# THE IMPACTS OF MICOFINANCE INSTITUTIONS ON MICRO AND SMALL ENTERPRISES GROWTH IN TANZANIA: THE CASE OF MBEYA MUNICIPALITY

# THE IMPACTS OF MICROFINANCE INSTITUTIONS ON MICRO AND SMALL ENTERPRISES GROWTH IN TANZANIA: THE CASE OF MBEYA MUNICIPALITY

**By**

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**A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of the Degree of Masters of Science in Entrepreneurship (Msc.Entr.) of Mzumbe University**

**2014**

## CERTIFICATION

We, undersigned, certify that we have read and hereby recommend for acceptance by Mzumbe University, a dissertation titled **The impacts of microfinance institutions on micro and small enterprises growth in Tanzania; The case of Mbeya Municipality,** in partial fulfillment of the requirements for the degree of Master of science in entrepreneurship of the Mzumbe University.

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Major supervisor

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Internal examiner

Accepted for the Board of……………………………………………

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## DECLARATION AND COPYRIGHT

I, **Ambilikile omary,** declare that, this dissertation is my own original work and that it has not been presented and will not be presented at any other University for a similar or any other degree award.

**Signature**……………………………………………

**Date** ………………………………………………..

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My special thanks also go to my supervisor, Dr. Kato .P. Mushumbusi who tirelessly dedicated his precious time to assist, guide, advise and give constructive criticism to this dissertation.

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## DEDICATIONS

This dissertation is dedicated to my lovely mother Mary Chando who laid the foundation for my education. It is also dedicated to my lovely wife Suma Jason Mwambilike.

## ABBREVIATIONS AND ACRONYMS

| | | |
|---|---|---|
| ACB | - | Akiba Commercial Bank. |
| BRAC | - | Bangladesh Rural Advancement Committee. |
| CBS | - | Central Bureau of Statistics. |
| CBO | - | Community Based Organization. |
| CGAP | - | Consultive Group to Assist the Poverty. |
| COCOBA | - | Community Conservation Bank. |
| CREW | - | Credit Schemes for Productive Activities of Women in Tanzania. |
| CRDB | - | Co-operative and Rural Development Bank. |
| EOTF | - | Equal Opportunities for all Trust Fund. |
| GDP | - | Gross Domestic Product. |
| ILO | - | International Labour Organization. |
| LDCs | - | Least Developing Countries. |
| MFIs | - | Microfinance Institutions. |
| MDGS | - | Millennium Development Goals. |
| MSEs | - | Micro and Small Enterprises. |
| MSME | - | Micro Small and Medium Enterprises. |
| NBC | - | National Bank of Commerce. |
| NMB | - | National Microfinance Bank. |
| NGO s | - | Non-Governmental Organization. |
| PRIDE | - | Promotion of Rural Initiatives and Development of Enterprises |
| ROSCA | - | Rotating Savings and Credit Association. |
| SACCO’s | - | Savings Credit Co operative’s Societies. |
| SEDA | - | Small Enterprises Development Agency. |
| SELFINA | - | Sero Lease and Finance. |
| SIDO | - | Small Industry Development Organization. |

| | | |
|---|---|---|
| SMEs | - | Small and Medium Enterprises. |
| TPB | - | Tanzania Postal Bank. |
| UN | - | United Nations. |
| UNDP | - | United Nations Development Programme. |
| UNCDF | - | United Nations Capital Development Fund. |
| UNCTAD | - | United Nations Conference on Trade and Development. |
| URT | - | United Republic of Tanzania. |
| VICOBA | - | Village Community Bank. |
| YOSEFO | - | Youth Self Employment Foundation. |

# ABSTRACT

This study attempts to examine the impacts of microfinance institutions on micro and small enterprises growth in Tanzania. Therefore, the study contends to examine the impacts of microfinance institutions on micro and small enterprises growth in Tanzania that will reflect the gap of knowledge on the influence of MFIs on MSEs growth. The study was guided by the objectives; to determine the extent to which MFIs services has an influence on MSEs capital growth, to determine whether the MFIs services has an influence on MSEs asset growth, to find out the extents to which MFIs services has an influence to MSEs employment growth among MSEs in Mbeya municipality. The study was expected to establish the practical relationship between microfinance institutions credits services and how influences MSEs growth. A case study design was adopted, simple random sampling employed for selecting 100 MSEs to be studied who are the beneficiaries of PRIDE services. Data was collected via a self admistered questionnaire whose validity and reliability was established. Quantitative and qualitative data analysis was undertaken to generate both descriptive and correlations. Presentation of data was done in tables and interpretation made based on research objectives. The results of Pearson correlation revealed that positive and significant relationship has been established between MFIs financing to capital size, assets, and employment growth. To a large extent MFIs operation in Tanzania has brought about positive changes in the business growth.

The study recommends MFIs to expand their corporate social responsibilities to small scale enterprises; possibility to slow down the loan conditions and procedure of loan application. To enhance the out-reach of microfinance through creating awareness of the activities and operations to MSEs especially those in rural and semi-urban areas. Management of microfinance institutions should incorporate SME’s views or inputs into the formulation or review of their credit management policies. MSEs operators to set clear growth goal and pursue them continuously, thus making sure that the

financial resources acquired from MFIs are efficiently utilized to enhanced capital, assets and employment growth.

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# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Study

The role of small and macro enterprises in Tanzania cannot be underestimated. In Tanzania micro and small enterprises add more than 30% to the GDP, the sector is significant in the urban as well as in the rural areas, though most enterprises are located in towns and cities (Toroka and Wenga 1997). Estimates of the percentage of the labour force employed in micro- and small enterprises range from 38% to 56% in urban areas and between 10% and 15% in rural areas (Kessy and Urio 2006). The ILO/UNDP (2000) reported MSEs as players of almost indispensable developmental role through income and employment generation and the contribution to general society and local economies. The MSEs have also shown the great potential for creating wealth, their aggregate contribution to national income is estimated at 35% and 40% of GDP (Finseth, 1998).In 1993 for instance, it was estimated that about 12%of the rural labour force was self employed in the MSEs sector, while in urban area it was estimated to be 34% (Torok and Wenga, 1997).The average number of school leavers who join the labour market is estimated at 700,000 annually where as the formal economy creates about 22,000 new posts annually (Kirumba 2000 in Diyamett,2012).

In Tanzania, Micro and small enterprises contributes substantially to increase income, saving and encouragement of business ownership and management at enterprise level, however about 1/3 of the GDP of the country and that about 20% of the labour force is employed by the sector (URT, 2003). About 70% of people in sub Saharan Africa rely on the small enterprises for their livelihood (Rutashobya 1995, Masawe 2000). Therefore the Government of Tanzania in recognizing the contribution of MSEs in country economy developed the National Microfinance Policy which aims at enabling low-income earners to access financial services (URT, 2000).

The MSE sub-sector's contribution to the national and socio-economic development can be seen in many dimensions. In Tanzania the sub-sector generates income and employment and is a major supplier of goods and services to the people.It contributes about 50% of industrial products' Gross Domestic Product (Dyamett, 2012). The MSE sub-sector contributes most to job creation especially currently when formal employment is no longer in the position to absorb the job-seekers, It is estimated that there are over one million enterprises in the sector, employing between 3 and 4 million people or 20-30 per cent of the total labour force in Tanzania(Massawe, 2000).

According to the Ministry of Trade and Industry, as in august 2011, figures from the register general department suggest that 88% of registered businesses in the country are in the small scale and medium enterprise (SSME or SME) sector of the Tanzanian economy (Rutashobya, 1995). People involvement in MSEs in Tanzania is a recent phenomenon, mainly a result of economic crisis and restructuring programme which has led to drastic decline in real wages as well as formal employment opportunities (Tripp, 1994).

However, the MSEs growth requires investment in capital. Under circumstances, loans can help the deprived to accumulate capital, asset and investment in employment generating activities (Hossain, 1988).The availability of MFIs services to small business could greatly enhance their economic strength and eventually break the violent circle of low income, saving and investment (Yunus, 1984).

Though these MSEs play a significant role in shaping the economic growth of nations, they mostly fall short of adequate management expertise, market information, contacts with external markets, and lack of access to resources from formal MFIs (URT, 2003). Small Scale Enterprises (MSEs) in Tanzania mostly have failed to be served by formal financial institutions and encountered by the problem of limited access to credit facilities, deposits and other financial services provided by formal financial institutions (Kuzilwa and Mushi, 1997).

Formal MFIs are characterized by stringent lending policies and collateral requirements, cumbersome procedures. Their perception of MSEs and the rural poor as risky, lack of collateral security, poor accounting documentation, credit worthiness, wereby banks find it difficult in dealing with MSEs thinking they might default in payment, often leads to exclusion (Rweyemamu et al, 2003). Most of formal financial institutions regard MSEs as too poor to save do not keep written accounts or business plans, they usually borrow small, uneconomic sums those banks find it more expensive to offer such loans ( Chijoriga and Cassimon, 1999) .

The introduction of MFI's in Tanzania is seen as the best alternative source of financial services for MSEs as a means to raise their income, and contributing to the country economy. Micro finance enables clients to protect, diversify and increase their incomes, as well as to accumulate assets, reducing their vulnerability to income and consumption shocks (Kessy and Urio, 2006). According to URT, (2000) microfinance institution has been recognized as the viable way and sustainable tool for MSEs growth. It enables people to expand their business, increase their profit and improve their life, stimulate the growth of micro enterprises and the small and medium enterprises in developing countries like Tanzania. Moreover microfinance is one of the practical development strategies and approaches that should be implemented and supported to attain the bold ambition of MSEs development. Recognizing MFIs services constitute a vital component of MSEs development, the government of Tanzania has taken variety of measures since early 1990s aimed at speeding up private investment in the country (Kessy and Urio, 2006).

### 1.2 Statement of the Research Problem

Access to finance remains a dominant constraint on small scale enterprises in Tanzania, poor financial systems undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment (URT, 2003). MSEs traditionally have faced difficulty in obtaining formal credit. i.e. maturities of commercial banks loans extended to MSEs are often limited to a period which is very short to pay off sizeable investment, mean while access to competitive investment is reserved for only few selected  companies while loan interest rates offered to MSEs remain high (Kessy and Temu, 2010).

MSEs have limited access to capital markets, in part because the high cost of borrowing, and rigidities of interest rates has also made financing of small scale enterprises very difficult in Tanzania. Moreover, most of MSEs lack the necessary collateral to obtain loans from financial institutions, therefore resulting in MSEs not often obtaining long-term finance to expand their businesses (Chijoriga, 2000 in Kessy 2006). Besides other constraints on finance, most owners and managers of small scale enterprises in Tanzania are faced with lack of technical knowhow, skilled labour, managerial competence in handling business enterprises and also lack of business ideas ( URT,2003).

However, microfinance institutions in Tanzania have proven to be a powerful tool for promoting inclusive economic growth especially in the area of Micro and Small Enterprise development ( Kessy et al,2006). Since the enactment of the Banking and Financial Institution Act of 1991 and National Microfinance Policy (2000) as a means of recognizing MFIs, a number of supportive microfinance institutions (MFIs) have been mushrooming extending credit to the informal business sector (Kuzilwa, 2005).Microfinance was initiated to meet different objectives, to help reduce poverty, provide credit, seed capital, grants, and technical advisory services to MSEs ( UNCDF, 2004);poverty alleviation and improving living standards, offering financing to the poor,  women's empowerment  and the development of the business sector as a means of achieving high standards and reducing market failure (Chijoriga and Cassimon 1999; Harper et al, 1999)).

These institutions include local and international NGOs such as FINCA, Small Enterprise Development Agency (SEDA), and Credit Schemes for Productive Activities of Women in Tanzania (CREW), Promotion of Rural Initiatives and Development Enterprises (PRIDE), Equal opportunities for all Trust Fund (EOTF), Small industries development organization (SIDO) just to mention a few. Such MFIs share a common belief that provision of microfinance can facilitate growth and development on one hand, this has enabled microfinance clients to have a wider choice of services as from which MFI to take services, increases access to credit among MSEs in Tanzanians and hence more investments leading to generation of more income and economic development. (Kessy and Urio, 2006; PRIDE Tanzania, 2006).

Additionally there are several studies that have been conducted based on the contribution of MFIs to MSEs development in Tanzania. To a large extent microfinance Institution (MFIs) operation in Tanzania has brought about positive changes in the Micro and Small Enterprises Development (Masembo, 2010; Mongatek, 2008; Kessy & Urio, 2006). Kessy, S.A and Urio, F (2006), researched on the contribution of MFI on poverty reduction. In general and very few if any studied the impact of MFIs on MSEs growth, which according to The ILO/UNDP (2000) reported MSEs as players of almost the world economies growth. This study intends to fill the gap by examining the Impact of micro finance institutions to MSEs growth in Tanzania.

### 1.3 Research Objectives.

The proposed study has the general objective and specific objectives stipulated below;

#### 1.3.1 General Objective.

This study intended to examine the impact of micro finance institutions on Micro and Small Enterprises' growth.

### 1.3.2 Specific objectives.

1. To determine the extent to which MFIs services have an influence on MSEs capital growth.
2. To determine whether the MFIs services have an influence on MSEs asset growth.
3. To find out the extent to which MFIs services have an influence on MSEs employment growth.

## 1.4 Research Questions

1. To what extent MFIs services has an influence on MSEs asset growth?
2. Does the MFIs services have an influence on MSEs capital growth?
3. To what extents do MFIs services have an influence on MSEs employment growth?

## 1.5 Significance of the Study.

The study was for MFIs benefit for creating awareness to MSEs members on the role of MFIs in promoting entrepreneurial activities. The study was recommended potential areas that MFIs need to put more efforts when delivering their services. On the other hand, the findings provide informed suggestions on how policy can be improved toward implementing MSEs financial and marketing growth strategies. The research revealed the extent to which MFIs contribute to MSEs growth as well as the area which MFIs contribute less in MSEs development.

## 1.6 Scope /Delimitation of the study.

Due to limited time frame, amount of funds, the study was conducted in Mbeya Municipality. The choice of Mbeya municipality was due to the fact that the area has large number of entrepreneurs involved in MSEs, well distributed therefore provided good source of data for the study. The study confined itself to financial institutions, specifically to PRIDE branch operating in Mbeya Municipality, in Mbeya Region.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

This chapter of the study gives the review of previous studies. It portrays what has been presented by different scholars in the past which is still informative to the present study. It covers the details on Microfinance Institutions, Micro and small enterprises as a concept. Literature review is done with a focus on the study topic with interrelated theories and practices in order to back up the findings of the study.

## 2.1 Review of concepts and theories relevant to MFIs

### 2.1.1 Concept of Microfinance

In broad terms, microfinance refers to small loans to individuals or families in the developing world to enable them to start a business (Wickham, 2006). Microfinance is a wide concept including several different financial services, but sometimes the word microfinance is used synonymously with microcredit which is only the small loans provided to the poor and low income earners (URT, 2000). CGAP (1998), defines microfinance as an organization that provides financial services to the poor. Microfinance was defined as basic financial services, like credit, savings and insurance, which give people an opportunity to borrow, save, invest and protect their families against risk (Kaleshu et al, 2011). Micro-finance, which offers a variety of services ranging from savings, credits, to payment transfers, leasing, agriculture is defined as the provision of financial services to low income households, small holder farmers and small micro-enterprises (URT, 2000).It is also common that MFIs provide non-financial services like social intermediation that is training and education about finance, cooperatives and group formation in order to raise income levels and improve living standards through microenterprises and small business.

These services help families to start and build “micro” enterprises, employment, income, and economic vitality in developing countries world-wide (Kaleshu et al, 2011).

### 2.1.2 The feature of microfinance institutions (MFIs).

MFIs associated with Short- terms loan (usually up to the term of one year), frequent payments and deposits, Small amounts of saving, higher interest rates on credit than commercial bank rates. However most of microfinance institutions associated simple loan application procedures, short processing periods, assessments of clients' repayment potential and group lending methods are used instead of collateral (Murray,2010).

### 2.1.3 Micro Finance Institutions Providers, models and interventions mechanisms.

According to Bennett (1998), MFIs offer their clients who are mostly below or slightly above the poverty line a variety of products and services. The most prominent services is financial, that they often render to their clients without tangible assets and these clients mostly live in the rural areas, a majority of whom may be illiterates.
There are many organizations both informal and formal which also offer these financial services; the informal channels are characterized by lending family, friends and neighbors, rotating savings and credit associations (ROSCAs) are also very common, they hold regular meetings and each member contributes a fixed amount and an agreed amount is given to one member at a time (CBS et al, 1999).

Formal financial institutions do not often provide these services to small informal businesses run by the poor as profitable investments.  Usually MSEs ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral (farms). Commercial banks traditionally lend to medium and large enterprises which are judged to be creditworthy and tend to avoid doing business with the poor and the micro enterprises because the associated costs and risks are considered to be relatively high, however microfinance institutions (MFIs) have therefore become the main source of funding for micro enterprises in Africa and in other developing regions (Kessy and Temu 2010).

The Grameen Bank (2000) in Ahiabor (2013) has identified fourteen different microfinance models such models include (Associations, Bank Guarantees, Community Banking, Co-operatives, Credit Unions, Grameen, Group, Individual, Intermediaries, NGOs, Peer Pressure, Rotating Savings and Credit Associations, Small Business and Village Banking).However, this study focuses on two; namely Individual, and Grameen solidarity group model. These are two microfinance models that were captured during the field research.

#### 2.1.3.1 Individual.

This is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups, or generating peer pressures to ensure repayment, the individual model is, in many cases, a part of a larger 'credit plus' programme where other socio-economic services such as skill development, education, and other outreach services are provided (Berenbach and Guzman, 1994 in Ahiabor, 2013).

#### 2.1.3.2 The Grameen Solidarity Group model

This model is based on group peer pressure whereby loans are made to individuals in groups of four to seven. Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all group members.

Payments are usually made weekly, solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this type of microfinance model, ( Ahiabor, 2013).

### 2.1.4 The need for micro-finance institutions.

One of the main constraints for poor households in developing countries is the lack of access to financial services; inadequate finance is the barriers towards the MSEs growth in developing countries. MSEs mostly they can't access finance from formal financial institutions because of the failure of fulfilling formal banks loan's requirements, particularly collateral requirement (URT, 2003). Commercial banks tends to offer their services only to medium and large enterprises that are thought to be credit worthy because they have registered assets; However, MSEs in the formal financial markets remains underserved and excluded because of having only dead capital (Kessy and Temu, 2010).

Micro and Small Enterprises are generally excluded from the financial services sector of the economy, so MFIs have emerged to address this market failure, by addressing this gap in the market in a financially sustainable manner (Littlefield and Rosenberg, 2004).

Microfinance institutions represent an option towards eliminating the borrowing constraint in developing countries. Microfinance allows the individual to disserve and save which makes it possible for each individual to smooth consumption and follow his or her optimal lifetime consumption (Todaro et al., 2003). Small loan helps the poor to survive and to create the sparks of personal initiatives and enterprise necessary to pool themselves out of poverty, promoting enterprise in developing countries by serving the un-served and under-saved a broad range of services including deposits, loans, payment services, money transfer and insurance to the poor/low-income households and their enterprise (UNCDF, 2004).

### 2.1.5 National Micro financial Policy and suppliers of Micro finance services.

#### 2.1.5.1 National Microfinance policy.

Tanzania introduced a national microfinance policy in January 2001, with the main objective of establishing a basis for evolution of an efficient and effective micro financial system in the country. The policy targets a number of segments which include; households; small farmer's holders and micro, small and medium enterprises in urban and rural areas.

Microfinance services will cover a range of financial service including servings, credit, and payments and other services used by the clients to support their enterprise and other economic activities (URT, 2000).Microfinance was initiated to meet different objectives, to help reduce poverty, provid credit, seed capital, grants, and technical advisory services to MSEs as well as poor people in Africa with a focus on the least developed countries (LDCs) (UNCDF, 2004). The most commonly mentioned objectives include: poverty alleviation and improved living standards, financing to the poor, to reduce dependence of the rural families on drought prone crops through diversifying their income generating activities, women's empowerment ; helping existing business to grow or diversify their activities and to encourage the development of a new business sector as a means of achieving high standards and reducing market failure (Chijoriga and Cassimon 1999; Harper et al, 1999).

#### 2.1.5.2 Suppliers of microfinance services.

In Tanzania since the enactment of the Banking and Financial Institution Act of 1991, a number of supportive microfinance institutions (MFIs) have been mushrooming extending credit to the informal business sector (Chijoriga, 2000; Kuzilwa, 2005). These institution include local and international, formal and informal microfinance, such as National Microfinance Bank (NMB), CRDB bank, Akiba Commercial Bank (ACB), Tanzania postal bank (TPB) and a few Community/regional banks namely, Dar es Salaam Community Bank, Mbinga Community Bank, Mufindi Community bank, are the banks which are relatively involved in microfinance. NGOs such as FINCA, Small Enterprise Development Agency (SEDA), Credit Schemes for Productive activities of Women in Tanzania (CREW), Promotion of Rural Initiatives and Development Enterprises (PRIDE), Equal opportunities for all Trust Fund (EOTF), Small industries development organization (SIDO) , Presidential Trust for Self-Reliance (PTF) other NGOs which are relatively small with small coverage are , YOSEFO, SELFINA, also various programme throughout the country which are in the form of CBOs; Savings and credit cooperatives societies and Credit Association which are in various forms such as ,VICOBA and COCOBA, just to mention the few(Triodosfacet,2007). Such MFIs share a common belief that provision of microfinance can facilitate growth and development (Kessy and Urio, 2006; PRIDE Tanzania, 2006).

### 2.2 The Concept of Micro and Small Enterprises.

There is a wide range of definitions for Micro and Small Enterprises(MSEs), however aspects such as number of employees, capital invested, number of shareholders, total assets, turnover, market share, geographical market coverage, organizational complexity, number of shareholders, composition of management and degree of formality are used as a basis for categorization, and this depends on the level of development of the particular country, different countries use various measures of size, depending on their level of development (URT, 2003). The common measure yard sticks are total number of employees, total investment and sales turn over but for the purpose of this study, a MSE is defined as a productive activity either to produce or distribute goods and or services, mostly undertaken in the informal sector (Kessy and Urio, 2006).

In the Tanzania context, Micro and Small Enterprises (MSEs) defined by SMEs Development Policy (2006) are those engaging up to four people in most cases family members. On the other had small enterprises are mostly formalized undertakings engaging between five and 49 employees or with capital investment from Tshs. 5 million to 200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to 800 million (SME Development policy 2000). According to the SMEs Development policy for Tanzania, the SMEs cover nonfarm economic activities mainly manufacturing. Mining, Commerce and Service there is no universally accepted definition of SMEs. Different countries use various measures of size, depending on their level of development (URT, 2003). The Small Industries Development Organization (SIDO) classifies small scale industries as those establishments which employ people not exceeding 50 while micro enterprises are those projects which employ 10 people or less (URT, 2003). In Tanzania MSEs covers all non economic activities mostly manufacturing, mining, commerce and services (URT, 2003).

### 2.2.1 Growth of Micro and Small Enterprises.

Business growth is critical to entrepreneurial success. Growth is the dynamic process, the growth of the MSEs can be qualified by a number of financial criteria growth in income, assets, and capital are equally important, however, the key indicators to follow include changes in turnover, changes in cash profits, changes in tangible assets, changes in total asset, and changes in shareholders capital. It involves the development and change within the organization and changes in the way in which the organization interacts with its environment. The aspects of growth are not independent of each other they are just different facets of the same underlying process. Mintzberg (1979) as cited in Wickham (2006) states that given the nature of the organization, the MSEs owner constantly view the growth of their MSEs from a number of different perspectives. Four perspectives in particular are important that's financial, strategic, structural, and organizational growth.

- Financial growth - it is concerned with increase in turn over, the cost and investment needed to achieve that turnover and the resulting profit, increases in what the business own; its asset, increases in the value of the business
- Strategic growth – primarily, this is concerned with the way the business develops its capabilities to exploit a presence in the market place. It is the profile of opportunities which the venture exploits and the assets, both tangible and intangible, it acquires to create sustainable competitive advantages.
- Structural growth – it is concerned with the changes in the way the business organizes its internal systems, in particular, managerial roles and responsibilities, reporting relationships, communication links and resources control system.
- Organization growth – relates to the changes in the organizations process, culture and altitudes, as it grows and develops. It is also concerned with the changes that must take place in the entrepreneurs' role and leadership style as the business moves from being a small to a large firm.

The MSEs venture is characterized by its growth potential, it might be the result of a desire to increase personal wealth, a sense of achievement, entrepreneurs are also driven by a desire to make a difference to the world, driving growth can also relate to the desires for personal control. It must be delivered by obtaining a greater volume of business, ultimately it must be driven by increased sales, exploiting market growth, increasing market share, developing new products, or entering new markets. The MSEs can pursue its opportunity of growth only if it has access to the right resources. Financial resources are critical because the business must make essential investments in productive assets, pay its staff and reimburse suppliers. Once the business is growing, it will need to attract new resources to support that growth. They must attract financial resources from investors and then make them work as hard as possible to progress the venture (Wickham, 2006).

In broad terms, according to Wickham (2006) there are three sorts of resources that the MSEs owner can call upon to build their business to grow, which act as the indicator of the MSEs growth, that's financial resources (capital) which take the forms of, or can be readily converted to cash; operating resources(asset) the facilities which allow people to do their job; such as buildings, vehicles, office equipment, machinery and raw materials as well as Human resources (employee) people and the efforts, knowledge, skills and their insight they contribute to the growth of the success of the venture as well as operating resources the MSEs.

#### 2.2.1.1 Financial resources (Capital)

Capital is a valuable commodity for the MSEs growth. This means that Capital is often called the owner equity or net worth. It comprises the funds invested in the business by the owner plus any profits retained for use in the business. The amount of the resources supplied by the owner is called capital; the actual resources that are in the business are called assets. When the owner has supplied all of the resources it can be expressed as;-( Capital = Asset).Usually; however people other than the owner have supplied some of the asset, expressed as liabilities in which liabilities is the name given to the amounts owing to these people for these assets that's (Capital=Asset-Liabilities) and Asset = Capital + Liabilities where by asset is the actual resources that brae in the business and liabilities is the name given to the amounts owing to these people for these asset (Wood, 2012). The entrepreneur own capital may derive from personal savings, or it may be a lump sum resulting from a capital gain, in which case it might be quite a significant amount.

#### 2.2.1.2 Asset base

Operating resources are those which are actually used by the business to deliver its outputs to the market place the category of operating resources include;

- Premises-the building in which the business operates, this includes offices, production facilities, and the outlets through which the services are provided.

- Motor vehicles-any vehicles which are used by the organization to undertake its business such as cars for sales representatives, and vans and lorries, used to transport goods, make deliveries and provide services.
- Raw materials-the inputs that are converted into the products that the business sells;
- Production machinery-machinery which is used to manufacture the products which the business sells;
- Storage facilities-premises and equipments used to store finished goods until there are sold.
- Office equipment –items used in the administration of the business such as office furniture, word processors, and information processing and communication equipment.

#### 2.2.1.3 Employment (employee) growth.

People (employee) are the critical element in MSEs growth. Financial and operating resources are not unique and they cannot, in themselves confer advantages to the business, they must be used in a unique and innovative way by the people who own the MSEs. The people who take part in the venture offer their labour towards it. This can take varieties of forms toward MSEs growth;

- Prod uctive labour-a direct contribution toward generating the outputs of the business, its physical products or the services it offers.
- Tech nical expertise-a contribution of knowledge specific to the products or services offered by the business, this may be in support of existing products, or associated with the development of new ones.

- Provision of business services - a contribution of expertise in general business services, for example, in legal affairs or accounting.
- Functional organization skills-the provision of decision making insight and organizing skills in functional areas such as production, operational planning, market research and sales management;
- Communication skills - offering skills in communicating with, and gain the commitment of, external organization and individual. These include markets and sales directed towards customers, and financial managements directed toward investors;
- Strategic and leadership skills - the contribution of insight and direction of the business as a whole. This involve generating a vision for the business, converting this into an effective strategy and plan for action ,communicating this to the organization and then leading the business in pursuit of the vision.

According to Kessy S. and Temu S. (2010),the determining factor for a firm's growth is the availability of resources to the firm, MFIs recognizing the growth of Micro and Small enterprises operations by increases of sales volume, asset base increase of the firms increases of capital size of the firm, profitability, as well as employment level, So MFIs paid closer attention and its services are more suitable designed to cater to the specific requirements of the clients (MSEs).The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements. The growth of a firm can be determined by supply of capital size, asset base, and employment level (employee). This study will use accumulation of business assets, employment level, and capital size, of the enterprises as the indicator of MSEs growth.

### 2.2.2 Contribution of MSES to the Economy (Importance of MSES)

MSEs all over the world play a major role in socio-economic development. Birch, 1997 as cited in Maliti (2008) found that 80% of the job created between 1969 and 1976 in the US resulted from the activities of small businesses and it was estimated that small and medium enterprises MSEs employed 22% of the adult population in developing countries. There are approximately 2.7 million enterprises in the country and (98%) of these are micro enterprises, SMEs are effective in utilizing local resources by using simple and affordable technology; and they complement large industrial requirements through business linkages, partnerships and subcontracting relationships (URT, 2003).

In Tanzania, SMEs were estimated to account for a significant share of Gross Domestic Product GDP- up to 35% and to employ about 20% of the labour force. These results mostly lead to the conclusion that by creating jobs, small businesses play a critical role in poverty alleviation. MSEs contribute to equitable distribution of income as well as to add value to agro-products (URT, 2006). According to Makombe (2005), the development functions of MSEs include; To act as a seedbeds for entrepreneurial talent, to generate employment by using more labour in relation to capital invested, to provide  training facilities for people with varying levels of education both management and technical skills. In 1993 for instance, it was estimated that about 12%of the rural labour force was self employed in the MSEs sector, while in urban area it was estimated to be 34% .The average number of school leavers who join the labour market is estimated at 700,000 annually where as the formal economy creates about 22,000 new posts annually ( Diyamett, 2012).

### 2.2.3 Challenge Facing MSEs.

Roy(2008),explained the various challenges facing MSEs  including t , lack of business linkage lack of information, short term outlook , common error in financial management like bad receivables management, unproductive investment, and poor budgeting decisions. According to Truett et al (2004), most of MSEs lack managerial skills which hinder the micro enterprises growth due to the fact that in this new century, all types of businesses are becoming more complex and more global. The lack of finance particularly for micro and small enterprises (MSEs) has remained a serious problem despite considerable efforts undertaken in recent years in developing the banking sector for the purpose of supporting entrepreneurs, institutions and associations supporting SMEs are weak, fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector (URT, 2003).

Morden et al. (1993) explained that most of the MSEs are weak in market effort that’s failure to understand the marketing and the marketing mix, the marketing mix is often crucial when determining a product or brands offering, and is often synonymous with the price, product, promotion, and place or distribution. According to (Roy, 2008), most of the MSEs facing the challenge of improper inventory control associated with failing to keep accurate information that can be used for predicting future business trends, without accurate keeping of data it is hard to draw any conclusions about the effectiveness of the business firm.

### 2.2.4 The Link between Microfinance Institutions and MSES Growth.

One of the constraints often identified with MSEs is lack of microfinance services. This study considers linkages as relations between MFIs and MSEs growth. Several objectives so conceived by the government of Tanzania influenced the initiation of the MFIs schemes, among them, the most commonly mentioned ones include: poverty alleviation and improved living standards, offering financing to the poor, women's empowerment, and the development of the business sector as a means of achieving high standards and reducing market failure (Chijoriga and Cassimon 1999; Harper et al, 1999).

Linkages between MFIs and MSEs has a number of potential benefits, like other types of financial services, micro-finance is a facilitator not a creator of opportunities that leads to wide spread economic prosperity, hence the success of the micro-finance is in tandem with the development of other sectors in the economy(Ledgerwood, 1999; CGAP, 2012).

UNCDF (2004), observes that microfinance institutions improve the socio-economic conditions of women involving in macro and small enterprises, especially those in the rural areas through the provision of loan assistance, as well as skills acquisition; It helps poor households meet basic needs source of capital to business and helps to empower women by supporting women's economic participation. Microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to run their micro-enterprises (Otero, 1999).

According (PRSP) of 1999, a large number of Tanzanians derive their livelihood from small and micro-enterprise. However, the development of this sector represents an important means of creating employment, promoting growth, and reducing poverty in the long term. Despite of the importance of this sector, experience shows that provision and delivery of credit and other financial services to the sector by formal credit institutions, such as microfinance institutions has been below expectation, the link between MFIs and MSEs emerged as the way towards MSEs growth.

Linking enables firms to overcome some of the constraints like lack o finance, lack of working and investment capital. As a result, access to finance lead to access to raw materials, or inputs and technology access to credit and financial services is key to the growth and development of any micro and small enterprise.(Kessy and Urio, 2006). Small firms may also link with large firms as a way of being able to access superior management capability, technology, market information, and finance that are important for firm survival (Harper et al, 1999). They help to improve firm performance by reducing marketing costs, increasing firm flexibility, improving skills and diffusion of skills, facilitating information sharing. However limited linkages among MSEs and MFIs services limits their flexibility in growth (Atieno, 2002).

Various scholars explain significant relation between the availability of micro-finance alongside the growth of the small scale and medium enterprises worldwide.CGAP (2012), reveals that MFIs participation has a positive impact on enterprises that were typically small, labor intensive and growing, although the impact was far from uniform across sectors and target variables.UNCDF (2004), reveals that without inter-sectorial collaboration and fomenting sustainable linkages different sector in the economy will fail to perform, mobility increases significantly with access to credit, enterprises performed better than non-client enterprises in terms of profits, fixed assets, and employment.

**2.3 Pecking Order Theory**

This research is underpinned by pecking order theory which supports microfinance institutions services intervention. According to Myers and Majluf (1984), pecking order theory states that the firms prioritize their sources of funding starting from internal finance, debt and then equity, the highest preference is to use internal financing (retained earnings and the effects of depreciation) before resorting to any form of external funds.

This theory consists of two major things in internal finance, that's debt and then equity which influence the MSEs growth. Debt financing, obtaining borrowed funds for the MSEs, involving an interest –bearing instruments, usually a loan the payment of which is only indirectly related to the sales and profits of the venture, the owner equity associated with profits that a venture generates available to be reinvested in business growth. However, such profits (retaining earnings) belong to shareholders might reinvesting the profits to offer a good MSEs growth opportunities, internally generated funds of MSEs can come from several source within the company; profits, sales of asset, reduction in working capital, extended payment terms, and account receivables, selling little-used asset (Hisrich, 2002).

Many communities, especially those based around a group of people who are displaced and excluded from the wider economic system, such groups often encourage investment among themselves. Communities set up internal capital networks which direct capital towards new business opportunities within the communities; important examples include Asians groups in Britain, North Africans in France, Chinese expatriates in southeast Asia and the Lebanese in west Africa. However such groups often encourage investment among themselves, communities set up internal capital networks which direct capital towards new business opportunities within the communities (Wickham, 2006).

That is to say there is a tendency of the firms to go to loan option after they have exploited own internal savings. Externally generated fund of the MSEs can come from self, family and friends, commercial banks, small business administration loan, governments' grants, and private placement (Hisrich, 2002). According to the theory, the decision of MSEs to exploit external source of loan leads to the need for microfinance as a source of MSEs growth. Access to credit increases the growth of both employment and sales, due to fact that MSEs lack access to finance for starting, operating and expanding their businesses (Kuzilwa, 2002).

## 2.4 Empirical Studies

### 2.4.1 Empirical Studies outside Tanzania

Ahiabor (2013), uses a case study in the assessments of impact of Microfinance on Medium and small Enterprises (MSEs) in Ghana, using a case study of the Ledzorkuku-Krowor Municipal Assembly. Simple random sampling technique was employed in selecting the 70 SMEs and 30 MFIs that constituted the sample size of the research.
The findings of the study reveal that significant number of the SMEs has the knowledge of the existence of MFIs and some acknowledge positive contributions of MFIs loans towa9rds promoting their development.

Atieno (2012), in the assessment of "Linkages between MSEs and Financial Institutions: Implications for the Development of Small Scale Clothing Enterprises in Kenya Small and Micro Enterprises (SMEs). Using primary data from a sample of small scale enterprises in Kenya, the study analyses the institutional networks among women owned SMEs, and with financial institutions and their effect on enterprise performance. The findings of the study reveal that SMEs have networks among themselves and with financial institutions, which have advantages, reflected in the enterprises performance.

Pitt and Khandker (1998), summarises a number of different studies conducted in Bangladesh using the 1991/1992 survey and focusing on three major microfinance programs, including the Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC). Methodologically, the impact is assessed by using a double - difference approach between eligible and ineligible households (with land holdings of more than half an acre making households ineligible) and between program and non-program villages. After controlling some other factors, such as various households' characteristics, any reaming difference was attributed to the microfinance programs. The study draws a number of conclusions, but the main one is that the program had a positive effect on household consumption, which was significantly greater for female borrowers. In terms of poverty impact it is estimated that 5% of participant households are pulled above the poverty line annually.

### 2.4.2 Empirical Review in Tanzania.

Diyamett (2012) examined the role and effect of micro finance institutions' loan on innovativeness in micro and small enterprises**.** The study was carried out in Dar es Salaam, in all the three districts, Kinondoni, Ilala and Temeke. The study revealed that women who own micro and small enterprises in Dar es Salaam do innovate but the effect and role of loan played a minimal in the innovation in these enterprises.

The popular kind of innovation activities that is performed is more of adoption and modification than that of introducing completely new products and ways of productions.

Kessy et al. (2006), researched on the contribution of microfinance institutions to poverty reduction in Tanzania. The findings reveal that the process of application for loans starts with small amount and after repayment the client can apply for next higher amount. This process was observed to be a limiting factor for those customers who needed a large amount right from the beginning.

The surveyed MFIs conducted a pre-lending training programme, but it was further observed that, the training was provided by loan officers who were not experts or practitioners in the area of small business. The training concentrated more on familiarizing the clients with loan terms and conditions rather than providing small business skills. This practice may build up the spirit of loan repayment but does not influence business growth. Clients also mentioned that, the required weekly reporting to the MFIs office was very high (i.e. one day in every week where they spend almost the whole day). This consumed a lot of productive time and hence reduced the time they could concentrate on other productive activities.

The study concluded that, to a large extent MFIs operation in Tanzania has brought about positive changes in the standard of living of people who access their services. Following the information collected from both microfinance institutions and their clients, MFIs have changed the life of poor people in a positive way. MFIs' clients have increased their incomes, capital invested and therefore expansion of their businesses. Despite the achievements of MFIs clients, most of them complained that, the interest rates charged by MFIs were very high. It was further observed that some conditions like grace period for loan repayment, collateral and MFIs coverage have been limiting factors for poor people to access the MFI services.

Kuzilwa (2002) examined the role of credit in the success of entrepreneurial activities. The study revealed that both credit and training are the instrumental to the success of the enterprise at different stage of business life cycle. The findings of the study show that the output of enterprises increased following the access to the credit and the enterprises whose owners received business training and advice, performed better than those who did not receive training.

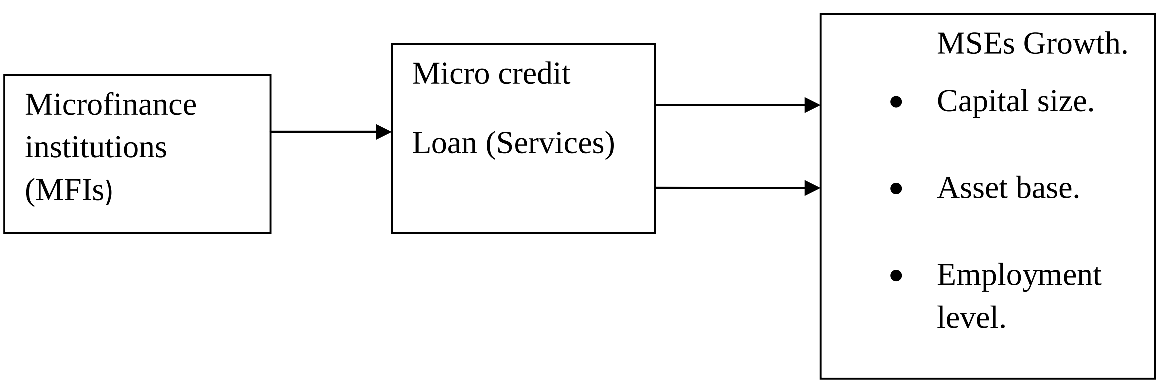
In Tanzania a study was undertaken by Rweyemamu et el (2003 and 2006), to evaluate the performance of semi-formal microfinance institution. The study investigated the learning mechanism of the institution, social –economic characteristics that influence loan demand, the transaction cost to lenders and borrowers, and the influence of such cost on credit repayment. Data were collected through a formal survey of 222 farmers participating in the two lending programs. The author concludes that agriculture sector development requires complementary services (e.g. infrastructure, marketing services,). If a clear orientation is taken toward agricultural development, the public sector must invest in the operations, since even sustainable microfinance institutions will not be able to fulfill their role in absence of essential complementary services.

### 2.5 Conceptual Framework.

The conceptual framework is an abstract representation of how the researcher makes logical sense of the linkages among various attributes that have been investigated as imperative to the problem. It can be represented graphically or descriptive structure (Kothari, 1990).It is an outline of the intended course of action in presenting an ideal or thought as conceived by the researcher. The conceptual framework which guides this study is developed with the reflection of the objectives.

Figure 1 presents the conceptual framework that is going to be adopted in conducting the study. Independent variables will influence dependent variable. According to the conceptual framework, MFIs services (Loan services) are conceptualized as the independent variable and MSEs growth (Capital size, asset base, and employment level) as the dependent variable. According to the model, MFIs provide services to MSEs which may have impact to MSEs Growth.

**Figure 1.1 The link between MFIs services and MSEs growth.**




### 2.5.1 Independent Variables

For the case of this study, Independent variable comprise financial facilities created by MFIs including; Credit services.

#### 2.5.1.1 Credit services.

Microcredit refers to small loan to low-income clients made by a microfinance institution or a bank with a microfinance window. Microcredit can be offered, often without collateral, to an individual or through group lending. Whereas microfinance includes microcredit, microcredit is exclusively the provision of small loans to finance small business operations (Kaleshu et al., 2011).

### 2.5.2 Dependant variables.

#### 2.5.2.1 Capital size.

The amount of the resources supplied by the owner is called capital. Capital is often called the owner equity or net worth. It comprises the funds invested in the business by the owner plus any profits retained for use in the business (Wood, 2012).

The money, property, and other valuables which collectively represent the wealth of an individual or business.

#### 2.5.2.2 Asset

According to Wood (2012), The actual resources that are then in the business are called asset, asset consist of property of all kinds such as buildings, machinery, stocks of goods,  motor vehicles, prepaid and deferred assets(expenditure for future good such as insurance, rent, and interest), and intangible assets(trade marks, patents , and copyrights. Also benefits such as debts owed by customer s and the amount of money in the bank account are included.

#### 2.5.2.3 Employment

Employment involves people who do any work at all as paid employees, worked in their own business, profession, own farm, or who worked as unpaid workers in an enterprises operated by a member of family and all those who were not working but who had jobs or business. However employment level refers to the increases or decreases in number of employee to the organization (Maliti et al., 2008).

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

Research methodology is the systematically way or solving the research problem, research methodology specifies the criteria which the researcher is going to adopt in systematization of the entire process of data collection, interpretation and drawing inference (Kothari, 1990).This chapter describes area of the study, research design, sample and sampling techniques, sources of data, methods of data collection and analysis.

## 3.2 Area of the study.

The spread of microfinance institutions is throughout the country. The study was conducted in Mbeya municipality in Mbeya Region. The selection of the area was based on the accessibility of transportation facilities for the researcher and the availability of the target population in line with the possibility to get reliable information related to the study.

## 3.3 Research Design.

A research design is the arrangement of conditions for collection and analysis of data in a manner that it combines relevance to the research purpose in procedures (Kothari, 2008).In conducting the study, a case study was adopted by the researcher the use of Cross-section survey method and both qualitative and quantitative data collection technique were employed.

## 3.4 Sampling Procedures and Sampling size.

### 3.4.1. Population

Population is the targeted group to be studied, it is the total collection of elements or items about which we wish to make inference (Kothari, 1990).

This is the set of people or entities to which findings are to be generalized. In analyzing the impact of micro financing institutions on the MSEs growth the focus was given to MSEs accessed microfinance services. The population was given priority due to the needy of getting empirical evidence in Tanzania. However, for comparison purposes the study included MSEs before and after access micro financing services.

### 3.4.2 Sampling frame

In order to perform, sampling framework was constructed based on the study area one (1) MFIs (PRIDE) was selected purposively and 100 MSEs owners was randomly selected.

### 3.4.3 Sampling unit

The study was conducted at Mbeya Municipality .In this study, individual persons was constituted a sampling unit where possibility of selecting the group member dealing with MSEs and who are the PRIDE beneficiaries exist.

### 3.4.4. Sample Size

The study comprised respondents that are directly affected by the micro finance institutions. It is expected that the sample size was only 100 clients who own MSEs, and who are the beneficiaries of PRIDE was covered.

### 3.4.5 Sampling techniques

Sampling techniques are the method which the study used to choose items in the population (Kothari, 1990). The study employed two different sample types First, the study employed purposive sampling which is a non probability sampling that conforms to certain criteria for selecting MFIs (PRIDE). Second, the study employed probability sampling techniques especially simple random sampling in choosing MSEs to be studied who are the beneficiaries of PRIDE services.

The factors considered as selection criteria employed include time frame of the study, financial resources, accuracy of information, and reliability of information and precision of information.

### 3.4.6. Sampling Procedure

The techniques employed by the researcher in selecting the items or subjects for the sample size was purposive sampling methods and random sampling to obtain the respondent. Since it was difficult for the researcher to cover the whole population, sampling techniques was used in conducting the study, both probability and non-probability sampling technique were used. Probability sampling employed to allow equal opportunities for every member of the population to have chance of being chosen as a representative of the population. However, non probability sampling employed to select MFIs to supplement probability sampling technique.

## 3.5 Data collection methods

Data are facts, figures and other information produced by researches which facilitate the study and investigation (Kothari 2008). Primary data employed in this study, therefore collected by the methods sufficient for each category. Much emphasis was placed on the collection of accurate and reliable data so as to be able to come up with objective evaluations and to make informed conclusions and judgments.

### 3.5.1 Primary data

Primary data are those data collected afresh and for the first time thus happen to be original in character, can be collected either by experimental or survey (Kothari,2008). Primary data therefore was collected by using questionnaires. The source based on PRIDE clients beneficiaries.

#### 3.5.1.1 Questionnaire

A questionnaire was prepared and self administered to the relevant respondents from PRIDE beneficiaries.This is one of the methods which enable the researcher to get enough information (Kothari, 1990). The researcher employed both open and close – end questionnaires as well as the researcher employed both structured and unstructured questions. However, the questionnaires were designed to capture the data for assessment as a qualitative and quantitative tool of analysis. Questionnaires were made up of a number of questions printed in a defined order both English and Swahili questionnaires were used to allow respondents to use their language of their choice.

### 3.6 Research quality issues

A conclusion of study can be affected by either a researchers bias or subjective judgment in the data collection process, the researcher must provide supporting evidence that a measuring instrument does, in fact, measure what it appears to measure( Kothari 1990).Below are things employed to ensure content validity and reliability.

***Validity:*** The data collection instrument was designed in such a way that they measure attitudes and opinions of respondents. To construct validity, answers obtained from questionnaire were compared with the issues developed from conceptual framework.

***Reliability:*** Successful and meaningful study is built upon reliable data. In order to collect reliable data, the researcher was designed the questionnaires through an elaborate procedure which involved a series of revisions; statement from questionnaires was used as references to ensure reliability. To achieve data consistence and completeness the researcher employed checklist of questions.

### 3.7 Data Analysis and Presentation of findings.

Data analysis is the process that conveys data into order; systematize data into defined patterns (Kothari, 1990).

The quantitative and qualitative data analysis was employed, Pearson correlation was used to determine the significant relationship between micro-finance services and growth of MSEs, through which comparison between the MSEs growth before and after acquiring MFIs services. Descriptive statistical procedures including percentages, cross-tabulations and frequency distributions were used so as to establish the relationship of variables. Interpretation and presentation of data involved the use of tables, percentages, and tabulation, hence to write the report.

# CHAPTER FOUR

# RESEARCH FINDINGS

The chapter provides summary of findings, the discussion of the study findings, also presentation is organized according to the research objectives and questions .In this case, the general objective of the study was to examine the impact of micro finance institutions to Micro and Small Enterprises' growth in Tanzania. Specific objectives include: To determine the extent to which MFIs services has an influence on MSEs asset growth, to determine whether the MFIs services has an influence on MSEs capital growth and to find out the extents to which MFIs services has an influence on MSEs employment growth. Following these, the chapter is organized as follows summary of the responses, and the extents of MSEs after join PRIDE on credit status, the influence of MFIs to MSEs (capital, asset , and employment) growth, Description of variables, and interpretation of output from correlations analysis.

## 4.1 Summary of the responses.

This section provides summary of the responses from the field. The chapter gave the general picture of the profile of the surveyed PRIDE customers includes;- gender distributions of respondents, age distributions, respondents level of educations, marital status of the respondents, types of business, years of business operations, and their opinion on various issues pertaining to the impact of MFIs on MSEs.

### 4.1.1 Gender distribution of respondents.

Of the 100 respondents, 42 were male respondents, which accounts for 42%, while 58 were female respondents, accounting for 58% .This shows that PRIDE takes care of customers regardless of sex. This is evidenced in the fact that women MSEs owner that use MFIs services (credit) facilities go up to 58 %.

**Table 4.1 Gender distribution of respondents.**

| Gender | Frequency | Percent |
|---|---|---|
| Male | 42 | 42 |
| Female | 58 | 58 |
| **Total** | **100** | **100** |

**Source: Researcher, 2014**

These findings seems to divert with several studies among them is the study by Stevenson and St-Onge (2005) cited in Dyamett (2012) Support for Growth-oriented Women Entrepreneurs in Tanzania which found out that many women are predominantly excluded in MSEs and encounter high competition while earning subsistence income. Furthermore, their study argued that due to low levels of education, women are unable to access MFIs services. Thus this result was expected since most MFIs excluded to support women MSEs thus make to be dominated by male since they require large capital outlay to operate. The table below summarizes the composition of respondents by gender.

### 4.1.2 Age distribution of the respondents.

According to Table 4.2, a significant portion of the respondents (08) who account for 8% lie within the age of 0 to 20 years with the lowest represented age group. 55 respondents who account for 55% lie within the age of 21 to 40 and 37 respondents who account for 37% lie within the age of 41 and above. Generally, the majority of the respondents are in the age categories of active people. This implies that the active enterprising group lies between the ages of 21-40 years. The high concentration of most owners/managers between the ages of 21 and 40 years old is as expected because this is the period when most middle aged are actively engaged in productive economic activities. These findings are in agreement with those of Olomi (2003) who found that middle aged people have energy and are willing to involve in MSEs.

**Table 4.2 Age distribution of the respondents.**

| Age of the respondents. | Frequency | Percent |
|---|---|---|
| 0-20 | 08 | 8 |
| 21-40 | 55 | 55 |
| 41 and above | 37 | 37 |
| **Total** | **100** | **100** |

**Source: Researcher, 2014**

### 4.1.3 Marital status.

Table 4.3 below show that 30 respondents representing 30% are not married, 50 respondents constituting 50% responded to questionnaire indicated to be married, with only 20 respondents constituting 20% who reported to be divorced.

**Table 4.3 Marital status of respondents.**

| Marital status | Frequency | Percent |
|---|---|---|
| Single | 30 | 30 |
| Married | 50 | 50 |
| Divorced | 20 | 20 |
| **Total** | **100** | **100** |

**Source: Researcher, 2014**

From the above results it can be noted that married respondents have largest portion of all respondents while the second are single. This in one way shows that most respondents who are the PRIDE beneficiaries are reported to be married, assuming that their spouses allowed them to be benefited by MFIs toward their MSEs growth as well as single and divorce assuming that the MFIs as main solution towards their MSEs growth, and mostly started a business to help generate household income. The results from this study are in tandem with Makombe (2005) and ILO research report (2003), both studies found out that the majority (80%) of women MSEs were married and according to Makombe (2005), this show the real picture of Tanzanian population were most of adult women are married and the fact that the most women start their business when they are married. The table below shows the distribution of respondents by marital status.

### 4.1.4 Respondents level of education.

Of 7 respondents accounting for 7% have no education clearly portray that, a small number of illiterates received services (loan) from PRIDE, 57 respondents accounting for 57% have primary education, 28 respondents account for 28% have secondary education, and 8 respondents accounting for 8% have higher education. Most of the respondents have primary educations up to secondary school education.

**Table 4.4 Distributions of the respondent's education level.**

| Level of education | Frequency | Percent |
|---|---|---|
| No education | 07 | 07 |
| Primary | 57 | 57 |
| Secondary | 28 | 28 |
| Higher education /university | 08 | 8 |
| **Total** | **100** | **100** |

**Source: Researcher, 2014**

Most of the respondents have primary education up to secondary school. The finding implies that, people with primary and secondary education can easily understand the availability of loans at MFIs and follow the instructions correctly. Those with no education are likely to have little or no access to MFIs services. This is due to lack of awareness, and are not accepting in forming groups. It is revealed that majority of respondents with lower level of education engaged themselves in business. Furthermore those with post secondary school certificate and above prefer more formal employment than informal business sector. The findings are consistent with some previous studies which found that most of the MSEs had low level of education including Dyammett (2012), who find out that the majority (70%) of women who owned SMEs were having primary and secondary education and other having vocational trainings and higher education. The table below summarizes the collected data from respondents based on their education level.

### 4.1.5 Types of business

As can be seen in Table 4.5, 18 respondents constituting of 18% are dealing with merchandising and food vending business, 52 respondents accounting for 52% run manufacturing, 20 respondents constituting of 20% run retail shops, 3 respondents constituting of 3% run constructions activities, 7 respondents constituting of 7% of other MSEs run mixed activities.

**Table 4.5 Types of business.**

| Types of business | Frequency | Percent |
|---|---|---|
| Food service | 18 | 18 |
| Manufacturing | 52 | 52 |
| Retailed services | 20 | 20 |
| Construction | 03 | 03 |
| Other (mixed) | 07 | 07 |
| **Total** | **100** | **100** |

**Source: Researcher, 2014**

The finding above reveals that more than a half of respondents work in commercial activities mostly retailed trade, food services (in Tanzania famously known as mama lishe) and small manufacturing activities. This results signify that most of MSEs supported by the MFIs services are mainly covered by non-farm activities mainly; manufacturing, commerce and services. Thus the results corresponded with the report by Stevenson and St-Onge, (2005) cited in Dymett (2012) which revealed that most MSEs were described to be those involved in non-farm economic activities such as commerce and services.

### 4.1.6 Duration of the business.

Of 25 respondents constituting 25% fall within the range of 3-5 years of business operation, 49 respondents representing 49% lies within the range of 6-10 years of business operations. Further 26 respondents constituting 26% fall within the range of 11 years and above of business operation .This means that the average of businesses above 6 years are above 75 %,which is a good sign that the respondents are well established MSEs.

**Table 4.6 Duration of the business.**

| Number of years in business | Frequency | Percent |
|---|---|---|
| 3-5 | 25 | 25 |
| 6-10 | 49 | 49 |
| 11 and above | 26 | 26 |
| **Total** | **100** | **100** |

**Source: Researcher, 2014**

This means that the average of businesses above 6 years are above 75 %, which is a good sign that the respondents are well established MSEs. This implies that the majority of MSEs who are taking loans from PRIDE to extend their businesses, mostly at least have experiences in running business. The table below summarizes the duration of the businesses of respondents under study.

## 4.2 Extents of MSEs since join PRIDE.

The study tried to establish the changes of MFIs beneficiaries since they started benefiting from PRIDE credit services programs in terms of nature and size of the business growth. The data and corresponding analysis displayed in Table 4.7 below shows that 100 respondents representing 100% of the MSEs answered the questionnaire had secured MFIs loan services. However, none of the MSEs respondents have secured working tools loan from MFIs services. From the analysis the access of MFIs loan services by MSEs is good.

When answered the questionnaire whether the amount of loan granted were satisfactory , 56% of respondents said the amount of loan were adequate, while 30% said the loan is enough, as well as 14% assert that the loan were not enough. This in one way shows that there were dissatisfactions by some clients in relations to the amount received. However, it is interesting to note that despite the loan sizes to be stated small by some of the respondents, the study reveals that these loans have had positive impact particularly in business level as well as the standard of living of beneficiaries.

About 68% of respondents asserted that the interest rate charged are favorable for the growth of business and 32% respondents claim that the interest rate charged by MFIs are not favorable for business growth.

When asked whether they were satisfied with the payment mode of loan required by PRIDE, 57% of respondents were satisfied with the payment mode, while 43% assert that the payment mode is not satisfactory. This in one way shows that there were dissatisfactions by some clients in relations to the payment mode of loan required by MFIs.

However when asked the ability to meet the conditions required by PRIDE? 60 % of respondent agreed that they have ability to meet the conditions required by PRIDE, while 40% of respondents asserted that they were unable to meet the conditions of PRIDE.

**Table 4.7 Extents of MSEs since `join PRIDE**

| **Types of loan** | **Frequency** | **Percent** |
|---|---|---|
| Money | 100 | 100 |
| Working tools | 0 | 0 |
| **Total** | **100** | **100** |
| **Amount of loan.** | | |
| Adequate | 56 | 56 |
| Enough | 30 | 30 |
| Not enough | 14 | 14 |
| **Total** | **100** | **100** |
| **Favorability of interest rate** | | |
| Yes | 68 | 68 |
| No | 32 | 32 |
| **Total** | **100** | **100** |
| **Satisfaction of payment mode of loan** | | |
| Yes | 57 | 57 |
| No | 43 | 43 |
| **Total** | **100** | **100** |
| **Ability to meet the conditions.** | | |
| Yes | 60 | 60 |
| No | 40 | 40 |
| **Total** | **100** | **100** |

**Source: Researcher, 2014**

However given the access to the services, MSEs members still faced challenges in the ways these services were delivered to them, it was not satisfying them. These include amount of the loan that was granted was very small, maturity period for starting repaying back the loan was very short and the weekly payment mechanism was not advantageous to these enterprises and also the rates charged were high. Proposed solutions that came up from these micro and small enterprises stressed more on adjusting the terms and conditions of these loans from the Micro Finance institutions. The more stressed solution was the amount of the time that should be given before these financial institutions can start demanding the paybacks of the loan. Others are reduction of the interest rate and also an increase of the amount that an enterprise can borrow.

### 4.2.1 Influence of credit facilities on capital growth.

Table 4.8 Depicts the opinions of the respondents whether the MFIs services has an influence on MSEs capital growth. The question asked was “Does the MFIs services have an influence to MSEs capital growth?” In their view, 73 respondents constituting 73% assert that MFIs loans have an influence to their capital growth after joining pride, 10% posit that these loans have low influence. However, 17% respondents claim that MFIs loans did not contribute at all to their capital growth the capital size remains the same as before. However, 72 respondents representing 72% confirmed that the business before and after joining PRIDE was not the same and the changes of the business capital was due to the PRIDE services and 28 respondents representing 28% disagreed the notions

**Table 4.8 Influence of credit facilities on capital growth.**

| Capital growth | Frequency | Percent |
|---|---|---|
| Increased | 73 | 73 |
| Decreased | 10 | 10 |
| The same | 17 | 17 |
| **Total** | **100** | **100** |
| **Changes due to PRIDE?** | | |
| Yes | 72 | 72 |
| No | 28 | 28 |
| **Total** | **100** | **100** |

**Source: Researcher, 2014**

This result shows that injection of MFIs services to MSEs into enterprises had positive impacts to clients since business capital of clients increased significantly after the disbursement of the loans. This finding concurs with (Masembo,2010) researched that injection of MFIs credit services to enterprises had positive influence towards capital growth, since business of clients increased significantly after the disbursement of the loans. Then, it is possible to conclude that before access to credit the MSEs associated with poor growth and after credit the growth quality of the MSEs has relatively improved.

### 4.2.2 Influence of credit on assets growth

Table 4.9 Depicts the opinions of the respondents extent to which MFIs services has an influence to MSEs assets growth, the question that was asked “To what extent MFIs services has an influence to MSEs asset growth? In their view, the respondents assert that MFIs loans have an influence to their assets growth after joining pride, 66 respondents representing 66% assert that, the value conditions of business asset possessed by the firm and the levels of assets grew (increased), with only14 respondents representing 14% experiencing a decline in the level of assets as well as 21 respondents representing 21% assert that the level of assert remains the same.

However, respondents were asked whether the changes was due to PRIDE services, In the question, 73 respondents representing 73% assert that the possession of assert by the firm was due PRIDE services, with only 27 respondents representing 27% disagree the notions.

**Table 4.9 Influence of credit on assets growth.**

| **Asset possession after joining PRIDE.** | **Frequency** | **Percent** |
|---|---|---|
| Increased | 66 | 66 |
| Decreased | 14 | 14 |
| The same | 20 | 20 |
| Total | 100 | 100 |
| **Are the changes due to pride** | **Frequency** | **Percent** |
| Yes | 73 | 73 |
| No | 27 | 27 |
| **Total** | **100** | **100** |

**Source: Researcher, 2014**

This shows that as the business assets grow there is also a growth of capital so as to increase efficiency. However, since businesses that showed increase in capital size 73% while that for increases in assets is 66%, there is a chance that although MSEs take PRIDE loans for working capital, they turn the same to buy assets. From the results in table 4.8 and table 4.9, it is possible therefore to conclude that in general terms the impact perceived by MSEs as a result of the credit received is very positive and the loan is considered as an indispensable source for their business growth. Figure 4.9 clearly shows that the asset possession owned by MSEs increased after joining PRIDE. The finding of this study is consistent with (Diyamett, 2012) who found out those loans from MFIs was inadequate to stimulate innovation rather to increase capital base particularly operating capital. That is the loan as operating capital could be used to buy some new machines outside the locality and with time the enterprise learned to adopt and copy the machine and also do some modification and alteration to the machine so as make it more effective in their production. The study found out that the loan received from the Micro Finance Institutions had a great part to play in the innovativeness of these micro and small enterprises growth.

### 4.2.3 Influence of credit facilities on employment (employee) growth

Table 4.10 depicts the opinions of the respondents the extents to which MFIs services have an influence to MSEs employment growth. The question asked was "To what extents MFIs services has an influence to MSEs employment growth" In their view, 70 % of the respondents assert that MFIs loans have an influence to their rate of employee number (employment growth) after joining PRIDE, with only 12 % of them experiencing a decline in the level of employment growth as well as 18 respondents representing 18% assert that the level of employment growth remains the same.

However, respondents were asked whether the increase or decrease of employee number (employment growth) is due to PRIDE?, 78 respondents representing 78 % confirmed that the changes of employment growth were due to the PRIDE services and 22 respondents representing 22% disagree the notions.

**Table 4.10 Influence of credit facilities on employment (employee) growth**

| **Number of employee growth.** | **Frequency** | **Percent** |
|---|---|---|
| Increased | 70 | 70 |
| Decreased | 12 | 12 |
| The same | 18 | 18 |
| **Total** | **100** | **100** |
| **Are the changes due to pride** | **Frequency** | **Percent** |
| Yes | 78 | 78 |
| No | 22 | 22 |
| **Total** | **100** | **100** |

**Source: Researcher, 2014**

It shows that they increase employees when there are chances for increase in capital sizes and assets. In relation to employment growth, the finding reveals that majority of the respondents 70 % confirmed that access to loan has created employment opportunity among MSEs. This implies that there are positive relations between MFIs credit and employment creations (employment growth). Moreover, as the business grows, more employees are hired. For instance in this study as shown in table 4.5 above, out of 100 respondents, 18% said are self employed in food services (mama lishe), 29% in manufacturing, 20% in retailed services, 23% clothing tailoring, 3% in constructions, and 44% in a mixtures of activities such as salon, m mobile phone shops, flowers, poultry, and cow rearing. In addition employment opportunity created by MSEs implies that microfinance programs have significantly increased security autonomy, self-confidence and status within the society. This finding concurs with (Atieno, 2006) states that access of MFIs credit facilities to MSEs help to improve their performance, like finance, capital generation and support on social issues that may affect their business growth due to the fact that, the MSEs sector is a vibrant sector providing employment both directly to those involved in it, and indirectly through the creation of other enterprises, which provide them with support services. Access to credit has created employment opportunities among entrepreneurs (Masembo, 2010).

### 4.3 Descriptions of variables used.

Dependent variable (DV) namely; capital growth, asset growth and employment growth were used measured by three scales that is; increase, decrease and the same (constant). Independent variables (Credit facility) used were measured by two factor that is; before and after as described in the given table below.

**Table 4.11 Description of variables**

| No. | Variable code | Variable label | Coding instruction |
|---|---|---|---|
| 1. | Cr. | Credit facility | Increase in dependent variables indicate there is influence of credit facilities after MSEs access this service |
| 2. | Asst. | Asset growth | Increase in asset indicate there is influence on MSEs after receiving credit |
| 3. | Cap. | Capital growth | Increase in capital indicate there is influence on MSEs after receiving credit |
| 4. | Empl. | Employment growth | Increase in employment level indicate there is influence on MSEs after receiving credit |

**Source: Researcher, 2014**

From this table the data was analyzed using Pearson product moment correlation to explore the relationship between the dependent and independent variables. The output is summarized in the given table below.

**Table 4.12 Correlation matrix between dependent and independent variables.**

| | 1. | 2. | 3. | 4. |
|---|---|---|---|---|
| 1.Cr | 1 | | | |
| 2.asst | .467** | 1 | | |
| 3.Cap | .416** | .928** | 1 | |
| 4.Empl | .447** | .968** | .956** | 1 |

**Correlation is significant at the 0.01 level (2-tailed).

**Source: Researcher, 2014**

### 4.3.1 Interpretation of output from correlations analysis as presented above

From the analysis provided in Table 4.12 above when considering the direction of relationship among variables, we observed that there is high positive correlation between asset and capital (r=.928).The results indicate that there is high positive correlation between assets and employment level (r=.968). This means that, the MSEs with assets growth have managed to crease employment on their enterprises. Moreover the results shows that, capital is highly correlated with employment level (r=.956). This depicts the fact that, MSEs with increase in capital have managed to create more employment.

Furthermore, the results indicated that there are correlations among independent variable in influencing the dependent variables. The high positive correlation between credit facility and assets (r=.467) may be explained with the fact that, assets were increased after the MSEs received credit from PRIDE. Capital is correlated with the credit facility (r=.416 ) which implied that, under ceteris paribus the MSEs who accessed credit from PRIDE were in good position to increase their capital hence forth business grow. Furthermore, the results indicate that, after the MSEs received credit from PRIDE were likely to increase employment level as depicted with (r=.447). This implies that as micro-finance services are maximized and accessed by MSEs, influences the chances to transform the growth of enterprises among other factors. It should be realized that these services in addition to other factors can steadily contribute to the growth of MSEs.

# CHAPTER FIVE

# CONCLUSIONS AND RECOMMENDATIONS

## 5.0 Introduction

This chapter presents the summary of the research; conclusions and recommendation that may be useful to MSEs and institutions finance MSEs. Moreover, the suggested areas for further research are given so as to explore more and shed more light on issues of MSEs growth and financing.

## 5.1 Summary

This study aimed at examining the impact of MFIs financing in the growth of MSEs. More specifically, it aimed at examining and finding out the impact of MFIs on MSEs growth in terms of capital, asset and employment. In attempt to attain the objectives of this study, three main specific objectives were tested, to determine the extent to which MFIs services has an influence on MSEs asset growth, to determine whether the MFIs services has an influence on MSEs capital growth, to find out the extents to which MFIs services has an influence on MSEs employment growth.

To achieve the above objectives, the researcher collected both qualitative and quantitative data from 100 respondents of PRIDE beneficiary branch in Mbeya municipality being the main source of data. Questionnaire was self administered for randomly selected respondents from within those who responded questionnaires. The study found that almost all MSEs financed by MFIs have great prospects in terms of its growth that's capital, asset and employment level.

Specific objective one aimed to determine the extent to which MFIs services has an influence to MSEs asset growth. It was observed that, MFIs has managed to influence the MSEs positively growth, majority of micro and small enterprises had experienced asset growth.

Few experienced constant growth as well as other experienced the decline in asset growth. The major challenges that hinder the effectiveness of MSEs assets growth under which MFIs operate identified to be caused by the interest rates charged, by MFIs were very high, the process of application for loans starts with small amount, time frame from the receipt of the loan to the time of starting repayment, the amount given as loan was not enough to effect the micro and small enterprises growth, weekly reporting to the MFIs office was very high (i.e. one day in every week where they spend almost the whole day). This consumed a lot of productive time and hence reduced the time they could concentrate on other productive activities.

Specific objective two aimed to determine whether the MFIs services have an influence to MSEs capital growth. It found that, there is direct relationship with MFIs credits services and the rate of business capital growth. The study found out that the loan received from the Micro Finance Institutions had great influence on MSEs capital positively growth. Few experienced constant growth as well as other experienced the decline in asset growth. The major challenges that hinder the effectiveness of MSEs capital growth identified to be caused by the interest rates charged, by MFIs were very high, the process of application for loans starts with small amount, time frame from the receipt of the loan to the time of starting repayment, the amount given as loan was not enough to effect the micro and small enterprises growth, weekly reporting to the MFIs office was very high (i.e. one day in every week where they spend almost the whole day). This consumed a lot of productive time and hence reduced the time they could concentrate on other productive activities.

Specific objective three aimed to find out the extents to which MFIs services has an influence on MSEs employment growth. The findings revealed that the MFIs loan services have great influence on MSEs employment growth. It was observed that majority of micro and small enterprises, MFIs has managed to influence the MSEs employment growth positively.

Few experienced constant growth as well as other experienced the decline in asset growth. The major challenges that hinder the effectiveness of MSEs employment growth identified to be caused by the interest rates charged, by MFIs were very high, the process of application for loans starts with small amount, time frame from the receipt of the loan to the time of starting repayment, the amount given as loan was not enough to effect the micro and small enterprises growth, weekly reporting to the MFIs office was very high (i.e. one day in every week where they spend almost the whole day). This consumed a lot of productive time and hence reduced the time they could concentrate on other productive activities.

## 5.2 Conclusion

This study was an attempt to empirically ascertain the impacts of MFIs to MSEs. Positive and significant relationship has been established between MFIs loans and MSEs growth. The study confirms the positive contributions of MFIs loans towards promoting MSEs capital, asset and employment growth. Although some of the clients have not benefited, despite the achievements of MFIs clients, most of them complained that, the process of loan application is very complicated. To a large extent MFIs operation in Tanzania has brought about positive changes in the business growth. Since the entire influence showed that there is a significant relationship between MFIs financing and the study variables, capital size, assets, and employment growth. Loan that are required from the microfinance institutions are put in the expansions of the business through increasing raw materials and hiring of additional labor force so as to achieve higher output and hence increase capital. That is the loan could be used to buy some new assets outside the locality and with time the enterprise learned to adopt and copy the machine and also do some modification and alteration to the machine so as make it more effective in their production.

It is worthwhile to acknowledge the good work that MFIs do in financing MSEs. The result shows that MFIs financing is very important to MSEs growth and impliedly to itself because if business grows significantly, then they are expected to pay back the loans and therefore contribute to MFIs towards capital, assets and employment growth.

In general we can conclude that the results of the study show that maximum of the respondents are in favor of introducing and enhancing micro finance activities across the country especially in Mbeya municipality. Based on calculated results it is expressed that micro finance is an effective tool for business, capital, assets as well as employment growth.

## 5.3 Recommendations

This section is devoted to make recommendations which when implemented can enhance the growth of small and medium enterprise sector. Based on the findings and conclusion of this study, the following recommendations are put forward. The recommendations are made to the MFIs operators, and MSEs operators.

### 5.3.1 Recommendations to MFIs operators

The role of MFIs in the growth of MSEs cannot be underestimated. The establishment of MFIs is indeed a step in the right direction for promoting the MSEs and their sustainable growth in the country.
To ensure that MFIs enhance participation in MSEs, sustain the growth and maximal contribution to economic growth and development of the nation, the following recommendations are hereby preferred.

Financial institutions need to expand their corporate social responsibilities to small scale enterprises, MFIs are encouraged to slow down the interest rates charged on both short and long terms loans to allow the small enterprises be able to grow faster, payment mechanisms by financial institution should forecast on the type of the loan taken and the nature of the enterprise that took the loan,  possibility of increasing the grace period MFIs should consider the possibility of increasing the grace period, reducing the frequency of repayment, regarding the issue of small base loans, the

MFIs should be flexible by raising the minimum base to reflect changes in the value of money over time so as to facilitate the growth of their clients' business.

There is need to improve and ensure effective delivery of the various micro-finance services provided by micro-finance institutions services. MFIs should enhance the out-reach of microfinance through creating awareness of the activities and operations to MSEs especially those in rural and semi-urban areas that are yet to appreciate the benefits of the scheme. More so, the expansion of MFIs through the establishment of rural branches is an imperative for increase access to MFIs services.

Management of microfinance institutions should incorporate SME's views or inputs into the formulation or review of their credit management policies, microfinance institutions should embark on vigorous monitoring of the MSEs that have received loans so as see to it that the loans are being used for its intended purpose. This will enable microfinance institutions to know the peculiar needs and problems of MSEs since they are deprived and need special attention.

### 5.3.2 Recommendation to MSEs operators

In order to attain sustainable growth of their businesses, the owners/managers should devote their efforts and budget in attending business seminars/workshops/training that will enable them to acquire business skills, credit utilization skills and being in a position to cope with business challenges. MSEs ownes should set clear growth goal and pursue them continuously, thus making sure that the financial resources acquired from MFIs are efficiently utilized to enhanced capital, assets and employment growth, as failure to achieve this will not only limit their growth, but also lead to failure to service the debt. Assets purchased for use in the business should be of good quality, MSEs should avoid outdated or second hand asset in order not to incur wear and tear costs in the business. All these are to be done in the course of credit analysis.

## 5.4 Areas for further study

Although the study tried to determine the impacts of microfinance institutions to MSEs growth, yet there is a vacuum in this area hence need other scholars, business practionners and sector prayers to dwell in this area. From the standpoint of academic scholarship, two particular lessons stand out from the study as basis for further research that's factors that hinder Micro finance institution in lending for the growth of micro and small enterprises.  Looking at the relationship between Microfinance services and the growth of MSEs, It's vital for future studies to strongly examine the challenges towards effectiveness of credit utilizations in small and medium enterprises. This broadly provides significant information about the contributions micro-finance services with significant linkage to the growth of MSEs.

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# APPENDICES

## APPENDEX 1

### QUESTIONNAIRE FOR PRIDE BENEFICIARIES.

The information given is only for academic purpose and not otherwise, therefore would you please assist me by answering the following questions **(Tick the appropriate form choice).**

**A. PERSONAL INFORMATION.**

1. Gender; Female [ ] male [ ]
2. Age; 0-20 [ ] 21-40[ ] 41 and above [ ].
3. Marital status; Married [ ] single [ ] divorce [ ]
4. What is the level of your education?

   No education [ ] Primary education [ ]

   Secondary education [ ] higher education [ ]
5. What type of enterprises are you doing now?

   Food services [ ] manufacturing [ ] Clothing tailoring [ ]

   Retailed services [ ] construction [ ] others [ ]
6. How many number of years you join PRIDE Tanzania and the duration of the business?

   3-5[ ] 6-10[ ] 11 and above [ ]
7. What type of loan are you getting?

   Money [ ] working tools [ ]
8. What do you say about the amount of loan you receive from PRIDE?

   Adequate [ ] Enough [ ] Not enough [ ]

9. Are the interest rates favorable for the growth of your business?

YES/NO.

10. Are you satisfying with the payment mode of loan required by PRIDE? YES /NO.

If the answer is NO what is your suggestion? ...........................

11. Are you able to meet condition required by PRIDE? YES/NO.

12. What is the situation of capital of your business after joining PRIDE?

Increased [ ] Decreased [ ] The same [ ].

13. Does the loan help your business to increase capital?

YES /NO

If the answer is NO why...

14. Are the increase or decrease of capital is due to PRIDE? YES/NO.

15. Has your firm possessed any of the following assets after joining PRIDE?

Machinery [ ] Office premises.[ ] Office furniture [ ]

Vehicle [ ] Motocycle [ ] Bicycles [ ]

Other specify------------------

16. What is value condition of your business asset possessed by the firm after joining PRIDE?

a) Increased [ ] Decreased [ ] The same [ ]

17. What is the rate of employee's number in your business after joining PRIDE?

Increased [ ] Decreased [ ] The same [ ]

18 Are the increase or decrease of employee number is due to PRIDE?

YES/ NO.

## APPENDEX 2

**DODOSO JUU YA MCHANGO WA ASASI ZA MIKOPO KATIKA KUKUZA BIASHARA NDOGONDOGO KWA WATEJA WANAONUFAIKA NA HUDUMA ZA PRIDE. (Taarifa hizi ni kwa ajili ya kitaaluma na si vinginevyo). (Weka alama ya vema jibu sahihi)**

**A. TAARIFA BINAFSI.**

1. Jinsi; Mwanamke [ ]  Mwanaume [ ]

2. Je, umri wako ni miaka mingapi?

0-20 [ ]  21-40 [ ]  41 na zaidi [ ]

3. Kuhusu ndoa.

Nimeolewa [ ]  Sijaolewa [ ]

Nimeachika [ ]

4. Elimu yako ni ya kiwango gani?

Sikusoma [ ]  S/msingi [ ]

Sekondari [ ]  vyuo/ Chuo kikuu [ ]

5. Ni kwa muda gani sasa umejiunga na PRIDE na umekuwa ukishughulika na biashara?

3-5 [ ]  6-10 [ ]  11 na zaidi [ ]

6. Je, unafanya biashara ya aina gani hivi sasa?

Mama lishe [ ]  Uzalishaji [ ]  Ushonaji wa nguo [ ]

Uchuuzi [ ]  Ujenzi [ ]  Mchanganyiko [ ]  nyingine Itaje …………………

7. Je, ni mkopo wa aina gani unaopata toka PRIDE?

Pesa [ ] Vifaa [ ]

8. Unasemaje kuhusu kiwango cha mkopo kinachotolewa na PRIDE?

Kinatosheleza [ ] Wastani [ ] Hakitoshelezi [ ]

9. Kiwango cha riba kinachotozwa na PRIDE kinamchango wowote katika ukuaji wa biashara yako? NDIYO/HAPANA

10. Je, unaridhishwa na mfumo wa urejeshaji wa mkopo unaohitajika na PRIDE? NDIYO/HAPANA

Kama jibu ni hapana nini mawazo yako ----------------------------------------

11. Unaweza kukidhi masharti/ sheria zinazohitajika na PRIDE? NDIYO/HAPANA.

.

12. Je, hali ya mtaji wa biashara yako ukoje baada ya kujiunga na PRIDE?

Umeongezeka[ ] Umepungua [ ] Sawa na awali [ ].

13. Je, mkopo umeiwezesha bishara yako kuongeza mtaji?

NDIYO/ HAPANA. Kama jibu ni HAPANA kwa nini?

-----------------------------------------------------------------------

14 Kuongezeka au kupungua kwa mtaji ni kwasababu ya PRIDE? NDIYO/HAPANA

15. Je, biashara yako inamiliki rasilimali zifuatazo baada ya kujiunga PRIDE?

Mashine.[ ] Jengo la ofisi[ ] Samani za ofisini[ ] Gari[ ]

Pikipiki [ ]. Baiskeli[ ] vingine taja ------------------

Je, biashara imepata hivi kwa sababu ya huduma za PRIDE?

NDIYO / HAPANA.

16. Je,thamani ya rasilimali za biashara yako ipo katika hali gani baada ya kujiunga na PRIDE?

Imeongezeka [ ] Imepungua [ ] Sawa na awali [ ]

17. Je, idadi ya wafanyakazi katika biashara yako ikoje baada ya kujiunga na PRIDE?

Imeongezeka [ ] Imepungua [ ] Sawa na awali [ ]

18. Je,kuongezeka au kupungua kwa wafanyakazi ni kwasababu ya PRIDE?
NDIYO / HAPANA.