

**AN ASSESMENT OF MICROFINANCE INSTITUTIONS
CAPACITY ON IMPROVING SMALL AND MEDIUM SCALED
ENTERPRISES.**

A CASE STUDY OF DAR ES SALAAM REGION

By

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**A dissertation Submitted in Partial Fulfillment of the requirements for the award
of the degree of Masters of Business Administration (Corporate Management) of
Mzumbe University**

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CERTIFICATION

We the undersigned, certify that we have read and hereby recommend for acceptance by Mzumbe University-Dares salaam Business school, a dissertation titled **“The assessment of microfinance institutions capacity on improving small and medium scaled enterprises”** in partial fulfillment of the requirement for award of the degree of Master of Business Administration (Corporate Management).

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DEDICATION

This research is dedicated to my lovely family. May God Almighty be with you always?

ABBREVIATIONS

AIDS	:	Acquired Immune Deficiency Syndrome
BOT	:	Bank of Tanzania
BDS	:	Business Development Service
CGAP	:	Consultative Group to Assist the Poorest
MFI	:	Microfinance Institution
MSME's	:	Micro Small and Medium Enterprises
NGO's	:	Non-Governmental Organization
SME's	:	Small and Medium Enterprises
REPOA	:	Research on Poverty Alleviation
WB	:	World Bank
PASADA	:	Pastoral Activities and Services for people with AIDS Dar es Salaam Archdiocese
SELF	:	Small Enterprise Loans Facility

ABSTRACT

This study aimed to examine the capacity of microfinance institutions towards improving the performance of Small and Medium Enterprises in Dar es Salaam City. In particular it intended to determine the extent to which MSEs have been benefiting from the MFIs services, identify the types of services that MSEs have been receiving from MFIs, examine the pre-requisites to be met by the MSEs in order to get services from the MFIs and lastly it was aimed to examine the MFIs needs towards enhancement of MSEs performance.

The study adopted a mixed method approach in carrying out the study. Data were collected from a range of sources by using different data collection techniques. Primary data were collected through the use of questionnaires whereby the secondary data were collected through documentation review. The data collected from the respondents are presented in chapter four.

The results show that there is huge potential demand for support services which is not adequately met by the existing Micro finance institutions framework. The institutional framework for supporting SMEs was found to be constrained by inadequate financial and human resource capacity as reflected in the stringent conditions imposed on SMEs and strategies adopted to promote service delivery.

The study concludes that microfinance institutions in Dar es Salaam have inadequate capacity that can help to improve the performance of SMEs. Therefore there is a need to strengthen level of awareness about what services are provided by MFIs for better development of Small and Medium Enterprises in Dar es Salaam city.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND OF THE RESEACH PROBLEM

1.1. *Introduction*

The Tanzanian development vision foresees that the year 2025, “Tanzania should have created a strong, diversified resilient and competitive economy, which can effectively cope with the challenges of Development and which can also easy and confidently cope with the changing market and technological condition in the region and global economy” (SME’s Development Policy 2002 P1).

The challenges are therefore to mobilize human and other resources towards the goal. Economic Reform policies Implemented by Tanzania market economy on such that the private sectors will take the lead in creating income, employment and growth. On the other hand micro finance institutions, NGO, government agencies have to provide greater support in terms of financial support and Education support to SMEs.

The private sector has started playing an ever increasing role in creating Income and Employment, thus Small and Medium Enterprises (SME s’) account for a large share of enterprises activeness in Tanzania. There are about 2.7. Million SME’s in Tanzania (SME’s Development Policy, 2002).In fact SMEs forms the base for private sector led-growth.

Despite its potential and resources endowments, Tanzania still is one of the least developed countries (LDCs). The country has not sufficiently exploited its natural resources for the best of raising the welfare and living standard of citizens. The major problem is lack of funds to finance their businesses and entrepreneurial capabilities to enhance their business performance. Access to funds is limited due to lack of information and strict conditions imposed to them by financial institutions.

However, Micro institutions like CRDB Microfinance Services Company Ltd, Akiba Commercial Bank (ACB), FINCA, PASADA and SELF were established to help small business to get funds at lower interest rate and with easier conditions in order to finance their business.

Ruth Putzeys (2002:8), Microfinance is the provision of a broad range of financial services such as deposits (savings), loans, payment service, money transfers and insurance to poor and low- income households and their micro enterprises. Micro finance goes beyond the access to and the distribution of money. It enters into the deeper issue of how money is used, invested and how savings are done. Micro finance is even more than the supply of financial services. It is away to give people access to new opportunities. Together with the ability to increase their income, they receive information and training and learn how to manage their money.

Micro finance therefore also encloses issues as: organizational and operational aspects, leadership development, trust building, small enterprise management, education and information transfer. Empowering the people improves their self-confidence and will make them feel more confident to enter into the economic, social and political life of the society ;European commission, (2000:5) however it is not clearly established whether the micro finance institutions are actually contributing in reducing poverty or they are just over loading the society. Thus the study will grope the capacity of these microfinance institutions on improving SMEs.

Although SME's are Important as to the economy, they are faced with number of problems which have been detrimental to their rapid development, the likely problem range from inadequate financial and technical support, lack entrepreneurship skills, low purchasing power, inability to make good Business judgment and lack of government support.

On the whole it may be argued that it is the micro- finance Institution's responsibility to establish an enabling environment that will result into the growth and development of SME's in the country.

Thus the aim of this study was to assess the capacity of MFIs in Improving the performance of SME's.

1.2. Historical development of Micro finance institutions in Tanzania

In Tanzania the subject of micro finance can be explained by looking on different changes in the economic plan before and after independence. Prior to independence (1950s to 1960s) the major development goals were maximization of economic growth. Capital investment was considered to be factor in shaping economic growth and raising income. Moreover, Tanzania's economic policy since independence can be explained by using the year plan (1961\62-1963-65) and it can be examined from two broad perspectives that are rural development and industrial development, rural and industrial development policies were among some policies emphasized in Arusha Declaration. Since then Tanzania has been implementing the economic recovery programmed and number of reforms have been undertaken in financial sectors.

One of the reforms in the economic sector has been in the financial sector so as to increase efficiency of the financial institutions. Under it, the Act concerned banks and other financial institutions were time-honored in 1991 which marked the beginning of the ongoing financial sector reform in Tanzania. The Act allowed the entry of private banks and other financial institutions and provided better supervisory and regulatory framework for the financial sectors.

Khijjah (2004:5), the presentation on the role of Government in building sustainable rural finance markets show that, the Tanzania Development Vision 2025 outlines the goals of sustainable livelihoods and sustained economic growth. Accordingly, the Government's vision for the development of rural financial markets in the country is

rooted in four policy-strategies, namely; National Microfinance Policy, Rural Development Strategy and Agriculture Sector Development Strategy, and a Cooperative Development Policy. The Government also put in place a credit guarantee facility to encourage agricultural lending.

The National Microfinance Policy and Regulations has defined the financial instruments and institutions for rural finance, and are implemented by the Bank of Tanzania. The Policy articulates the vision and strategy for the development of a sustainable micro finance industry as an integral part of the financial sector, within the general framework of the Government's Financial Sector Reform Policy Statement of 1991.

The Agriculture Sector Development Strategy has three strategic objectives:

- Commercialize smallholder crop and livestock production, increase incomes, reduce poverty and ensure food security.
- Promote medium and large scale crop and livestock farming, accelerating sector growth;
- Empower rural communities by establishing viable farmers' organizations.

With a view to providing an enabling environment and promoting rural finance in the country, the Government has been implanting various financial sector reforms in order to create an effective and efficient financial system. The financial sector reform began in the early 90s included interest rate liberalization, eliminating administrative credit allocation , strengthening the Bank of Tanzania's role in regulating and supervising financial institutions, restructuring state-owned financial institutions, and liberalizing the banking sector to accommodate private banks entry into the market.

1.3. Statement of research problem

Microfinance Institutions (MFI's) have been involved as Economic development organization intended to benefit low- Income Earners/ household (Khandker, 1998). The

Impact of Micro- finance services continues to prove appreciated pace for poverty alleviation to the disadvantaged segment of Tanzanians urban population through increased level of savings of the urban low income groups.

Low income earners are vulnerable to socio- economic problem such as poverty, unemployment low returns from existing business and lack of motivation in undertaking new business. Micro finance Institution emerged to serve the financial needs of unsaved group of people in the community as to meet development objectives (Chijoriga and Cassimon 1997)

On the other hand provisions of micro finance Institutional services are of beneficial to SME's economically and socially to overall sustainable livelihood strategy (Lee 1998: Sullivan 1996).

Despite of the above evidence on the Importance of need of micro finance services to SME's little or limited efforts and Investment have been committed by MIFs to enable SMEs have access to such micro finance services. The existing micro finance Institution has failed to capture the growing need of the SME's. The borrowers blame MFIs for their failure to capture the pressing needs of small business. These resulted to alarming rate of small business failure in achievement of their target goals.

This study therefore assesses the capacity of MFI's in improving the performance of SME's. It examined the modes of services provided, terms/ conditions for services and the Education provided to enhance the performance of their customers (SMEs).

1.4. Research objectives

General objective

The main objective of this study was to assess the capacity of micro finance Institution in improving performance of SME's in Tanzania.

Specific objectives

- (i) To determine the extent to which SMEs have benefited from microfinance institution.
- (ii) To examine whether SMEs attain training or consultancy and Advisory service from MFIs.
- (iii) To assess conditions that have to be met by SME's to access microfinance services.
- (iv) To assess the needs of MFIs in enhancing their capacity to promote SMEs

1.5. Research questions

- i. How have SMEs benefited from MFIs services
- ii. Does SMEs attain any training or consultancy and Advisory services from MFIs?
- iii. What are the conditions that have to be met by SMEs to access MFIs services?
- iv. What are the needs of MFIs in enhancing their capacity to promote SMEs?

1.6. Scope of the study

The research covered the three municipals of Dar es Salaam region, which are Ilala, Temeke and Kinondoni on the Capacity of Micro Finance Institution in improving their Business performance in terms of Income generation and Business expansion. The SME's in Dar es Salaam were the researcher's source of data.

1.7. Significance of the study

This study is important in many ways as it examined the capacity of micro finance Institution in providing financial and non-financial services for better performance of small and medium entrepreneurs in Tanzania especially in Dar es Salaam region. And therefore the study was necessary and important to:

i. The Researcher

- The study is important to the scholars as it would help them to relate theoretical aspects studied in class and turned into real life.
- This study is meaningful and logical to the scholar as it helps them to grasp some facts that were not clearly covered in class, hence understanding and curiosity improvement.

ii. To policy makers

This study is important to policy makers as policy makers would need to rely on viable and right information on their decision making process. When assessing the capacity of MFIs in improving the performance of SME's different Question shall be answered through this study especially on what shall be done.

iii. To Academicians and other researchers

The findings of this study serve as a base for further investigation in this area.

iv. Entrepreneurs and public at large

The study makes Entrepreneurs (SMEs) and public at large more aware of MFIs services and means to access financial and non- financial support from them.

v. To micro finance Institution (MFIs)

As long as many Micro finance Institution are dealing with financing the SMEs Business, this study help them to know which specific areas they need to strengthen their efforts in order to help SMEs achieve their objectives through proper and /or adequate financing of their operation.

1.8 Conclusion

This chapter has covered the general background of the problem, objectives and importance of the research to be studied as well as the scope of the study. The chapter has also discussed the research problem and research questions.

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

The aim of this chapter is to show what different authors and other researchers have written about the study. In this chapter the researcher will relate what has been said by other people in regard to the study. This literature will be grouped into theoretical issues and concepts on Microfinance institutions and SMEs; those which try to link Microfinance institutions and SMEs; and empirical studies.

2.1. Theoretical Literature Review

2.1.1. Microfinance

According to Consultative Group to assist the poorest (CGAP),” microfinance is the supply of loans, savings and other basic financial services to low income clients including self-employed. Also microfinance can be referred as provision of financial services to household, small holder’s farmers and small, micro and medium enterprises of rural and urban areas.

As the financial services of microfinance usually involves small amount of money, small loans, small saving etc, the term “microfinance” helps to differentiate these services from those which formal Banks provide.

2.1.2. Microfinance institution.

Microfinance Institution (MFI) are organization that provides microfinance services ranging from small non- profit organization, small profit oriented organization to large commercial Banks.

Microfinance is the provision of broad range of financial services such as deposits, loans, payment services, money transfer and Insurance to poor and low Income earner's particularly households and SMEs. BOT (2005) MFIs does not only covers financial services but also non- financial assistance such as training and Business advisory.

This principle provider for financial services to poor and low income earners in rural and urban Tanzania consist of Licensed commercial Banks, Regional and rural unit Bank; savings and credit cooperative societies and NGO'S whose micro- credit delivery operation are funded and supported with technical Assistance by International donors.

MFIs can be generally defined as any organization, credit unit, down scaled commercial bank, financial NGO or credit cooperative that provides financial services to the poor". Mukherjee, J 1998.

"The world Bank estimates that there are now over 7000 Microfinance Institutions Serving some 16 million poor people in developing countries. The total turnover of MFIs world – wide is estimated at US \$ 2.5 billion and the potential for new growth is outstanding" Data snapshots on microfinance- The virtual library on micro- credits.

2.1.3. Microfinance institutional capacities

Masten (1999) defined capacity as the process by which individuals, groups, organizations, and institutions develop their abilities, individually and collectively, to perform functions, solve problems and achieve objectives. Important elements of an organizations capacity include financial management, information systems, human resources, facilities and equipment, and monitoring and evaluation systems. The framework differentiates between demand and supply factors that influence the

effectiveness of Microfinance institutions. The first question the study answers is whether the SMEs are benefited from service delivered by the existing Microfinance institutions. The second question relates to the services, the conditions, and the capacity of the Microfinance institutions to meet the expectations of the SMEs.

2.1.4. Need for MFI services in Tanzania

For the majority of Tanzanians whose Income are very low and they have less access to financial services, MFI's offers the possibility of managing source of household and SMEs Resources more efficiently, protecting against risk provision for future and taking advantage of investment opportunity for Economic returns. For household financial services allows higher standard of living to be achieved with the same resource base, while for SMEs and farmers financial services can facilitate the pursuit of Income growth and hence Business expansion (National Micro finance policy (2000)).

Tolentino (2005) indicates Microfinance institutions that facilitate starting a business and makes its operations efficient and effective are important in enterprise development, particularly for SMEs. There are size-related constraints that affect SMEs access to markets, and inputs that make Microfinance institutions particularly important to their creation, survival and growth. Microfinance institutions provide access to finance for long-term investment in capital goods, and short-term financing for the purchase of raw materials, or other items of working capital are essential for enterprise creation and development. Literature shows that the availability of assistance in the selection and acquisition of technology is a valuable service when investment decisions have to be made when starting a business, or in the case of business upgrading and growth. Management development and productivity upgrading institutions are essential to the continued viability and growth of enterprises.

2.1.5. Small and Medium Enterprises (SMEs)

Entrepreneurship is often associated with starting and running a Business. However, the broader meaning of Entrepreneurship is the capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. It is a way of thinking, reasoning and acting that result in the creation, enhancement, realization and renewal of value for individual group, organization and society. At the heart of this process is the creation and recognition of opportunities followed by the will and initiative to seize this opportunities. The behavior associating with Entrepreneurships are need for achievement, calculated risk, taking initiative, growth seeking, a strong drive and determination, networking, opportunism etc. Taking this broader view in mind, not all Business stand ups constitute Entrepreneurship because not all founders display these behaviors.

Entrepreneurship capacity is one of the key determinants of the success in business. Highly proactive, ambitious, confident, hardworking and networking individuals who are willing and able to take reasonable risk can get out of any of the common barriers to start up and success in business.

These are the ones who are able to and actually establish and build formal, growing enterprises under existing restrictive environments. However these tend to be minority in the population. A majority of the population tend to have average or below average Entrepreneurial capabilities. The more enabling environment, the more of these latent entrepreneurial capabilities are unleashed (**Olomi 2007**).

The people with entrepreneurial traits when enters the Business environment are categorized into various groups such as micro, small, medium and large Entrepreneurs depending on the size of the Business they operate or manage.

In Tanzania the term SMEs is used when addressing micro, small and medium enterprises (MSMEs)

The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SMEs depending on their level of development. The commonly used measures are total number of employees, total Investment and sale turnover. In the context of Tanzania micro enterprises is engaging up to (4) people in most cases family members or employing capital amounting up to TSHS 5,000,000. The majority of micro enterprises fall under informal sectors.

Small enterprises are mostly formalized undertaking engaging between five (5) and forty nine (49) employees with capital Investment from TSHS 5,000,000 to TSHS. 200,000,000. Medium enterprises employees between fifty (50) and ninety nine (99) employees or use capital Investment from TSHS. 200 million to TSHS.800 million. This is illustrated in the table No. 1 Below.

CATEGORY	EMPLOYEES	CAPITAL INV.IN MACHINEY TSH.
Micro	1-4	Up to 5.0. million
Small	5- 49	5.0 million to 200 million
Medium	50- 99	200 million to 800 million
Large	100 and above	Above 800 million

Table 1: SMEs Categories

Source: (SMEs policy of Tanzania 2003)

2.1.6. The Link between Micro Finance Institutions and SMEs development

There is an overall acknowledgement in the literature that implies Microfinance institutions matter and has a direct impact on ways that they can influence growth. **Adebiyi et al. (2004)** reports that besides an observed direct impact, Microfinance institutions have an indirect impact on growth and economic development through their role in stimulating an increase in investment, a better management of ethnic diversity and conflicts, better policies and an increase in the social capital stock of a community.

Literature shows that promotion of SMEs, as a way of combating poverty, has gradually emerged as a topic in development policy research probably due to the central role

played by small businesses in poverty alleviation. Literature on SMEs shows that considerable differences exist over what constitutes a micro and small business. This results in the terminology being used with different meanings and also depends on the economic context of a country under consideration and frame of reference of the person concerned. There is no precise definition of what constitutes a small business, as the micro and small businesses sector is more heterogeneous and complex than many definitional frameworks allow. Many previous studies have used the number of persons working in the businesses as criteria to determine the size of businesses.

Literature on SMEs shows that the promotion of SMEs is one of the policy strategies for achieving national development goals such as poverty alleviation, economic growth, increasing people's participation in economic activities, employment creation and income generation. It also includes strengthening the industrial base and a number of other socio-economic objectives.

Tolentino (2005) reports that the potential socio-economic benefits of SMEs are attributed to their capacity to achieve the following: create jobs at low investment cost, contribute significantly to the economy by increasing output of goods and services and improve linkages between economically, socially, and geographically diverse sectors. This will also create opportunities for developing and adapting appropriate technology, provide an excellent breeding ground for entrepreneurial and managerial talent, develop a pool of skilled and semi-skilled workers, act as ancillaries to large-scale enterprises, adapt to market fluctuations and fill market niches which are not profitable for larger enterprises. This in turn will help SMEs lend themselves to development policies favoring decentralization and rural development and help alleviate the negative consequences of structural adjustment program.

2.1.7. Constraints of SME's Development in Tanzania.

The institutional framework within which firms, in this case SMEs, interact with government, NGOs and other service providers, and each other, can have a profound

influence on a firm's economic performance. **Mnenwa and Maliti (2005)** report that education, motivation, sources of initial capital and technology are some of the socio-economic factors that have a positive influence on profit margins and employment creation. The potential and ability of small businesses to contribute to poverty reduction, objectives are largely vested in the capacity of the Microfinance institutions to provide the needed education, incentives and capital. In a relatively poor country like Tanzania, the cost of staying competitive can be enormous. **Wangwe (1999)** points out that the development of SMEs is constrained by economics, poor infrastructure, poor technology, inadequate finance, and an unfavorable legal framework, the impact of HIV/AIDS and inadequate market and social linkages. Metcalfe (1994) and Lall (2001) indicate that in the technological issues are two broad rationales which are usually advanced for supporting small firm activities through the traditional technology policy methods. The first is the perceived as the market failure in the labor and technology markets, and the second is the incidence of weak or absence of markets and institutions in developing countries. As most analysts agree, there is a pervasive market failure in developing countries, while widespread institutional in articulation exerts far greater impact on small, rather than large, producers.

Oyelaran-Oyeyinka (2004) indicates that Microfinance institutional weaknesses raise transaction costs, thereby constraining firms from taking the advantage of market opportunities, while market failures limit access to markets and innovation possibilities. Furthermore, the professor indicated that while SMEs development remains central to the economic health of African countries, they lack the economies of scale advantage and the capabilities that are often internalized by large firms.

The exposure of African industry to international competition from the 1980s onward further revealed the structural fragility of the region's industrial system. The policy response to the internal resource scarcity of SMEs and competitive pressures had been for the public and private sectors to attempt to develop institutions and services to promote production within small firms.

Various arguments have been presented about the types of support that should be used to develop the SMEs sector. Two basic arguments have emerged i) market forces and; ii) an intervention approach. **Cook (2000)** indicated that the first argument is based on the position to rely principally on market forces. Underlying this approach is the notion that previous policies pursued in developing countries have led to a bias in favor of the development of larger-scale enterprises. Much of the support that was developed for small-scale industry was of a direct kind and at the micro level (**Schmitz and Musyck, 1994**) involving forms of managerial and technical support through training, credit provisions and a range of site and service facilities.

Later this was replaced by structural adjustment policies aimed directly at removing the so-called market distortions to create a level playing field in which enterprises of all sizes will have equal access to resources. It was argued that a market-based approach would reduce the scope for arbitrary decision-making and lessen the opportunity for privileged access to resources through bribery and patronage.

The second approach has been associated with the structuralism school of thought: this argues pro-actively for the continuance of forms of intervention to assist small enterprise development.

The general difference between the two approaches is not in questioning the importance of the appropriate macro environment for small-scale development, but in the nature of the types of changes that are required to bring about improvements. The infant industry argument underlies the second approach and envisages forms of intervention that are unacceptable to the first. The consensus in the structuralist approach retains the need to improve the overall policy environment for small-scale industry and, in particular, to remove the bias toward large-scale industry.

Efforts to support small businesses in developing countries are not new. However, both the reasons and the type of support have changed over time. Cook, (2000) indicates that earlier support mechanisms centered on direct assistance programmes are usually

initiated by state or parastatal agencies. However, most of the earlier attempts to shape their institutional environments for small scale enterprises were largely divorced from general industrialization policies laid down in development plans. In recent decades a more complex picture of the extent, range and underlying rationale for support mechanisms has emerged. Apart from ongoing support to small enterprises, set in place to mitigate the constraining operational environment that has historically developed, those designed to cushion any adverse effects, or conversely, to reap the benefits of adjustment measures, a newer focus for support is currently being emphasized. Evidence is emerging of a trend towards the development of a multi-layered network of support ranging from government policies to micro-interventions by non-governmental organizations. Significant market segmentation in underdeveloped countries gives certain categories of enterprises greater access to funds. For instance, large firms are more likely, than small firms, to obtain loans. In Africa, micro-enterprises are an integral part of the industrial system, yet they do not count in official statistics, and as such they rank low in priority for state support. Resources for innovative research and development (R & D) and training are not easy to obtain. Capital market and skills market failures, which are more pronounced in poor countries has led governments of such countries to formulate policies to selectively channel funds to smaller enterprises. SMEs in Africa rely largely on their own savings, not only to grow but also to innovate.

These firms often need real services support and formal financial assistance, short of which, under-investment in long term capabilities may result. Besides finance, there are critical elements lacking within the technology support institutions themselves. These undermine the effectiveness of their support to SMEs, and include: knowledge, skills and experience of staff; capacity and quality of internal facilities; information and knowledge of market; intellectual and managerial leadership; external infrastructure and the incentive system.

Tolentino (2005) indicates that the concern about the need for policy, and direct interventions arises when the intensity of the process of enterprise creation and

development falls short of expectations, or does not contribute sufficiently to the achievement of particular development objectives. For example, when investments are not being made in the ‘right’ economic sectors or geographic areas, or when the enterprises being created and developed are not bringing about the desired level of economic participation by a particular target group. When this type of situation arises, specific interventions are called for at project, programme and policy levels to promote and stimulate the process of enterprise creation and development.

2.2 Empirical Literature Review.

The researcher has managed to get some data based on various findings, publications and unpublished sources of research work. Empirical work on MFIs and SMEs has shown that microfinance Institution are Important for business growth in general and the development of SMEs in particular. These studies have a significant contribution on these research findings.

2.2.1 SME Sector in Tanzania

There is a shortage of comprehensive data on the state of the SME sector in Tanzania. Most reports on the sector rely on data from the 1991 National Informal Sector

Survey (NISS), which is outdated. Although other studies have been done (the 1992 Rural Informal Sector Survey (RISS), the 1995 [Dar es Salaam](#) Informal Sector Survey) the NISS (1991) remains the only nationwide study of the informal sector. The current number of enterprises by size, sector, geographical location, age and sex of owner remains unknown.

The 1991 NISS survey reported a total of 1,801,543 [informal sector](#) enterprises employing 2,369,380 people (an average of 1.3 persons per enterprise). Sixty per cent of the enterprises were located in [rural areas](#) and 40 per cent in urban areas. Informal sector

employment amounted to about 22 per cent of the total [labor](#) force, 15 per cent in the rural areas and 56 per cent in the urban areas. About 74 per cent of people employed in the sector were sole operators. Women made up about 36 per cent of the sector. Over 75 percent of female employment in the sector was in the trade/restaurant/hotel category. According to **Mlingi (2000)** “recent estimates indicate the number of establishments and the number of employees in the sector has been growing at a rate of 10 per cent a year since 1991” (p. 70), mostly taking place in urban areas. Evidence was cited from **Wangwe (1999)** that most of the growth is accounted for by an increasing number of female operators in the informal sector. Mjema (1998) estimated that the [proportion](#) of males in the informal sector declined from 64 per cent in 1991 to 30 per cent in 1995, implying that the percentage of [women](#) operators in the sector increased from 36 percent in 1991 to 70 percent by 1995.

The latest survey of SMEs in [Tanzania](#) was carried out by [Swiss contact](#) in May 2003. They conducted a survey of 4,050 [households](#) in the Uruhu Corridor, which includes five regions of the country. The number of households in these regions totals about 2 million and represents about a third of the country’s population. The purpose of the survey was to estimate the number of micro and small enterprises (MSE) and micro and small farms (MSFs), and to explore their challenges and use of financial and nonfinancial business services. Fifty-seven per cent of the households had a member who was operating an MSE or an MSF

The study by **Mosley (2001)** on his study an assessment of the impact of Microfinance Institutions in poverty alleviation”. The study was conducted in Bolivia where he survey a sample four MFI, two urban and two rural, using a range of poverty concepts such as income, asset holdings and diversity, and various measures of vulnerability.

All the institutions studied had on balance, positive impacts on income and asset levels, with income impacts correlating negatively with income on account of poor households choosing to invest in low-risk and low-return assets. This study revealed also that in com-

parison with other ant-poverty measures, microfinance appears to be successful and relatively cheap at reducing the poverty of those close to the poverty line. However this was also revealed to be ineffective, by comparison with labor-market and infrastructural measures, in reducing extreme poverty. The study further proposed actions that appear to be promising for the further reduction of poverty in Bolivia which can also be countries.

These actions include stronger efforts to mobiles rural savings, removal of lower limits on loan size, and the introduction of appropriate insurance mechanisms.

Despite this contribution, the study by Mosley has some weaknesses. The first problem is on the sample size which was only four microfinance institutions, this sample size might not be adequate for the generalizations made above. Also the poverty concepts considered excluded the number of employees, this is very important to measure, as it indicates whether the microfinance institution has created capacity to employ more people or not. It also fails to consider capacity building in terms of training to small business holders as this is very important measure for business performance or failure.

Hassan and Rentera-Guerrero made another empirical contribution on this area. In their work *“The experience of the Grameen Bank (GB) of Bangladesh in community development”*, they examined the GB experience with a purpose of understanding the essential elements of its operations and the factors that enabled GB to reach the poor. This study revealed that the GB has established its credentials as an institution that aims at providing credit to the landless and asset less poor in rural areas. GB credit gives the recipients the power of entitlement to society’s productive goods and services with immediate effect, unlike most of the other programs for the poor that tend to create the unintended negative effect of dependency on the service providers. However, it was observed that the credit by itself is an insufficient factor to improve poverty conditions, and thus the GB devotes a substantial amount of resources to the improvement of the social wellbeing of its members.

The GB uses an unambiguous eligibility criterion which ensures that only the poor or very poor can participate. It motivates their clients to organize themselves into groups of five like-minded members. Each group elects one group leader among themselves. Every six groups form a “Centre” which serves as the basic operating unit of the GB. It is at the center that weekly meetings are conducted to openly discuss loan applications proposals and to accept weekly repayments and compulsory savings deposits. While the loans are made to individual members, the group as a whole is expected to be responsible for the regular repayments of the loans of all their members. This form of grassroots organization not only promotes solidarity and participation among the members, at the group and centre levels, but also promotes mutual support and peer pressure to ensure that the loans are properly utilized and repayments made promptly.

In concluding their work, Hassan and Rentera-Guerrero assert that the GB’s approach seems to be an effective tool for rural poverty reduction despite minor criticism that has never given alternative solution for poverty alleviation. The program supplies credit to improve the physical productive capacities of the poor and in addition, it provides the disadvantaged with human development inputs to improve their overall productive and living standards. The success of the GB is not free from the influence of external factors. To be effective and sustainable, a credit delivery system also needs a supportive national policy framework for it to remain autonomous and free from political influence. Despite the fact that this work was just an experience and not a research work, we acclaim its contribution in the area of microfinance practices.

Another significant contribution on this study, was study done by **Mnenwa and Maliti (2005)** on their work ‘ The role of small businesses in poverty alleviation’ The study was conducted in Dar es salaam and revealed that microfinance institution are important for business growth and development of SME’s in particular. The study also shows that small business contributes to poverty alleviation through income generation in form of profits to Entrepreneurs, salary to workers and job creation.

According to them, there is strong correlation between firm size and potential to increase income and employment creation and that business performance in terms of profit generation and employment creation is positively related to the size of the firm, suggesting that strategies which improve vertical integrations are more favorable than those favoring horizontal growth.

Despite the fact that work has significant contribution, it has some weakness. The first problem is that the study was conducted in Dar es Salaam city where there is high population that acts as a market, well established infrastructure and access to imported goods with less cost in comparison to other part of the country. Therefore generalization of the findings to entire country is inadequate.

Empirical works have also shown that many Institutions (MFIs) are inadequate in supporting SMEs. The study such as one by Wange 1999, Lund et al 2005 and Kiyunu 2002, Kilindi et al (2006) Investigated the role of Institution in promoting MSME's, and found that the Institutional frame work for Improving MSMEs is poorly coordinated.

2.2.1 Micro financing SMEs in Tanzania

It is a common understanding that SMEs in Tanzania are being, to some extent, excluded from the targeted clientele of both the formal and semi-formal sectors (e.g. Ahmed, 1999; Meagher, 1998). However, this is not a unique phenomenon particular to Tanzania. A large survey in 80 countries by **Schiffer and Weder (2001)** revealed that financing is the foremost obstacle for SMEs growth followed by taxes, regulation and inflation. Various factors are considered to be the hindrance for SMEs to be financed. They include lack of access to banking services due to unavailability of identity document, birth certificates, proof of residence, education and distance and lack of transport infrastructure. Also there is lack of access to credit due to lack of collateral, education and lack of transaction history. Among the factors the major one is the lack of innovation by bankers and regulators.

Most SME ventures in Tanzania depend on personal savings, family or other informal credit sources. A few of the more established MFIs (Microfinance Institutions e.g SACCOS) are scaling up to tap this market. The main microfinance institutions can be categorized as non-governmental organizations (NGOs), Cooperative based institutions namely SACCOS and SACCAs while the third category is banks. The major players in the NGOs category include PRIDE Tanzania, FINCA (Tanzania), Small Enterprise Development Agency (SEDA) and Presidential Trust for Self-Reliance (PTF). Others, which are relatively smaller in size, include Small Industries Development Organization (SIDO), YOSEFO, SELFINA, Tanzania Gatsby Trust, Poverty Africa and the Zanzibar based Women Development Trust Fund and Mfuko. There rest consists of very tiny programmes scattered throughout the country mainly in the form of community based organizations (CBOs). Banks that are actively involved in microfinance services delivery include the National Microfinance Bank (NMB), CRDB bank, Akiba Commercial Bank (ACB) and a few Community/regional banks namely, Dar es Salaam Community Bank, Mwanga Community Bank, Mufindi Community bank, Kilimanjaro Cooperative Bank, Mbinga Community Bank and Kagera Cooperative Ban

It is estimated that all the MFIs in Tanzania put together serve a combined client population of about 400,000 SMEs, which is only around 5% of the total estimated demand. Commercial banks including community banks account for around 50,000 while the NGO category accounts for the an estimated population of 220,000 clients. PRIDE Tanzania being the largest single player accounts for about 29% of the market share in this category or 16% of the existing total market share.

2.2.2 ROLE OF SMEs

Small and Medium Enterprises (SMEs) are very significant to the growth of any nation. It is no wonder that developed countries enjoying a flourishing and growing economy attributes most of their achievement to a booming SMEs sector.

In the developed economies small businesses are recognized as the main engines for growth and development and make significant contributions to prosperity.

SMEs are a nursery for the larger firms of the future - more and more large firms started as SMEs before they grew large. It is therefore with this regard that SMEs are the next and important step up for expanding micro enterprises; they contribute directly and often significantly to aggregate savings and investment for any nation, and they are involved in the development of appropriate technology also. With increasing competition within the SMEs new solutions will be brought forth across different sectors.

It is a fact of life, at any level of a country's development, that some needed activities involve few or no economies of scale while others involve considerable higher economies of some sort. The size of this distribution is greatly influenced by SMEs. That distribution can also be influenced by international trade.

It can be facilitated when large firms, subcontract majority of their work or part of that process to smaller more labor intensive SMEs. It can also be facilitated by the phenomenon referred to as "clusters" in which small firms collaborate together to handle those aspects of the business that are indeed characterized by economies of scale. By getting together the SMEs can achieve massive solution while on the same time contributing aggressively in the national affairs.

The ideal setting within which SMEs can play their positive contribution to the maximum in the economy includes taking cognizance of the foresaid structures. In a country like Namibia with large informal or micro enterprise sectors, SMEs should constitute the middle of the size range, a fact that explains much of their strategic importance. In terms of organizational structure, SMEs are, on average, considerably more complicated, involving largely the self-employed and people employed in other larger companies.

SMEs have an inclination to employ more labor-intensive production processes than large enterprises. Consequently, they contribute significantly to the provision of productive employment opportunities, the generation of income and, eventually, the reduction of poverty. SMEs can become a major contributor to private sector employment. SMEs play significant contribution in the transition of agriculture-led economies to industrial ones furnishing plain opportunities for processing activities which can generate sustainable source of revenue and enhance the development process. SMEs shore up the expansion of systemic productive capability. They help to absorb productive resources at all levels of the economy and add to the formation of flexible systems in which small and large firms are interlinked.

Such linkages are very crucial for the attraction of foreign direct investment (FDI). Investing larger corporations look for sound domestic suppliers for their supply chains. SMEs are the major growing force behind the fastest growing economy of China, in terms of contribution to the national GDP (accounting for 40%), scale of assets, diversification of products, and the creation of employment. Similarly, the role of SMEs is well acknowledged in other countries such as Japan, Korea, and all other industrialized economies in terms of creating employment, reducing poverty and increasing the welfare economic

2.2.3 SMEs GROWTH OPPORTUNITY

SMEs at their early stages of activity are subject to bankruptcy risks. Survival rates of SMEs are not high particularly after the first year. So, it is essential for SMEs to obtain sufficient financing at their early stages of growth. SMEs, often lacking their own funds, have to resort to borrowing. So, for long-term growth they have to rely on the banking sector to obtain funds for investment purposes as reasonable costs.

A sufficiently well-functioning infrastructure in terms of providing services such as policing, power is another factor that contributes to SME growth. SMEs cannot be expected to provide basic services privately unlike large enterprises because it would be

too expensive. Political stability is essential for entrepreneurs to commit their funds as well as their human capital into their businesses. SMEs expect stability for future development for their investments are highly illiquid with a very shallow secondary market. High crime rates in a country SMEs would increase the cost of protection and discourage SMEs from expanding further eventually leading to their demise. So, good public safety enforcement provides a safe environment for SMEs to establish and grow.

Taxes while not a major factor can deter SMEs from growth and encourage them to operate in the unregistered economy. In particular, transaction taxes and high tax rates and accounting requirements can discourage SMEs to grow

3.3 Conclusion

This chapter has looked at various literatures relating to the influence of microfinance institutions capacity on the performance improvement of small and medium enterprises. Definitions of key research terms used have been succinctly elaborated. Furthermore the chapter has looked at both theoretical and empirical literature review. The intentions of all discussions were aimed at laying down the information gap to justify the current study.

CHAPTER THREE

RESEARCH METHODOLOGY

3. Introduction

This chapter presents the research methodology and procedures that have been used in conducting the study. According to **Kothari (1990)**, a research methodology is defined as a way of systematically solving the research problem. On the other hand **Burns and Burch (1995)** provide that, a research methodology describes how the particular research was conducted and details the methods that were used to achieve the research objectives. In a nut shell therefore we can say that a research methodology sets out the procedures to be used in conducting the study while delineating the logic behind each method, with an aim of providing essential information that a reader needs to understand how data was collected and analysed.

3.1. Research design

A research design is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It is also a detailed outline of how an investigation was conducted. It typically takes into account how data were collected, shows what instruments were employed, and how the instruments were used and the means which were used in analysing the data collected. It is a framework that sets the action for the research project.

The objectives of the study determined during the early stages of the research were included in the design to ensure that the information collected was appropriate for solving the problem. A good design provides steps that are adopted by the researcher in his/ her research problem along with the logic behind the methods used in each step when conducting the research in the field.

This study adopted a descriptive research design because of the nature of the study where the researcher had no control over what is happening on the ground. The research was about looking at the capacity of microfinance institutions' capacity in improving the performance of small and medium enterprises; therefore it required the researcher to look at what is the current status of their capacity and from that suggesting what can be done.

The researcher was concerned with the study where the data was collected through primary and secondary data. Simple random sampling was used whereby SMEs from Dar es Salaam who get services from MFIs and staffs from microfinance institutions were used to search out primary data.

3.2. Sampling procedure

Sampling procedure refers to the process of selecting representative cases to be studied. In establishing the capacity of microfinance institutions influence on the performance of the small and medium enterprises, a simple random sampling was used. This was opted because of its power of giving equal chance of all respondents to be included in the study and especially when you have a large population. The drawn sample constituted respondents from different areas of the three municipalities of Dar es Salaam who have been taking loans for their business operation from CRDB Microfinance Services Company Ltd, Akiba Commercial Bank (ACB), FINCA, PASADA and SELF.

3.3. Sample size

A sample size refers to the number of items/cases to be selected from the universe for research purpose Kothari (2004). The current study used a sample of eighty (80) SMEs of different businesses who obtain services from CRDB Microfinance Services Company Ltd, Akiba Commercial Bank (ACB), FINCA, PASADA and SELF as an optimum one that will fulfil the requirement of efficiency, representative and reliability. Since the sample was randomly collected it was assumed that it will constitute all the characteristic of the whole population.

3.4. Methods of Data collection

To make the study a reality both primary and secondary data were collected using questionnaires and documentary reviews. The questionnaires were used to obtain the primary data where by the documentary reviews were used to obtain the secondary data.

- (a) Primary data; these are data collected afresh and for the first time and thus happen to be original in characters. The primary data for this study were obtained from SMEs owners in Dar es Salaam. To obtain this data the researcher employed questionnaires.
- (b) Secondary data, these are data which have already been collected by someone else and which have already been passed through statistical process. In this study secondary data were collected from Internet, newspapers and Journals.

3.5. Data processing

The information and data were collected through Questionnaires. However, they were processed by the researcher through editing; all questionnaires were checked if there were filled properly. The data were edited for accuracy and completeness, coded, classified, tabulated and summarized them in compact for easy interpretation and for further analysis.

3.6. Reliability and Validity

Reliability

Basically reliability entails the degree of consistency that the instrument or procedure demonstrates to make sure that whatever it is demonstrating is consistent. To make sure that reliability of the study is abided, the researcher used the methods that have been well tested by other researchers doing similar studies. Further to that, before the instruments were passed to respondents they were first piloted to make sure they provided the expected responses

Validity

Validity in research refers to the degree to which it measures what it is supposed to measure. This is not the same as reliability, which is the extent to which a measurement gives results that are consistent. Within validity, the measurement does not always have to be similar, as it does in reliability. When a measure is both valid and reliable, the study is considered good.

3.7. Ethical Issues

Before going to collect data for this study, the researcher obtained permission from the university, regional and district administrative offices. Furthermore, for the sake of making sure that respondents feel free to contribute, no respondent was asked to provide their names when filling questionnaires.

1.8

2.8

3.8 Data analysis

The collected data was descriptively analysed using simple statistical analyses for the sake of making them informative, and then the researcher verified and compiled them. The results were then presented in form of tables and figures.

3.9 Conclusion

This chapter covered the methodology, the researcher used in carrying out the study. It constitutes the research design used, the population, sampling procedure and sample size, it has also addressed the data collection techniques as well as the data types. It further exposes the data processing as well as the issues of reliability and validity of the study. The chapter ends by looking at the ethical issues addressed by the study and how the data were analysed.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4. Introduction

This chapter presents and analyses the data that were collected using questionnaires and document reviews. While the main themes were deductively determined basing on the research objectives which are: - to determine the extent to which MSEs have benefited from microfinance institutions, to examine whether SMEs obtain training/consultancy and advisory services from MFIs, to assess the conditions that have to be met by SMEs in order to access their services and to explore the needs of MFIs in enhancing their capacity in order to promote the MFIs performance. The sub-themes were determined inductively according to emerging issues.

4.1. Demographic characteristics of Respondents

4.1.1. Gender

Researcher aimed to determine the group/gender in a society that have entrepreneurial altitude and needs stronger support from Microfinance institutions for their business developments. The results of the finding are in the table and figure below;

Gender	Frequency	Percentage
Male	48	60%
Female	32	40%
Total	80	100%

Table 2: Gender

Source: research data, (2014)

Table 1 above shows a total of 80 entrepreneurs who were surveyed during data collection process. The figure shows that 40% (32) of respondents who obtains services from microfinance institutions were females and 60% (48) of total respondents were males.

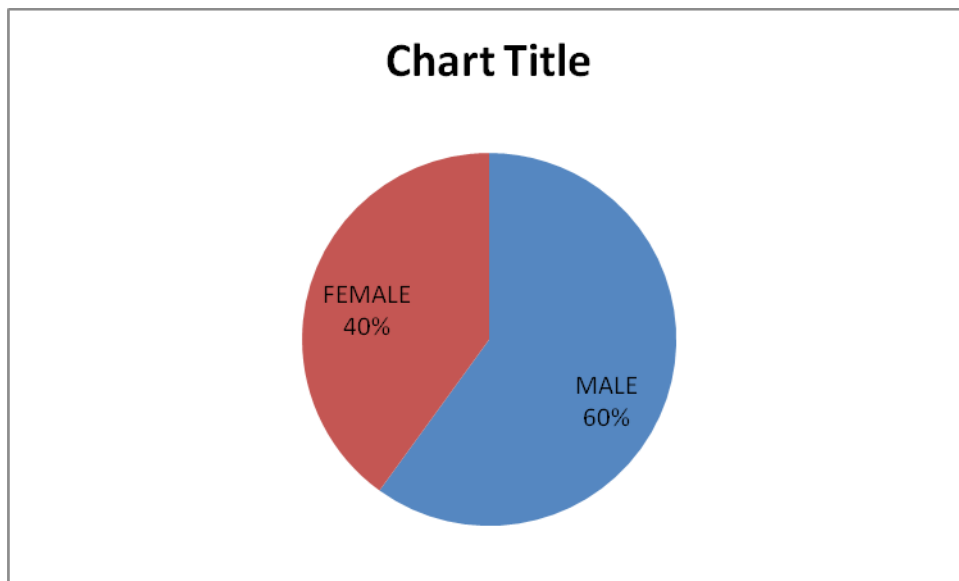


Figure 1: Gender distribution in percentage

Source: Research data, 2014

Table 2 and Figure 1 above show a total of 80 entrepreneurs who were surveyed during data collection process. The figure shows that 40% of respondents who obtains services from microfinance institutions were females and 60% of total respondents were males

4.1.2. Age

Researcher aimed to find out which group of people in a society have entrepreneurial altitude and needs stronger support from Microfinance institutions for their business developments. The results of the finding are tabulated below;

Age	Male	Female	Total
18-27	8	5	13
28-37	20	15	35
38-47	10	8	18
48 and above	10	4	14
Total	48	32	80

Table 3: Age

Source: research data, (2014)

Table 3 above shows a total of 80 respondents who were surveyed during the data collection process. It shows that the largest group of entrepreneurs are between 28-37 years old with a total of 35 respondents, 20 males and 15 females, this was followed by a group of 38-47 years old with a total of 18 respondents, 10 males and 8 females, moreover, a group of 48 and above followed with a total of 14 respondents, 10 being males and 4 being females, and the group with the lowest number of respondents is the group of 18-27 years having 8 males and 5 females making a total of 13 entrepreneurs.

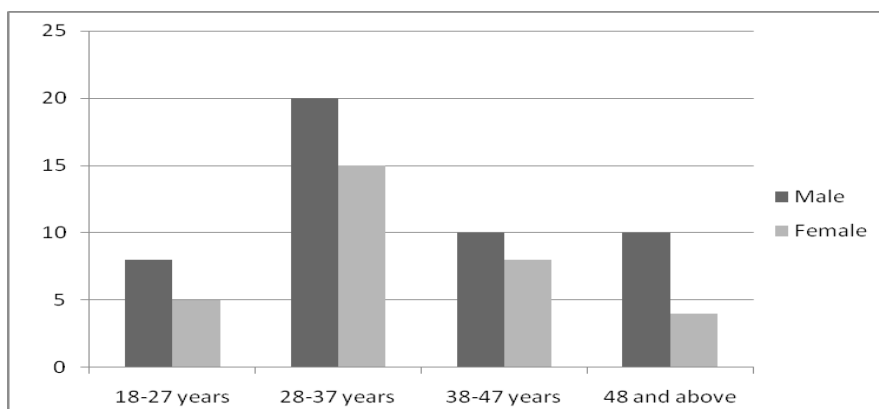


Figure 2: Age

Source: Research data, 2014

Figure 2 above shows a total of 80 respondents who were surveyed during the data collection process. It shows that the largest group of entrepreneurs are between 28-37 years old with a total of 35 respondents, 20 males and 15 females, this was followed by a group of 38-47 years old with a total of 18 respondents, 10 males and 8 females, moreover, a group of 48 and above followed with a total of 14 respondents, 10 being males and 4 being females, and the group with the lowest number of respondents is the group of 18-27 years having 8 males and 5 females making a total of 13 entrepreneurs.

4.1.3. Education level

Researcher aimed to determine level of education among small business holders. This is very important factor in business as too low education level might be a problem for them to get profit in their businesses which will enable them to recover their loan from MFIs and remain with income to expand their business. The results of the findings are shown in the table and figure below;

Education level	Frequency	Percentage (%)
Primary education	28	35
Secondary education	34	42.5
Higher learning education	18	22.5
Total	80	100

Table 4: Education Level

Source: research data, (2014)

Table 4 above shows that 35% of total respondents had primary education, 42.5% had secondary education and the remaining 22.5% had higher education

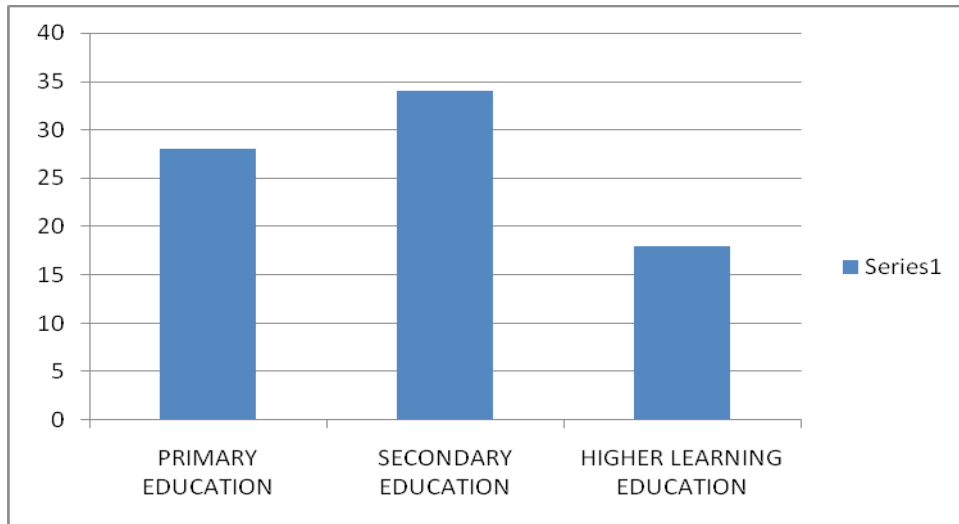


Figure 3: Education Level

Source: Research data,(2014)

Figure 3 above shows that 35% of total respondents had primary education, 42.5% had secondary education and the remaining 22.5% had higher education

4.2. Frequency of obtaining services

This is presented in the table and figure below;

Frequency	Percentage (%)
Once	21
Twice	25
Three times	31
More than three times	23

Table 5: Frequency of obtaining services

Source: research data, (2014)

Table 5 above present an analysis of the frequency the SMEs obtains services (i.e. loan, deposits or savings money transfer insurances and payment services) from microfinance institutions. The aim was to explore whether SMEs manage to service their loans repayment. The result shows that 21% of respondents attain services one time, 25% attain services two times, 31% attain three times and the remaining 23% attains the services more than three times

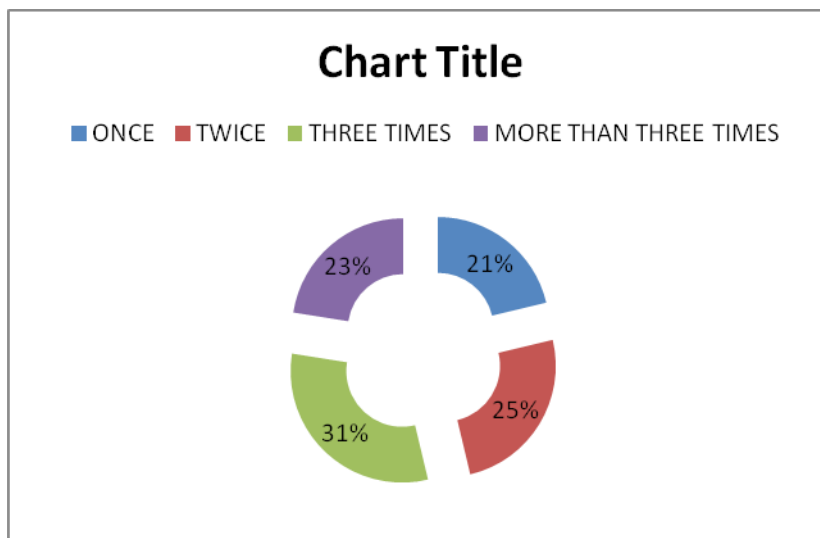


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Figure 4 above present an analysis of the frequency the SMEs obtain services (i.e. loan, deposits or savings money transfer insurances and payment services) from microfinance institutions. The aim was to explore whether SMEs manage to service their loans repayment. The result shows that 21% of respondents attain services one time, 25% attain services two times, 31% attain three times and the remaining 23% attains the services more than three times.

4.2 Benefits services achieved from MFIs

Researcher aimed at finding out benefits that SMEs achieved from using MFIs services. In addition, the researcher also aimed at knowing the status of the business after attainment of the services. The result of the findings is found in the table and figure below.

Benefits	Frequency
Initial capital	20
Increased sales and competitive capacity	25
Expansion of existing business	35
Total	80

Table 6: Benefit attained from MFIs

Source: research data,(2014)

Table 6 above present an analysis of benefits achieved by SMEs from microfinance institutions services. The result shows that 25% attains initial capital, 31.25% increases sales and competitive capacity, and 43.75% obtains loan to expand existing business.

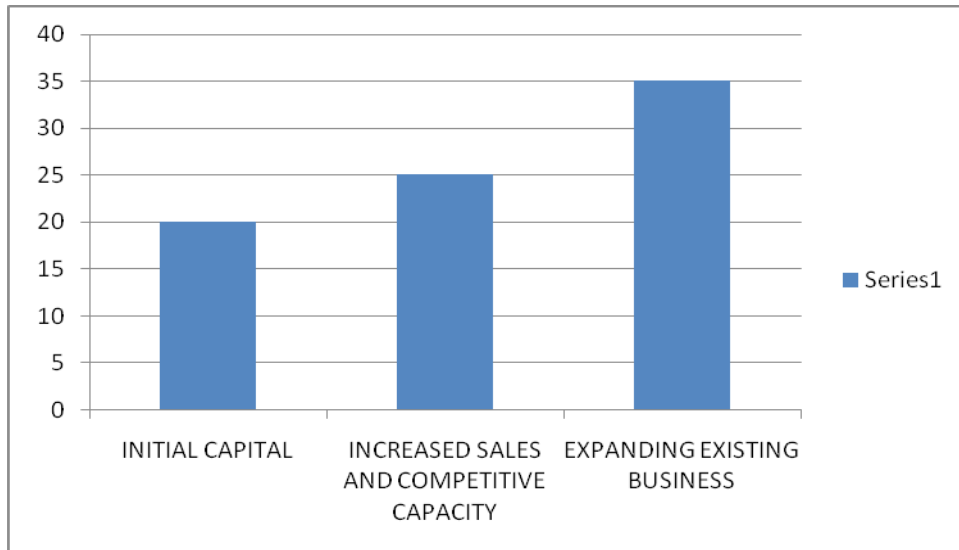


Figure 5: Benefit attained from MFIs

Source: Research data, (2014)

Figure 5 above present an analysis of benefits achieved by SMEs from microfinance institutions services. The result shows that 25% attains initial capital, 31.25% increases sales and competitive capacity, and 43.75% obtains loan to expand existing business.

Outcome of business after capital attainment from MFIs

Outcome	Frequency
Business expansion	50
Business decline	5
No change	25
Total	80

Table 7: outcome of business after capital attainment

Source: research data, (2014)

Table 7 above shows that 62.5% of the SMEs who access loans from MFIs expand their businesses, 6.25% of the SMEs their businesses decline and 31.25% have no changes in their businesses.

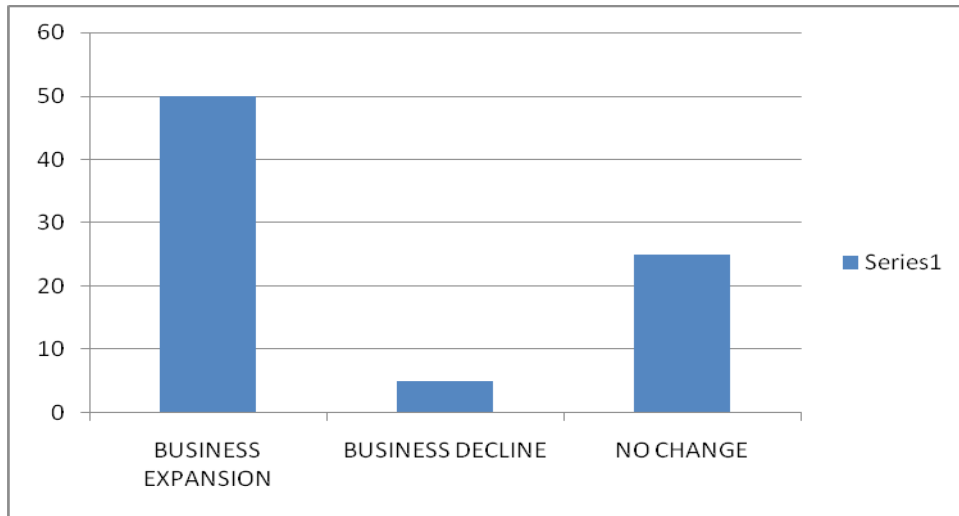


Figure 6: Outcome of business after capital attainment from MFIs

Source: Research data,(2014)

Figure 6 above shows that 62.5% of the SMEs who access loans from MFIs expand their businesses, 6.25% of the SMEs their businesses decline and 31.25% have no changes in their businesses.

4.3. Accessibility to attain training, consultancy and Advisory services by SMEs.

In this objective, the researcher aimed at finding out whether SMEs attain training or consultancy and Advisory service from MFIs. To achieve this researcher asked whether SMEs attain any training, consultancy or advisory services from MFI's

The researcher asked this question in order to know the views of respondent whether they attain any training consultancy or advisory services from MFIs. The responses to the question are as follows;

Have you attained any training from MFIs on how to undertake business operations?

Attaining training	Frequency (%)
Yes	84

No	16
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Table 8: accessibility to attain training

Source: research data, (2014)

Table 8 shows that 84% of the respondents do not attain training from Microfinance Institutions and 16% of the respondents do attain training.

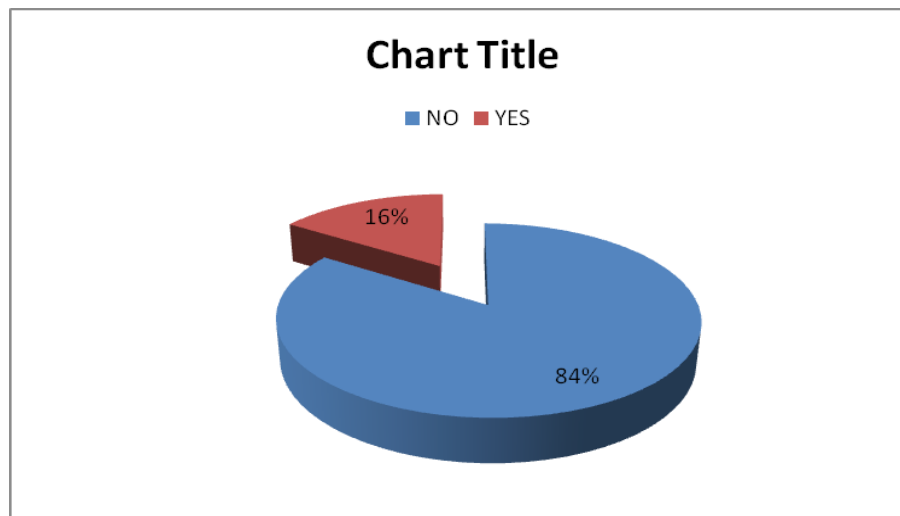


Figure 7: Respondents not attaining training

Source: Research data (2014)

Figure 7 shows that 84% of the respondents do not attain training from Microfinance Institutions and 16% of the respondents do attain training.

Attaining Consultation/advisory services	Frequency (%)
Yes	9
No	91
Total	100

Table 9: Accessibility to attain consultancy/advisory services

Source: Research data, (2014)

Table 9 above shows that 9% of SMEs attain consultancy or advisory services from MFIs and the rest 91% of SMEs do not attain consultancy or advisory services

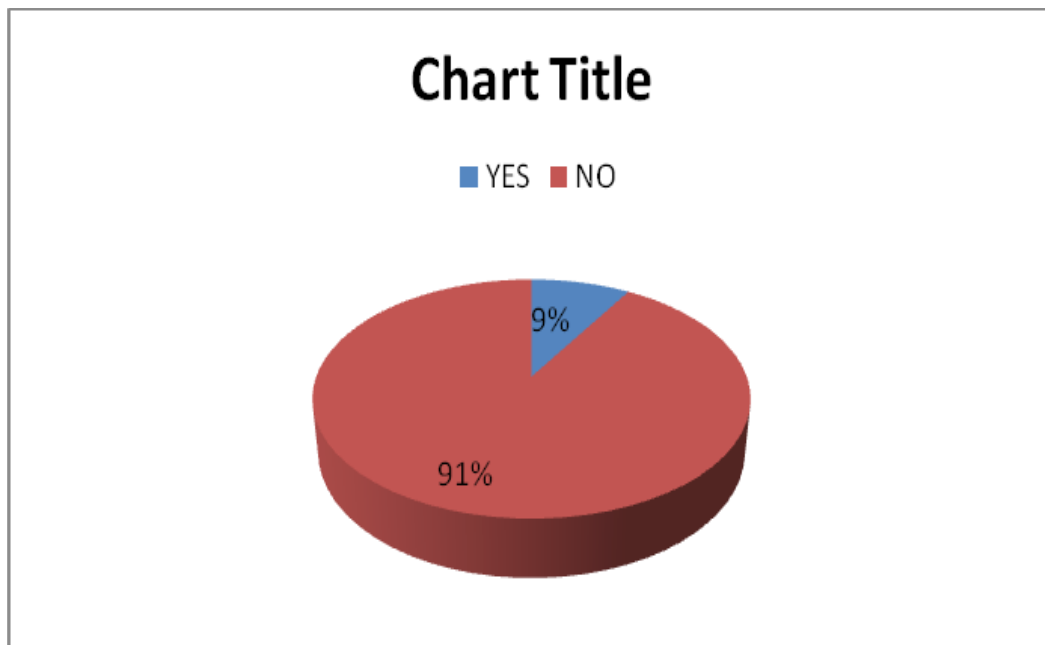


Figure 8: Accessibility to attain consultancy/advisory services

Source: Research data, (2014)

Figure 8 above shows that 9% of SMEs attain consultancy or advisory services from MFIs and the rest 91% of SMEs do not attain consultancy or advisory services

4.4. Conditions for service accessibility

The researcher aimed at finding out conditions widely applied by MFIs so as SMEs can access their services. These conditions limit SMEs to obtain services from MFIs and therefore hinder development of small business. In order to achieve this researcher asked questions relating to kind of conditions, achievement of such conditions and factors limiting SMEs not to access services from MFIs. The responses to questions are in the figures as shown below;

What conditions are you supposed to fulfill for you to obtain MFI services

Conditions for MFI services	Frequency (%)
Cost sharing	25
Formation of fixed number of group members	40
Interest rate payment	12
Collateral	23
Total	100

Table 10: Conditions for MFI services

Source: research data, (2014)

It can be observed from the table 10 above shows that 25%, 40% 12% and 23%of the respondents indicates Cost sharing, Formation of fixed number of group members, Interest rate payment and Collateral, as widely used condition for accessing services from most of Microfinance Institutions.

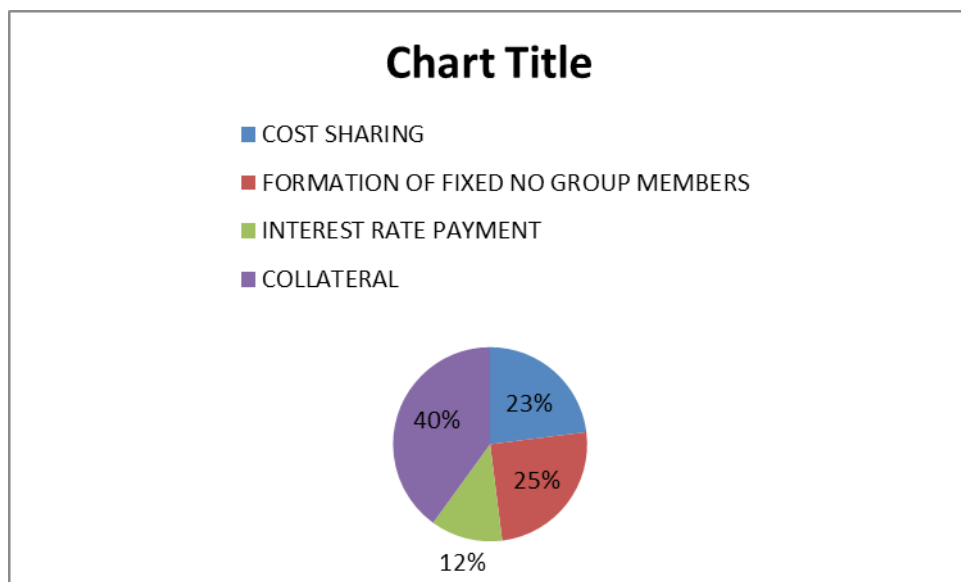


Figure 9: Conditions for service accessibility

Source: Research data, (2014)

It can be observed from the *figure 9* above shows that 23%, 25% 12% and 40% of the respondents indicates Cost sharing, Formation of fixed number of group members, Interest rate payment and Collateral, as widely used condition for accessing services from most of Microfinance Institutions.

Do you manage to meet those terms and conditions?

	Male (%)	Female (%)
Yes	68.75	62.50
No	31.25	37.5

Table 11: Managing to meet terms and conditions

Source: research data,(2014)

The findings shows as in table 11 above that 68.75% and 62.5% of the male and female respondents manage to meet such conditions while 31.25% and 37.5% of male and female failed to meet conditions imposed by MFIs as indicated in table

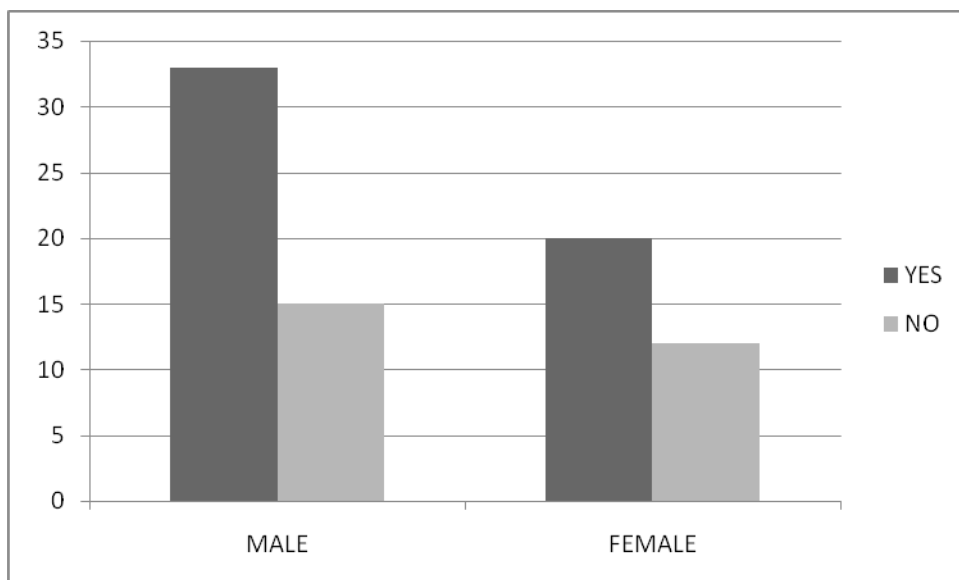


Figure 10: Management of Conditions by SMEs

Source: Research data (2014)

The findings shows as in *figure 10* above that 68.75% and 62.5% of the male and female respondents manage to meet such conditions while 31.25% and 37.5% of male and female failed to meet conditions imposed by MFIs as indicated in table

What factors hinder SMEs from accessing services from MFIs?

Hindering factors	Frequency
Inadequate no of group members	20
Lack of collateral	25
High interest rate	25
Bureaucracy	10
Total	80

Table 12: Factors hindering SMEs to access service from MFIs

Source; research data (2014)

Table 12 above shows findings on factors hindering SMEs from accessing Micro finance service were 25% of the respondents reveal inadequate number of group members, 31.25% of respondent reveal lack of collateral, 31.25% of the respondent reveals higher interest rate and 12.5% of the respondent respond bureaucracy as factor hindering them from accessing services from MFIs

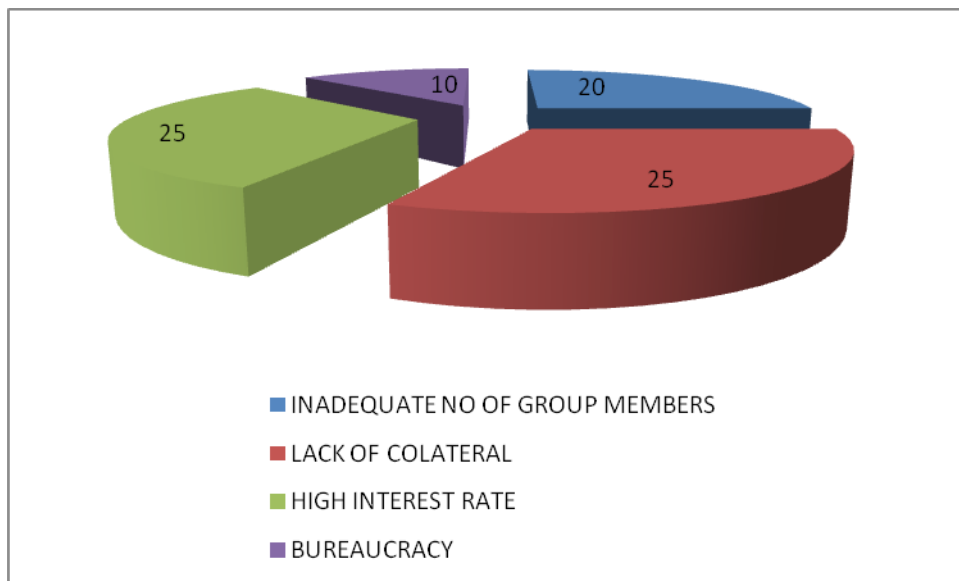


Figure 11: Factors hindering SMEs to access service from MFIs

Source: Research data, (2014)

Figure 11 above shows findings on factors hindering SMEs from accessing Micro finance service were 25% of the respondents reveal inadequate number of group members, 31.25% of respondent reveal lack of collateral, 31.25% of the respondent reveals higher interest rate and 12.5% of the respondent respond bureaucracy as factor hindering them from accessing services from MFIs

4.5. Microfinance Institutions needs assessment

A need assessment was conducted for the Microfinance Institutions. The assessment aimed to explore essential needs of MFIs for enhancement of service delivery to SMEs. In order to achieve this, researcher requested respondent microfinance institutions to

indicate their needs required to improve service delivery. The results of the findings are in tales and figures below.

Internal needs of MFIs for enhancement of SMEs

Need	Frequency
Transport facility	20
Skilled and motivated staffs	40
Financial equipment	20
Total	80

Table 13: Microfinance Institutions internal needs

Source: Research data, (2014)

Table 13 above present internal needs of microfinance institutions (i.e. needs within the organization/ management needs) were by 25% of the respondent need transport facilities to enhance service delivery, 50% of the respondents needs skilled staffs and motivation and 25% need Financial equipment and other facilities.

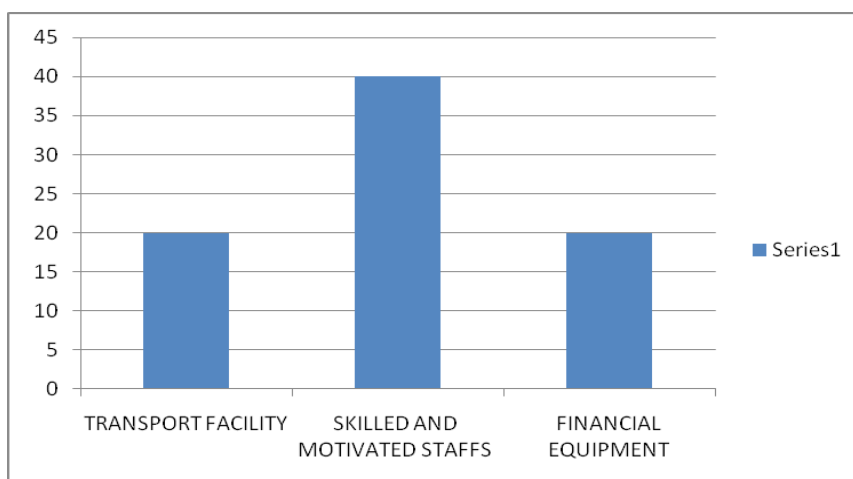


Figure 12: Microfinance Institutions internal needs

Source: Research data, (2014)

Figure 12 above present internal needs of microfinance institutions (i.e. needs within the organization/ management needs) were by 25% of the respondent need transport facilities to enhance service delivery, 50% of the respondents needs skilled staffs and motivation and 25% need Financial equipment and other facilities.

4.5.1. Microfinance institutions external needs

Table 14 below presents external needs of microfinance (i.e. needs that depend on external environment to the agencies) were by 23.75% of the respondent needs Government Support to enhance service delivery, 30%of the respondents needs Trustworthiness of SMEs, 33.75% of the respondents needs Entrepreneur attitude of SMEs and 12.5% respondents needs cost sharing.

External need	Frequency (%)
Government support	23.75
Trustworthiness of SMEs	30
Entrepreneurial attitude	33.75
Cost sharing	12.5
Total	100

Table 14: Microfinance Institutions external needs

Source: Research data, (2014)

Figure 13 below presents external needs of microfinance (i.e. needs that depend on external environment to the agencies) were by 23.75% of the respondent needs Government Support to enhance service delivery, 30%of the respondents needs Trustworthiness of SMEs, 33.75% of the respondents needs Entrepreneur attitude of SMEs and 12.5% respondents needs cost sharing.

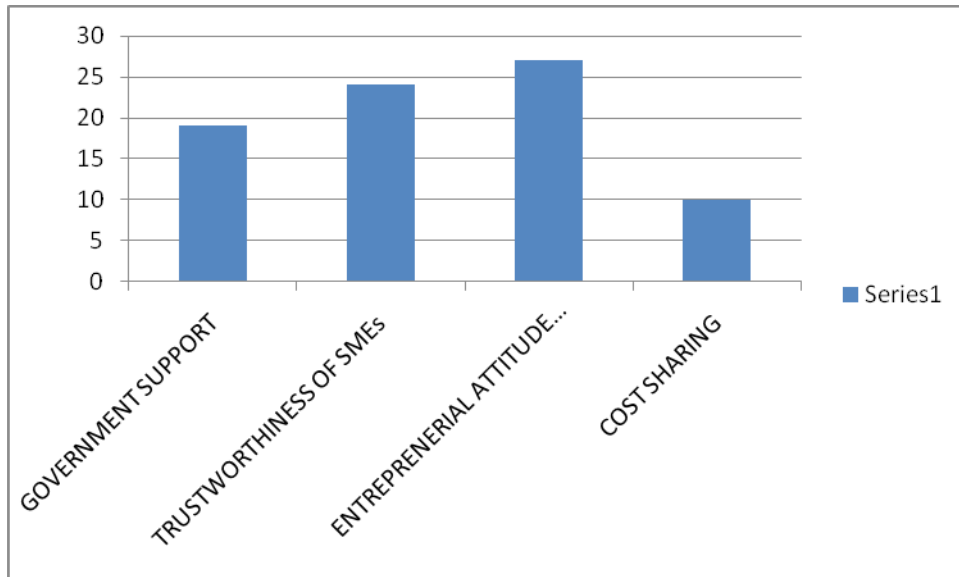


Figure 13: Microfinance Institutions external needs

Source: **Research data, (2014)**

4.6 Conclusion

This chapter has presented the research findings as per the analysis performed on the field data collected. It has begun by extracting the demographic characteristics of the respondents and ends with working on the analysis of the findings for each objective chronologically. Descriptive statistics have been used in making sure that the within used figures can pictorially be presented for an easy understanding.

CHAPTER FIVE

DISCUSSION AND INTERPRETATION OF FINDINGS

5. Introduction

This chapter makes discussion of the findings as presented in chapter four and makes a link of the findings with previous research done elsewhere. The rationale behind is to look at the coherence of the findings with the existing theory and how this study links with other scholars' findings on related studies.

5.1. Benefits of micro finance institutional services

Under this objective researcher aimed at finding out whether there are any benefits that small businesses obtained from services provided by micro finance institutions.

The study found that the presence of Microfinance Institutions has stimulated the development of different economic activities in different places and the majority of small businesses are now aware of the contribution of Micro Finance Institutions in development of any economic activities. Small business owners have benefited from micro finance institutions in many ways.

The research findings have shown that majority of SMEs have benefited from services provided by micro finance institutions. Respondents were requested to indicate the benefit they obtained for using the services provided by micro finance institutions. 43.75% of total respondents reveals that they obtained loans for business expansion, 25% of the respondents reported that they attain initial capital to start up new business and the 31.25% of total respondents reported that they increased sales volume and competitive capacity for their business. On other hand findings shows an outcome of business after attainment of capital from micro finance institutions whereby 62.5% of the total respondents indicated that their businesses expanded, 31.25% of the

respondents indicated no change on their business and the remaining 6.25% of the respondent reported that their business declined.

These findings are in line with the research by **Tolentino (2005)** who reported that the potential socio-economic benefits of SMEs are attributed to their capacity to achieve the following: create jobs at low investment cost, contribute significantly to the economy by increasing output of goods and services and improve linkages between economically, socially, and geographically diverse sectors. These improvements are said to have an effect in creating opportunities for developing and adapting appropriate technology, provide an excellent breeding ground for entrepreneurial and managerial talent, develop a pool of skilled and semi-skilled workers, act as ancillaries to large-scale enterprises, adapt to market fluctuations and fill market niches which are not profitable for larger enterprises. This in turn will help SMEs lend themselves to development policies favoring decentralization and rural development and help alleviate the negative consequences of structural adjustment programme.

The findings had also got support from **Adebiyi et al. (2004)** who reported that besides an observed direct impact, Microfinance institutions have an indirect impact on growth and economic development through their role in stimulating an increase in investment, a better management of ethnic diversity and conflicts, better policies and an increase in the social capital stock of a community.

Based on the finding and the support from other literature as discussed above, it can be concluded that the rationale of microfinance institutions providing loans to small and medium enterprises is indeed to enhance business expansion, at some point help people to start up new businesses and increase in sales volume and competitive capacity to existing firms. Therefore existence of micro finance institutional services makes small business expand and attain growth in terms of income generation, employment creation and innovations.

5.2. Accessibility to attain training, consultancy and Advisory services by SMEs.

The presence of training, consultancy and advisory services from support institutions stimulates economic development of small business and therefore can be considered as an aspect for small business performance. Under this objective the researcher aimed to establish whether the small and medium enterprises receiving services from microfinance institutions have as well been exposed to trainings and advisory services from the microfinance institutions or other support organisations

The findings reveal that 16% of total respondents were aware of and has attained training services from MFIs. The remaining 84% of total respondents reported that they were unaware of training services from MFIs. On the other hand 9% of the respondents reported that they are aware of and attain consultancy and advisory services from MFIs. And the remaining 91% of the total respondents reported that they are not aware consultancy and advisory service provided by MFIs.

This finding is supported by **Schmitz and Musyck, (1994)** who reported that much of the institutional support that was developed for small-scale industry was of a direct kind and at the micro level involving forms of managerial and technical support through training, credit provisions and a range of site and service facilities.

In support of the findings, **Maliti and Mnenwa (2005)** who reported that development of small business was constrained with inadequate information's about the services provided by micro finance institutions. They argued that training and consultancy services from supporting institutions have greater impact on SMEs development.

Just by looking at the research findings and the other two studies cited above, we can conclude that the capacity of microfinance institutions towards improving the performance of small and medium enterprises is still low. Despite the reported impact that MFIs have on the performance of MSEs, still much need to be done to enhance

exploitations of their full potential. There is a need of other actors and support institutions to have their hands in.

5.3. Conditions for service accessibility

This was another objective of this finding in which researcher wanted to know conditions/ terms behind the provision of micro finance institutions services to SMEs. The findings also aimed at finding out whether the available conditions in different micro finance institutions are among of the factor that hinders small business in accessing Micro finance institution services.

The findings shows majority of respondents (40%) were faced with collateral conditions such as buildings, farms and vehicles where they said that it is the condition affect them to access MFIs services. Other conditions reported by the respondents were formation of fixed number groups members at 25%, cost sharing at 23% and interest repayment at 12% of total respondents.

The findings have got support from Oyelaran-Oyeyinka (2004) who indicates that Microfinance institutional weaknesses raise transaction costs, thereby constraining firms from taking the advantage of market opportunities, while market failures limit access to markets and innovation possibilities. Furthermore, the Professor indicated that while SMEs development remains central to the economic health of African countries, they lack the economies of scale advantage and the capabilities that are often internalized by large firms.

Therefore it can be enlisted that the key identified requirements for an entrepreneur to obtain services from the microfinance institutions to be collateral requirements, formation of fixed group numbers and short repayment periods

Most of the financial institutions also required cost sharing in form of equity, interest rate payment formation of fixed number of group members was a particular feature for SMEs to attain their services.

While the imposition of conditions for accessing services by SMEs may be inevitable, the proliferation and enhanced stringency of conditions for accessing micro finance institutions has been a source of concern among many SMEs. In some instances the support institutions impose blanket conditions on both large-scale enterprises and SMEs, thereby becoming stringent to the SMEs. Even if the conditions were not intentionally used to discriminate against SMEs, there is concern that their growing complexity and lack of differentiation between SMEs and large scale enterprises could still impede the accessibility of the SMEs to the services. There is also a concern that many SMEs simply lack the administrative, technical and scientific capacities to meet the conditions, presenting potentially insurmountable barriers in the short or medium-term.

And, the costs of meeting the conditions could undermine the competitive position of SMEs or otherwise compress the profitability of the businesses. The combined effects of institutional weaknesses and the lack of necessary resources to meet the conditions contribute to the further marginalization of weaker economic players in SMEs.

Lack of adequate and reliable information on SMEs could be partly responsible for the stringent conditions imposed by the Micro finance institutions. The absence of adequate information on SMEs makes it expensive for financial institutions, for instance, to extend loans to SMEs. Without adequate information, lenders such as credit referrals find it difficult to quantify the credit risk and therefore cannot price it correctly. As a result, good and bad borrowers are treated equally.

5.4. Microfinance Institutions needs assessment

Under this objective the researcher aimed at establishing the essential requirement of microfinance institutions for effective service delivery to small and medium enterprises. On establishing this, the searcher categorised these needs into internal and external needs assessment.

The result of the findings shows that MFIs need internal equipments such as transport facilities, skilled staffs, and financial equipment and other facilities as indicated by 25%, 50% and 25% in *figure 12* respectively.

On other hand finding shows that MFIs needs external support for effective service delivery to SMEs. These services include government support, Trustworthiness of SMEs, Entrepreneurial attitude of SMEs and Cost sharing as indicated in figure 13 at 23.75%, 30%, 33.75% and 12.5% respectively.

This finding is in line with those of **Tolentino (2005)** who indicated the concern about the need for policy, and direct interventions arising when the intensity of the process of enterprise creation and development falls short of expectations, or does not contribute sufficiently to the achievement of particular development objectives. For example, when investments are not being made in the ‘right’ economic sectors or geographic areas, or when the enterprises being created and developed are not bringing about the desired level of economic participation by a particular target group. When this type of situation arises, specific interventions are called for project, programme and policy levels to promote and stimulate the process of enterprise creation and development.

Basing on the findings and available literature review it was deduced that MFIs needed effective internal structure (i.e. transport, staff, financial equipment and facilities). On the other hand, the effective delivery of services depends on external environment to agencies such as government support, trustworthiness of SMEs, entrepreneurial attitudes of SMEs, and cost sharing. Transport and promotion of facilities appear to be one set of the important needs for improvement of services delivery to SMEs. For efficient service delivery MFIs s needed transport facilities such as vehicles and also promotion facilities such as office accommodation, and showrooms.

Furthermore the findings implied that talented entrepreneurs are the most important need for MFIs to be effective in their service delivery. Most institutions would prefer to deal with SMEs that can organize, manage and assume the risk of a business or enterprise.

Such SMEs would be able to perform in their businesses and recover the costs of services given to them. The findings also show that support from the government was another important need. The kind of support that is sought from the government included policy support, information provision and the sensitization of the society to use the services provided by the MFIs.

In relation to entrepreneurship the MFIs needed trust-worthy entrepreneurs. For instance, loan repayments could be a function of business performance, some SMEs could just attempt to disappear with loans or loans could be used in businesses that were not intended for (diversification of funds). These factors have been the main causes of the widely reported bad debts.

Cost sharing was mentioned by respondent institutions as an important need for MFIs. In most cases resources are scarce and needs from MSEs are many. The support institutions usually ask their beneficiaries to also contribute to businesses to allow for a wider coverage of SMEs. Cost sharing is also used as an indication of commitment.

5.5 Conclusion

This chapter has discussed the research findings as presented in chapter four. It has also tried to make relevant linkages between what has been found in relation to the existing literature in the microfinance and entrepreneurship industries for the purposes of establishing similarities and differences and where need be putting forth justifications for the same.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6. Introduction

The observations which ultimately drew up conclusion to the imposed research objectives are presented in this chapter which generally concludes the research study. The chapter furthermore presents some recommendations some of which were depicted from the respondents while others are the researcher's views as the result of careful analysis and observation performed in the areas of research study.

6.1. Summary

Micro finance institutions have tried a lot in helping small business in operating development activities so as to lessen poverty in Tanzania. The study was based on the capacity of Micro finance institutions to improve SMEs in Dar es salaam region. The focus was then put on benefits achieved by SMEs, conditions for accessing services, needs of MFIs for effective services delivery and supplementary (i.e. training, consultancy and advisory) services available to enhance SMEs performance. The result of the findings were summarized as follows

The study revealed that small businesses have benefited from microfinance services. The benefits range from initial capital for business start-up, loans for business expansion and increase in sales volume and competitive capacity. The attainment of loan from micro finance institutions makes SMEs generate more income and create employment. On other hand the study shows that SMEs have not benefited from supplementary services provided by MFIs. This was indicated by majority of SMEs having less awareness on training, consultancy and advisory services provided MFIs.

The study also shows that Microfinance institutions imposed some conditions to SMEs in order for them to access the services. These conditions included collaterals, cost

sharing, formation group, and interest rate payment. These conditions limit small business to obtain services from MFIs, hence poor development.

To effectively meet required level of SMEs development MFIs need internal restructure in terms of qualified staffs and facilities such as vehicles for transport. The study also shows that MFIs need government support, entrepreneurial attitude, SMEs trustworthiness and cost sharing.

6.2. Conclusion

This study focused on looking at the capacity of microfinance institutions in supporting the performance of SMEs so that they can effectively contribute to the national's economy.

The study has revealed that small and medium enterprises in Dar es Salaam have benefited from microfinance services. The benefits range from initial capital for business start-up, loans for business expansion and increase in sales volume and competitive capacity. Through these support, some businesses have managed to expand their asset base as well as increasing their sales volume. However, there some enterprises that have not been growing while others declining due to short repayment periods and stringent rules from MFIs

On the services received from the MFIs, it was been found that, the majority of SMEs have been receiving trainings/consultancy and advisory services from MFIs. However, the services have had less significance and were found to be more associated with improving their repayments instead of helping their businesses.

It was further the objective of the study to establish the pre-requisite conditions for accessing services from the MFIs. The study found that, the conditions for SMEs to obtain services from microfinance institutions were limiting them. Some of the identified stringent conditions included the provision of collateral, formations of fixed number of group members and also the repayment periods being too short.

The last objective of the study was to identify the needs of the MFIs so that they can improve their effectiveness in serving the SMEs. The research has grouped these needs into internal and external needs and if taken care of, they will make the MFIs efficient and effective in serving the SMEs. These included, availability of transports, presence of well qualified staff as well as getting financial support from other institutions at discounted interest rates would assist the MFIs improve their internal capacity.

However on the external side, MFIs identified such variables like presence of government support, trustworthiness of SMEs' owners, cost sharing and enhancement of entrepreneurial attitude to be valuable if they are to be effective in serving the SMEs

6.3. Recommendations

Based on the findings and conclusions from this study, a number of recommendations were made so that the MFIs' full potential can be utilised.

- The first recommendation relates to the need to strengthen the collaboration between the public and private support institutions (Public Private Partnerships) for effective delivery of support services to the SMEs. The study found that, most of the services extended by the MFIs are mostly directed at enhancing repayments while overlooking the performance side of the SMEs and this is detrimental to the sustainability of businesses and the repayment in the long run. The government is responsible for the overall functioning of the support institutions by putting favourable policies in place, providing an enabling environment for SMEs and promoting institutional changes conducive to the development of the private sector.

The private sector delivers the actual services such as financial advisory services, business linkages, training, and market promotion. For effectiveness, the public sector ought to work with the private sector institutions while the operations of the private sector ought to be in accordance to the policies and procedures set by

the public sector. More importantly both sectors could work together under public-private partnership arrangements.

- The second recommendation relates to the improvement of information system that informs the MFIs of the potential and existing SMEs. This is due to improper handling of the system and poor record keeping where good and potential SMEs are listed as bad debtors while they are not. This results to good clients lacking services because of the bad record which is not accurate. Therefore, causing a high level of information asymmetries.
- The third recommendation relates to the need to support the MFIs themselves. In this respect fiscal incentives should be considered. It is proposed that the resources used by the support institutions should be relieved of taxation, at least, partially.
- Likewise the study recommends that, since among the drawbacks identified to affect the efficiency of MFIs in providing loans was on the high costs, these MFIs should be given subsidies from the government. On so doing they will be capable of lending their money at lower interest rates of which their clients can be able to repay timely
- The other recommendation is that, training institutions such as universities should provide the entrepreneurship trainings to the surrounding business communities as part of their corporate social responsibility. This will enhance the capabilities of the SMEs' owners to have full knowledge of the loans they take before becoming sour.

6.4. Future direction of the research

This study was aimed at analyzing Microfinance institutions capacity on improvement of small business. Positively it is observed that, MFIs have greater contribution on SMEs development and therefore is a major tool to lessen poverty. On other side, it is observed

that, there are a number of conditions limiting SMEs to access services from MFIs. So the searcher suggests that, the other areas for future research are on the issue of;

- Role of Government on improvement of Microfinance institutions capacity.
- Relationship between Entrepreneurship Education in MFIs and poverty reduction strategies

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APPENDIX

QUESTIONNAIRE TO BE FILLED BY RESPONDENTS

Dear Respondents,

I am Agness Francis, conducting an academic research on **Capacity of Micro Finance Institutions on Improvement of Small and Medium Scaled Enterprises in Dar es Salaam region**. Kindly cooperate by responding to the questions below with as much transparency as possible. The information you give will be treated strictly confidential and for academic purposes only. Your cooperation is highly appreciated.

Please choose the most appropriate answers

1. What is your sex?

(a) Male

(b) Female

2. What is your age?

a) 18-25

(b) 25-35

(c) 35-60

(d) Above 60

3. What is the level of your education?

a) Primary school

b) Secondary level

c) Higher education level

General information

4. What is the source of your business financing?

(a) Own generated capital

(b) Loan from MFIs

5. How many times you have received capital since the formation of your business?

(a) 1

(b) 2

(c) 3

(d) More than 3

6. If your business was financed by MFIs, what benefits did you obtain?

i. Initial capital ()

ii. Business consultancy ()

iii. Loan to expand Business ()

7. What is the outcome of the business after the assistance from MFI?

(a) Have expanded

(b) Have decline

(c) No changes

8. Have you attained any training from MFI's on how to undertake business operation/ transaction?

(a) Yes

(b) No

9. Are there any consultancy or Advisory services you have obtained from MFIs during your business operation?

(a) Yes

(b) No

10 What conditions you're supposed to fulfill in order to obtain services from MFIs. (Mention)

(a) Referees

(b) Collateral

(c) Financial report

(d) Fixed number of group member

(e) Business licenses

11. Do you manage to meet those terms and conditions?)

(a) Yes

(b) No

12. If you answered No in Question 11, what factors hinder you to access loan from MFIs.

- (a) Inadequate number of group member
- (b) Lack of collaterals
- (c) Absences of business licenses
- (d) Higher interest rate
- (e) Lack of skills to prepare financial report

13. What are the internal needs of MFIs to enhance effective service delivery to SMEs.

- (a) Transport
- (b) Skilled staffs
- (c) Financial equipment and other facilities

14. What are the external needs of MFIs to enhance effective service delivery to SMEs

- (a) Government Support
- (b) Trustworthiness of SMEs
- (c) Entrepreneur attitude of SMEs
- (d) Entrepreneur attitude of SMEs