise similar business operators. The borrowers also diversified their business activities more rapidly. However, some borrowers were worse off especially among the 50% or so who left the programme after receiving only one loan.

2.5.2 Utilization Patterns of Finance Accessed by SMEs

Nilsson (2010) conducted a study to investigate the impact of micro finance institutions (MFIs) on the development of small and medium size businesses (SMEs) in Cameroon. The study adopted a case study approach that involved CAMCCUL – (Cameroon Cooperative Credit Union League). The study concluded that microfinance is an important asset to developing countries since it can cater for

financing needs of the very poor in the society. The study further recommended that the impact of microfinance is commendable in courage, self-confident, self-worthiness, skill development, awareness about the environment, peace in the family, reduction of poverty improving rural savings, managerial ability decision making process and group management. In other variables the impact is moderate.

In Kenya, Memba et. al, (2012) conducted a study to establish the impact of venture capital on growth of SMEs in Kenya. The study used 200 SMEs that have been financed by Venture capital as the target population. The SMEs were drawn from various major urban centers in Kenya and stratified according to their locality and a random sampling was carried out by assigning numbers to each stratum. A sample of 100 firms was picked at random from which data was collected using a semi-structured questionnaire as the main tool for data collection. Data was analyzed using descriptive statistics with the help of SPSS computer software. The variables used to measure growth were sales per annum, net assets, profit per annum, and number of workers among others. They were analyzed before and after use of venture capital. The study established that SMEs made significant growth after accessing the financing and recommended that other SMEs should follow suit if the country has to achieve its vision 2030. It was argued that lack of finance has been stated as one of the main reasons for SMEs poor performance in most developing countries.

2.5.3   Managerial Skills and Performance of SMEs

(Alarape, 2007) did a study to examine the impact of owners/managers of small businesses participating in entrepreneurship programs on operational efficiency and growth of small enterprises in Nigeria. The study was a cross-sectional analysis of

impact of exposure of owner's managers of small businesses on their performance of operational efficiency and growth rate and used data from primary and secondary sources and employing both descriptive and inferential statistics were employed for the analysis.

The findings were that small business whose owners, managers had experience of participating in entrepreneurship programs exhibited superior managerial practice, had higher gross margin rate of growth than small businesses whose owner managers did not have superior experiential learning. This had a practical implication that there is a need to improve managerial practice of small businesses through exposure of owners/managers to entrepreneurship programs in order to enhance their performance and transition to medium and large business. This is an important finding as it highlights factors other than finance that impact the performance of businesses.

2.6   The Policy Environment

There is an agreement among analysts of SMEs that the policy environment is of particular importance to the growth of SMEs. (Seker & Correa, 2010)for example, argue that policies and regulations must not be distortive to allow micro and small firms to evolve into larger firms. As such, they call for creation of efficient institutions that will improve the functioning of markets to allow proper evolution of these enterprises.

They also call for reforms on policies that create both opportunities and incentives for SMEs to grow. Along the same line of argumentation (Akoten et al., 2006) argue that the government must reform its policies to focus not only on improving accessibility

to credit but also investment in education and entrepreneurial training and reconfigure the infrastructure in order to allow MSEs to prosper.

(Honjo & Harada, 2006) went further to specifically analyze, inter alia, the role of government policies to the growth of SMEs in Japan. Their study investigated the 1995 SME Creative Business Promotion Law (CBPL), which was meant to support the creation of new businesses (start-ups), commercialization of products and services as well as the support for research and development in the enterprise area.

In general, the policies geared towards providing subsidies, loans and tax breaks to SMEs in order to allow them to grow. This new policy initiative was informed by an underlying assumption that it is difficult for SMEs to access to capital markets, and that many of the SMEs have financial constraints. As such, (Honjo & Harada, 2006) sought to investigate whether public support through policies and regulations for SMEs was effective.

Using a panel data set for SMEs in Japanese manufacturing industry, (Honjo & Harada, 2006) concluded that the CBPL and the government curved financial structure had positive results to the growth of SMEs. Many of such SMEs increased assets following the support and that the programs of the CBPL (such as subsidies, loans and tax breaks) led to a steady growth of younger SMEs. Also, cash flow, stimulated by the Government had remarkable impacts on the growth of these SMEs. Therefore, public policy and capital markets, as designed and implemented by the Japanese government, exerted an influence on the growth of SMEs.

2.7   Research Gap Identified

Significant numbers of studies have been conducted worldwide to examine the impact of microfinance institutions on growth of small medium enterprises (Akoten et al., 2006; Alarape, 2007; Seker & Correa, 2010; Woldie et al., 2008). In Tanzania there is still a little documentation on the contribution of MFIs to improve SMEs growth.

It has been seen that most of the studies assessing MFIs contribution on SMEs growth focuses much on measuring changes in income, sales, expenditure, consumption and assets. This study intended to focus on business growth, employment, and ownership of assets, purchasing power and participation in community development.

This study is in the right time to assess the impact of small loans on the improvement of Small and Medium Enterprises. Conventionally, economic indicators have been widely utilized in assessing the impact of micro finance where analyzers are particularly interested in measuring changes in income, sales, expenditure, consumption and assets.

The study findings from number of literatures as revealed above have shown that efforts have made to ensure growth of small medium enterprises. Studies revealed that lack of finance as one of the major constraints that hamper small business growth. Despite the tremendous increase in number of SMEs in Tanzania there are little documented evaluations that examines role of financial institutions; banks and microfinance institutions; on the growth of SMEs specifically in Kinondoni Municipal Council.

2.8   Conceptual Framework

The conceptual framework shows three components; which are cost associated with access to finance, accessibility and utilization pattern of finances which may affect growth of small medium enterprises. Cost associated with access to finances, SMEs may be charged relatively high interest rates and asked for high collateral. Cost associated with access to finance affects the accessibility of loans in terms of conditions and procedures and the amount of loan to be offered. These two factors together may affect the utilization pattern and ultimately affect the growth of Small Medium Enterprises.
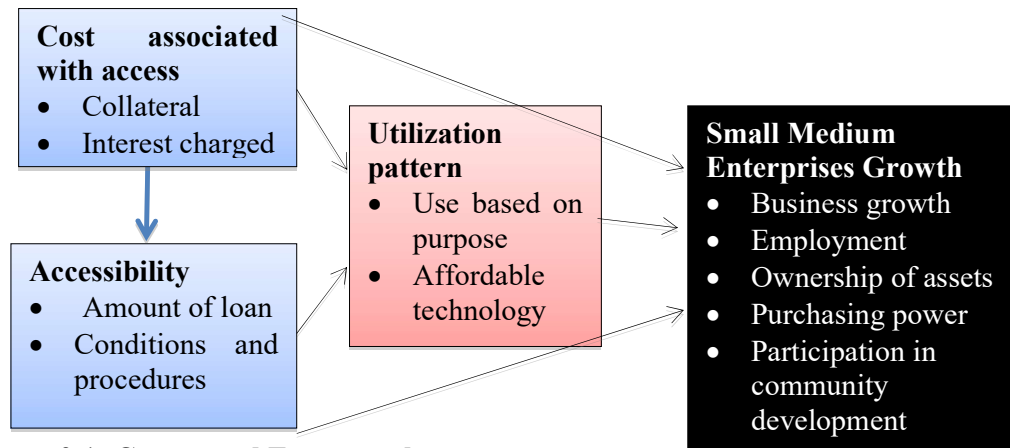
Figure 2.1: Conceptual Framework

Source: Researcher's   own   Construction,   (2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1   Introduction

The previous chapter presented the conceptual framework, theoretical framework and empirical literature review and research Gap. This chapter deals with research methodology. Research is a process of giving a better understanding of the complexities of human experience. The goal of research is to describe and understand a field practice or activity (Brown and Dewking 2001).

Thus, research methodology refers to the behavior and instruments used in performing research operation such as making observation recording data techniques of processing data and the like (Kothari 2007). However, research methodology encompasses the complete research approaches, procedures and data collection or sampling methods used, (Mc Millon & schuma 2001).

The chapter endeavors to explain the methodology to be used in conducting the fieldwork component of study by presenting an outline of the research design population research procedures. Our methodology was designed to capture quantitative data. This section therefore presents the design and methodology that was used in the analysis of micro and small businesses.

3.2   Study Design

This study employed a cross-sectional research design, where by data were collected from representative subset at a one point in time using survey methods. The reason for choosing this design was that it is flexible and economic (Babbie, 1990).

3.3   Sampling Frame

Primary data were generated from a field survey of micro and small businesses and in-depth interviews with key officials involved in the SMEs sector. The sampling frame for the survey consisted of micro and small enterprises who have been engaged in business operation for a minimum one year, because at this age the business has experienced significant changes in business environment and finance accessibility for its growth. Only business owners were interviewed. Convenience sampling was used to sample study participants.

The sample size for the respondents was determined by considering measures of accuracy by the width of the confidence intervals at specified levels of confidence. In statistics, standard error is usually reduced as the sample size n increases. Likewise, the width of the confidence interval is correspondingly reduced with the increase in n. Generally, estimates are made on proportions of various attributes. Since the standard error of the proportion increases as the proportion p increases up to the value $p = 30\%$ (0.3), it is safest to estimate p on the high side, thus giving larger values for n (Cochran 1977). Basing on these considerations the sample size was determined from the formula: $n = \frac{(z^2 \times pq)}{e^2}$

When the above formula is solved for n the result is that

Where:

n is the sample size

is an entry from the standard normal tables at a specified value of

p is the proportion of the relevant attribute

e is the specified margin of error

For most surveys it is proposed to take p = 0.3 (Nyabende & Atambo, 2016),

e = 0.05

There the sample size was 323 respondents

Kinondoni district in Dar es Salaam was selected because Dar es Salaam itself is the region of business and is characterized with several SMEs and a lot of microfinance institutions. Kinondoni district is the favorable area for a researcher to obtain relevant information per time and finance. Therefore, the study area focused on Kinondoni district.

3.4   Data Sources

The research used primary data. Primary data constitutes perception and attitudinal information which were obtained by using quantitative data collection. Quantitative data were obtained by administering 323 questionnaires to business owners via a survey.

3.5   Methods of Data Collection and Instruments

The major or primary instrument of data collection involved the application of semi structured questionnaires developed by the researcher. It was supplemented by other tools such as reviewing of available records of the banks, observation and personal interviews. This method of data collection enhanced triangulation, which involved the

combination of two or more data collection tools. The reason for using two or more tools of data collection was that the flaws of one tool are often the strengths of another and so by combining tools, the strengths and weaknesses of the various tools were complemented and supplemented. For instance, the use of observation helped to capture useful situations such as the natural settings of respondents, thereby adding merit of crosschecking on the facts that were compiled through the other tools.

3.6 Validity and Reliability of Data

Methodologically, since more than one method of data collection (questionnaires, observation and personal interviews) were used in data collection, the study will be very difficult to be replicated. Combining two or more methods in collecting data is, therefore, not a suitable method for every issue or study. The use of more than one method was also a way of legitimizing personal views and interest (Sarantakos, 1998). However, the flaws of one method are often the strengths of another method and so by combining methods, the strengths and weaknesses of the various methods are complemented and supplemented. It is, therefore, believed that the results of the study are not affected negatively.

3.7 Analysis Techniques

The study employed quantitative technique of analysis. Data collected through survey were coded, entered and analyzed using SPSS. Descriptive statistics, including frequencies and percentages were computed to present data in a meaningful way to allow simpler interpretation of data and to match with study objectives. Inferential statistics was also used by using Spearman's rank-order correlation for non-parametric

variables and chi-square to determine the relationship and association respectively between variables.

CHAPTER FOUR

FINDINGS, ANALYSIS AND DISCUSSION

4.1   Socio-demographic Characteristics

The study population from which these results were obtained is 323 respondents of Small and medium Enterprises from Kinondoni Municipal Council. As shown in table 1 most of the respondents were aged 21-40 (80.2%). Among all 323 respondent females were 193 (59.8%).

Table 4.1: Socio-Demographic Characteristics

	Frequency	Percent	Total
Age of the respondent			
21-30	131	40.6	323
31-40	128	39.6	
41-50	42	13.0	
51 and above	22	6.8	
Gender of the respondent			
Male	130	40.2	323
Female	193	59.8	
Level of education			
Primary education	83	25.7	
Secondary education	148	45.8	323
College/University	92	28.5	
Initial capital for starting business			
Family	43	14.2	
GROUPS	44	14.6	302
Loan	129	42.7	
Savings	86	28.5	
Money to run a business			
Family and friends	44	14.6	
Banks	107	35.5	
Money lenders	21	7.0	301
Suppliers	21	7.0	
VICOBA	108	35.9	
Year of starting a business			

2010-2012	21	6.5	
2013-2015	86	26.6	323
2016-2018	216	66.9	
The start-up capital			
100000-999999	87	28.9	
1000000-1999999	43	14.3	
2000000-2999999	21	7.0	
3000000-3999999	65	21.6	301
4000000-4999999	22	7.3	
5000000 and above	63	20.9	

Level of education was dominated by those who had secondary education accounting 45.8% of all respondents. The question on where the respondent got his/her initial capital was responded by 302 respondents and among them 129 (42.7%) got from loan. Also, when asked where they get money to run their business 301 people responded the question and among them 107 (35.5%) got from banks. Out of all 323 respondents 216 (66.9%) started their business between 2016 and 2018. Most of the respondents (28.9%) their start-up capital ranged between 100000 and 999999 Tshs.

4.2 Small Medium Enterprises Growth

Growth of Small Medium Enterprises (SME's) was assessed using SME's growth index (mean) established from a set of four (4) areas. In the study respondents self-rated the contribution of MFIs in each of the four area in a scale of 1 to 5 with a rating score of 0% to 100% where 1 meant very low with a rating score of (0 – 20)%, 2 meant low with a rating score of (21 – 40)%, 3 meant average with a rating score of (41 – 60)%, 4 meant high with a rating score of (61– 80)% and 5 meant very high with a rating score of (81-100)%.

Table 4.2: Overall SME's Growth

SME's growth areas	Mean	Rating score (%)
MFIs contribution to improve business growth	3.00	60

MFIs contribution to improve ownership of assets	2.67	53.4
MFIs contribution to improve purchasing power	2.93	58.6
MFIs contribution to improve participation in community development	3.00	60
SME's Growth Index	**2.9**	**58**

Source: Field Data, 2019

According to analysis results shown in Table 4.2, MFIs contribution to improve business growth had a mean of 3.00 (60%), ownership of assets 2.67 (53.4%) purchasing power 2.93 (58.6%) and participation in community development had a mean of 3.00 (60%). The overall SME's growth Index was calculated by taking the mean of 2.9 for all four dimensions, which come to 58%.

4.3   Access to Financial Services

Access to financial services is important for the growth of small and medium enterprises. Performance of firms is positively related to access of finances.

4.3.1   Access to Loan

Results revealed that out of all 323 respondents 238 (73.7%) had access to loan and 85 (26.3%) had no access.

4.3.2   Amount of Loan Received

Among 238 respondents who had have access to loan 216 (90.8%) receive a loan of above 500000 Tshs and 22 (9.2%) received less than 500000 Tshs.

4.3.3 Adequacy of the Amount Received

Results revealed that out of 238 respondents who receive the loans, 174 (73.1%) disagreed that the amount received was adequate and only 64 (26.9%) respondents agree. When asked if the conditions and procedures of obtaining loans are smooth 216 (66.9%) respondents disagreed and 107 (33.1%) agreed that the conditions and procedures of obtaining loans are smooth.

Further analysis by using Chi-square ($\square^\square\square$ was done to look if there is association between SME's growth and adequacy amount of loan. Results revealed that adequacy amount of loan had significance association with SME's growth ($\square^\square\square$8.472$\square$d.f$\square$1, p$\square$0.004).

Table 4.3: Adequate Amount and SME's Growth

			Small Medium enterprises growth		Total	$\square^\square$,d.f, p
			Low	High		
Adequate amount	**Disagree**	Expected Count	15.4	158.6	174.0	
		% within Small Medium enterprises growth	100.0%	70.5%	73.1%	$\square^\square\square$8.472 (1) p$\square$0.004
	Agree	Expected Count	5.6	58.4	64.0	
		% within Small Medium enterprises growth	0.0%	29.5%	26.9%	
Total		Expected Count	21.0	217.0	238.0	
		% within Small Medium enterprises growth	100.0%	100.0%	100.0%	

4.4 Cost Associated with Access

4.4.1 Collateral

It is revealed from the study findings that most of the respondents agreed (130 (40.2%)) that collateral asked was high while 108 (33.4%) respondents disagreed.

Table 4.4: Collateral

Variables	Strongly disagree	Disagree	Neither	Agree	Strongly agree	Total
Collateral asked is high	0 (0.0%)	108 (33.4%)	64 (19.8%)	130 (40.2%)	21 (6.5%)	323 (100%)

Further analysis was done using Spearman's rank-order correlation for non-parametric variables to determine the relationship between collateral and access to loan. There was a weak negative monotonic correlation between access to loan and collateral asked (r_s= -0. 264, n=323, p<0.01).

Table 4.5: Correlations

			Do you have access to loan?	Collateral
Spearman's rho	**Do you have access to loan?**	Correlation Coefficient	1.000	-.264[**]
		Sig. (2-tailed)	.	.000
		N	323	323
	High collateral	Correlation Coefficient	-.264[**]	1.000
		Sig. (2-tailed)	.000	.
		N	323	323
**. Correlation is significant at the 0.01 level (2-tailed).				

4.4.2 Paying Loan Balance by Collateral Assets

Out 301 respondents who responded if they ever paid loan balance by collateral assets 108(35.9%) said they have always been paying their loan balance by collateral assets, 86 (28.6%) never paid by their collateral assets, 85 (28.2%) paid more than once and 22 (7.3%) paid only once by their collateral assets.
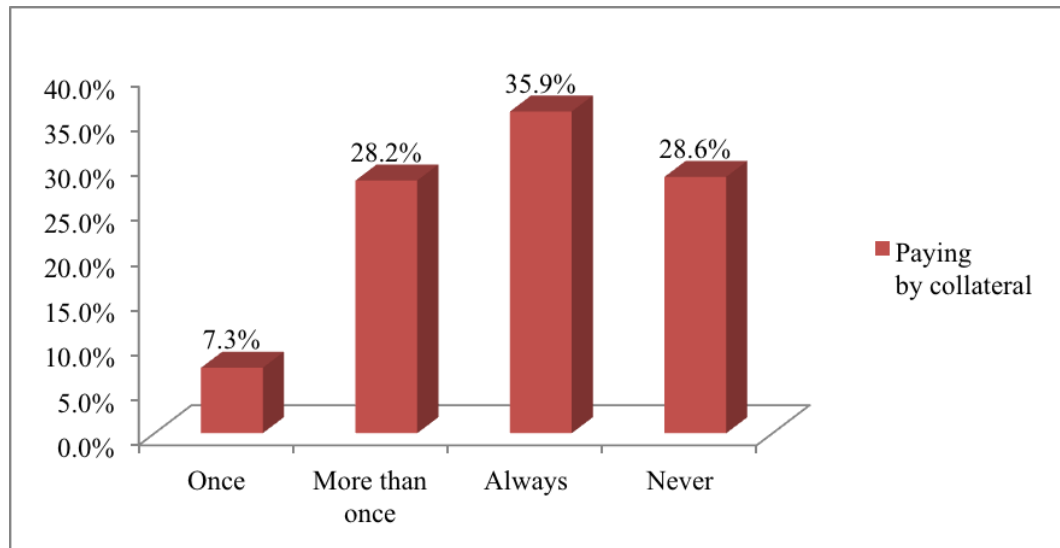
Figure 4.1: Paying Loan Balance by Collateral Assets

4.4.3 Interest Charged

It is revealed from the study findings that out of all 323 respondents 215 (66.6%) agreed that the interest charge for a loan taken is high. Only 22 (6.8%) respondents disagreed that the interest charged is high.

Table 4.6: Interest Charged

Variables	Strongly disagree	Disagree	Neither	Agree	Strongly agree
Interest charged is high	0 (0.0%)	22 (6.8%)	65 (20.1%)	215 (66.6%)	21 (6.5%)

4.5 Utilization Pattern

How the finance is utilized has direct influence on growth of SME's. This area is very critical in ensuring growth of SME's. The findings indicated that out of 323 respondents 194(64.2%) said they utilized the fund/loan exclusively for the purpose of which they were sanctioned and 65(21.5%) they did not.

Table 4.7: Utilization

Variables	Strongly disagree	Disagree	Neither	Agree	Strongly agree
The loan/fund was utilized exclusively for the purpose of which they were sanctioned	0 (0.0%)	65(21.5%)	43 (14.2%)	194(64.2%)	0 (0.0%)

Further analysis was done by using Spearman's rank-order correlation to determine the relationship between SME's growth and utilization pattern. Results revealed a weak positive monotonic correlation between SME's growth and utilization pattern (r_s= 0.366, n=302, p<0.01.

Table 4.8: SME's and Utilization Correlation

			SME's growth	Utilized as sanctioned
Spearman's rho	**Small Medium enterprises growth**	**Correlation Coefficient**	1.000	**0.366****
		Sig. (2-tailed)	.	0.000
		N	323	302
	Utilized as sanctioned	**Correlation Coefficient**	**0.366****	1.000
		Sig. (2-tailed)	0.000	.
		N	302	302
**. Correlation is significant at the 0.01 level (2-tailed).				

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1   Introduction

The main objective of this study was to examine the contribution of microfinance institutions to SMEs growth in Kinondoni District. Particularly the study attempted to examine the accessibility of finance for SMEs growth, the costs associated with accessing financial services to SMEs growth and the utilization patterns of finance accessed by SMEs.

This chapter provides the conclusion and recommendations. Basically, the chapter is divided into three sections. Section 5.1 provides the introduction part, Section 5.2 Provides the main conclusion and Section 5.3 provides the recommendations on how to sustain the growth of SMEs and section 5.4 Areas for further researches.

5.2   Summary of Main Conclusions

After carrying out an analysis of the data collected using various variables, most of the respondents were aged 21-40 (80.2%). Where most of them were females and the level of education was dominated by those who had secondary education. And that most of them got loans from the banks and they have started their business between 2016 to 2018 with their startup capital ranged between 100000 and 999999 Tshs.

From the main findings many of the respondents agreed that Microfinance Institutions contributes to the growth of SMEs. Results have also revealed that out of all 323 respondents 238 (73.7%) had access to loan and 85 (26.3%) had no access. According to the analysis done it was found out that most people have access to financial services thus means they could obtain the loans.

Moreover, despite of obtaining the loans most of the respondents complained that the loans they received were inadequate and that they are faced with difficult conditions when they are requesting for a loan.

Further analysis has revealed that the adequacy amount of loan has some significance in the growth of SME's, also the respondents argued that when seeking loans, they are been asked collateral that is of too much value and that the two did not match. For instance, no correlation between the loan asked and the Value of the Collateral Assets being asked. And that this sometimes leads to paying loan balance by collateral assets.

The findings from the study also revealed that on the interest charged most respondents agreed that the interest charge for a loan taken is high, only 22 (6.8%) respondents disagreed that the interest charged is not high. The analysis also showed that out of 323 respondents 194(64.2%) said they utilized the fund/loan exclusively for the purpose of which they were sanctioned and 65(21.5%) they did not use as intended.

And so to a larger extent it has been seen that most respondents have access to loans whereby these loans contribute to the startup of business or to the extension of ongoing business which leads to the growth of SMEs but despite of this they are faced with challenges when it comes to high loan interests rates and High Collateral value that sometimes they lead for them to pay loan balance with their collateral.

Also, the findings show that SME's face challenges to access international marketing unaware of regulations and standards, lack of financial support from the Government, poor understanding of consumer's needs and services, lack of essential entrepreneurial skills and weak networking structures to penetrate international marketing.

5.3   Recommendations

The study therefore recommends the improvement of information that is available to SME owners and that the government and other partners avail accessibility to financial facilities with reasonable interest rate of return, encourage more advertisements and use of up to date technology for business and international marketing standards through seminars and trainings on entrepreneurship, and networking structures for export and import of goods and services.

The study also recommends that the government supports SME's to ensure that they play their role in helping improve the economy of Tanzania and improve the country's Gross Domestic Product (GDP). The study further recommends that the Microfinance institutions should increase the number of SME owners trained on financial management by employing field agents to sensitize the business owners on the benefits of financial skills and also gather data on small medium enterprises to reduce adverse selection and that Microfinance Institutions provide role models to small and medium enterprises as they can guide them on how to succeed in business.

Furthermore, the credit institutions should implement a flexible loan system that does not keep the SMEs in hard conditions once they fail to repay their installments in time. It has been observed that failure to repay the installment within two periods makes the borrower harassed something that would have required a discussion with the borrower to see the cause of the failure and solve the problem together.

Last but not lease the study would also like to recommend to the Microfinance Institutions to Increase the number of savings accounts held by SMEs as savings was very important to their growth.

5.4   Areas for Further Researches

Further research can be done on other concepts related to the role of MFIs in supporting SMEs such as concentration on SMEs which are run by women or young people only, coverage to other geographical areas are encouraged. Studying facets of SMEs where Microfinance are doing better, for example other studies can be done to

compare how MFIs support, help in SMEs in tourism against SMEs involved in Agriculture.

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APPENDICES

Appendix I: Questionnaire

Introduction

The purpose of this questionnaire is to collect data on **"Contribution of microfinance institutions to the growth of Small Medium Enterprises (SMEs)".** The findings will assist in informing strategies and opportunities for improvement. Please express your opinions honestly. Your responses will remain confidential and anonymous and will only be used for purposes of the research in aggregated forms. Your participation and assistance in completing this study is highly appreciated.

	SOCIO-DEMOGRAPHIC CHARACTERISTICS	
1.	Age ( ) Years	
2.	Gender	i. Male ( ) ii. Female ( )
3.	Highest Level of education	i. No formal education ii. Primary education iii. Secondary education iv. College/university v. Others ( )
4.	Where did you get your initial capital for starting business? Please specify…………………………………………………………………………………… ………………………………………………………………………………… ……………………………..	

5.	Where do you get the money to run your business?	i. Family and friends ii. Microfinance institutions iii. SACCOs iv. Banks v. Donors vi. Money lenders vii. Suppliers viii. Savings clubs ix. Local government x. VICOBA
6.	When did you start business? (Please specify a year).................................	
7.	What forms of business do you do? (Please specify).................................	
8.	How much was your start-up capital?	
ACCESSIBILITY		
9.	Do you have access to loan?	i. Yes ( ) ii. No ( )
10	If yes (9 above) can you tell me the amount of loan received	i. Less than 500,000 ii. Above 500,000
11	Is the amount adequate?	a) Strongly disagree b) Disagree c) Neither d) Agree

		e) Strongly agree
12	Conditions and procedures of obtaining loans are smooth	a) Strongly disagree b) Disagree c) Neither d) Agree e) Strongly agree
	COST ASSOCIATED WITH ACCESS	
13	**Collateral**	
	i. Collateral asked is high	a) Strongly disagree b) Disagree c) Neither d) Agree e) Strongly agree
	ii. How many times did you pay your loan balance by your collateral assets?	a) Once b) More than once c) Always d) Never
14	Interest charged is high	a) Strongly disagree b) Disagree c) Neither d) Agree e) Strongly agree
	UTILIZATION PATTERN	

15	The loan/fund was utilized exclusively for the purpose of which they were sanctioned	a) Strongly disagree b) Disagree c) Neither d) Agree e) Strongly agree
	SMALL MEDIUM ENTERPRISES GROWTH	
16	**MFIs have contributed to improve:**	
i.	Business growth	a) Very low b) Low c) Average d) High e) Very high
ii.	Employment	a) Very low b) Low c) Average d) High e) Very high
iii.	Ownership of assets	a) Very low b) Low c) Average d) High e) Very high
iv.	Purchasing power	a) Very low

		b) Low
		c) Average
		d) High
		e) Very high
v.	Participation in community development	a) Very low
		b) Low
		c) Average
		d) High
		e) Very high

Appendix II: Questionnaire – Swahili version

Utangulizi

Madhumuni ya dodoso hili ni kukusanya data juuya **"Mchango wa taasisi ndogondogo kwa ukuaji wa Biashara ndogona za Kati (SMEs)".** Matokeo yatasaidia katika kuarifumikakatina fursa za uboreshaji. Tafadhali eleza maoni yako kwa uaminifu. Majibu yako yatabaki kuwa ya siri na isiyojulikana na yatatumika tu kwa madhumuni ya utafiti katika fomu zilizojumuishwa. Ushiriki wako na msaada katika kukamilisha utafiti huu unathamini wasana.

	TABIA ZA KIJAMII NA IDADI YA WATU		
1.	Umri ( ) Miaka		
2.	Jinsia	i. ME ( )	
		ii. KE ( )	
3.	Kiwango cha juu cha elimu	i. Elimu isiyorasmi	
		ii. Elimu ya msingi	
		iii. Elimu ya msingi	
		iv. Chuo/Kikuu	
		v. Nyingine ( )	
4.	Ulipata wapi mtaji wako wa kwanza wa kuanzisha biashara yako? Tafadhali fafanua……………………………………………………………………… ……………………………………………………………………… ………………………………..		
5.	Unapata wapi pesa za kuendesha biashara yako?	i. Familia namarafiki	
		ii. Taasisi ndogo za kifedha	
		iii. SACCOs	
		iv. Benki	
		v. Wafadhili	

		vi. Wakopeshaji pesa
		vii. Wasambazaji
		viii. Vikundi (Kibati)
		ix. Serikali ya mtaa
		x. VICOBA
6.	Ulianza lini biashara yako? (Fafanua kwa mwaka).................................	
7.	Ni aina gani ya biashara unafanya? (Fafanua)..................................	
8.	Ulianza na mtaji kiasi gani?	
UPATIKANAJI WA MIKOPO		
9.	Je una uwezo wa kupata mkopo?	i. Ndio ( ) ii. Hapana ( )
10.	Kama ndio (9 juu) unaweza kuniambia ni kiasi gani cha mkopo ulipata	i. Chiniya 500,000 ii. Zaidi ya 500,000
11.	Je kiasi hicho kinatosha?	a) Nakataa kabisa b) Nakataa c) Kati nakati d) Nakubali e) Nakubali sana
12.	Masharti na taratibu za kupata mikopo ni yakawaida	a) Nakataa kabisa b) Nakataa c) Kati nakati d) Nakubali e) Nakubali sana
GHARAMA INAYOHUSIANA NA UPATIKANAJI WA MIKOPO		
13.	**Dhamana**	
	i. Dhamani inayotakiwa huwa ni yajuu	a) Nakataa kabisa b) Nakataa c) Kati nakati d) Nakubali

		e) Nakubali sana
	ii. Ulilipa deni lako la mkopo mara ngapi na malizako za dhamana?	a) Mara moja b) Zaidi ya maramoja c) Mara zote d) Sijawahi
14.	Riba ipo juu	a) Nakataa kabisa b) Nakataa c) Kati nakati d) Nakubali e) Nakubali sana
NAMNA/MUUNDO WA MATUMIZI		
15.	Mkopo / mfuko ulitumiwa peke kwa kusudi ambalo limeidhinishwa	a) Nakataa kabisa b) Nakataa c) Kati nakati d) Nakubali e) Nakubali sana
UKUAJI WA BIASHARA NDOGO NA ZA KATI		
16.	**Taasisi ndogo za kifedha zimesadia kukuza;**	
i.	Kukuza biashara yangu	a) Nakataa kabisa b) Nakataa c) Kati nakati d) Nakubali e) Nakubali sana
ii.	Kuongeza ajira	a) Nakataa kabisa b) Nakataa c) Kati nakati d) Nakubali e) Nakubali sana
iii. i	Umiliki wa mali	a) Nakataa kabisa b) Nakataa c) Kati nakati

		d) Nakubali
		e) Nakubali sana
iv.	Nguvu/uwezo wa kununua	a) Nakataa kabisa
		b) Nakataa
		c) Kati nakati
		d) Nakubali
		e) Nakubali sana
v.	Ushiriki katika maendeleo ya jamii	a) Nakataa kabisa
		b) Nakataa
		c) Kati nakati
		d) Nakubali
		e) Nakubali sana

Appendix III: Research Clarence Letter

THE OPEN UNIVERSITY OF TANZANIA

DIRECTORATE OF POSTGRADUATE STUDIES

Our Ref: **PG201609419/01**
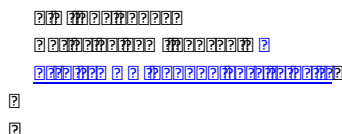
Date:12th November, 2019.

Municipal Director,
Kinondoni Municipal,
P.O. Box 31902,
Dar es Salaam.

RE: RESEARCH CLEARANCE

The Open University of Tanzania was established by an act of Parliament No. 17 of 1992, which became operational on the 1st March 1993 by public notice No. 55 in the official Gazette. The act was however replaced by the Open University of Tanzania charter of 2005, which became operational on 1st January 2007. In line with the later, the Open University mission is to generate and apply knowledge through research.

To facilitate and to simplify research process therefore, the act empowers the Vice Chancellor of the Open University of Tanzania to issue research clearance, on behalf of the Government of Tanzania and Tanzania Commission for Science and Technology, to both its staff and students who are doing research in Tanzania. With this brief background, the purpose of this letter is to introduce to you **Ms. MWAIPOPO, Diana Mpoki** Reg No**: PG201609419** pursuing Master of Arts in Monitoring and Evaluation (**MA (Monitoring & Evaluation**). We here by grant this clearance to conduct a research titled *"To examine the contribution of microfinance institutions to the growth of small medium enterprises (SMEs)." Sh*e will collect her data from 18th November, 2019 to 18th December, 2019.

In case you need any further information, kindly do not hesitate to contact the Deputy Vice Chancellor (Academic) of the Open University of Tanzania, P.O. Box 23409, Dar es Salaam. Tel: 022-2-2668820.We lastly thanks you in advance for your assumed cooperation and facilitation of this research academic activity.

Yours sincerely,

Prof. Hossea Rwegoshora
For: VICE CHANCELLOR
THE OPEN UNIVERSITY OF TANZANIA