

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University a dissertation entitled **Contribution of microfinance on the growth of microenterprises: The case of Tanga city council** in partial/fulfillment of the requirements for award of the degree of Master of Science in accounting and finance of Mzumbe University.

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DECLARATION AND COPYRIGHT

I, Kishosha Masele, I hereby declare that “The contribution of microfinance on the growth of micro enterprises in Tanga city council”, is my original work and has not been presented in any part or whole by any other person to any university as a way of meeting any of the stipulated requirements and that all the resources that I have quoted have been acknowledged by means of references.

Kishosha Masele

Signature.....

Date.....

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AKNOWLEDGEMENT

The contribution toward success in preparation and completion of this dissertation was facilitated by moral and material support from various parties. I am therefore pleased to recognize the contribution of all those who have been involved in one way or another, in making my studies a success.

I greatly value the intellectual contribution, guidance and constructive directives of my research supervisor Dr Haruni J Mapesa and my entire lecturer in Msc (A&F) 2013/2015 and the Mzumbe University at large.

Institutionally, my deepest gratitude is extended to my Parents and my family for allowing me to use the scarce resources we had to pursue a Degree of masters of Science in accounting and finance at Mzumbe University Mwanza center. The management of PRIDE Tanzania Ltd, BRAC Tanzania Ltd, Mshikamano sacco Ltd and SIDO both Tanga branches for their mutual cooperation which allowed me to visit and meet their clients during data collections within their areas of jurisdiction.

I recognize the contribution of micro entrepreneur loan beneficiaries from Tanga city council who provided me with valuable information requested during my research study, site visit by responding to interviews, filling in questionnaires and allowed me to visit their micro enterprises.

My special thanks and sincere appreciation goes to my beloved parents, John K. Masele and Suzana W. Ndazi and my wife, Latifah Masele, my daughter Tunu for their encouragement, tolerance, support and prayer for success in my studies.

DEDICATION

This dissertation is dedicated to my Parents, my wife Latifah Masele, my daughter Tunu Masele for their mutual support and encouragement. They provide me with all kind of support I needed to complete this assignment. I thank them for materials and moral support.

LIST OF ABBREVIATIONS

ABD	-African development Bank
BOT	-Bank of Tanzania
GDP	-Gross domestic product
HIPCI	-Heavily indebted poor countries initiatives
ILO	-International labour organizations
MFI	-Microfinance institutions
MSEs	-Micro and small enterprises
NGO	-Non government organization
PRIDE	-Promotions of rural initiatives and development enterprises
SACCOS	-Savings and credit cooperatives societies
SIDO	-Small industrial development organization
TZS	-Tanzania shillings
TRA	-Tanzania revenue authority
TZ	-Tanzania

ABSTRACT

Microfinance institutions can enable the poor to smooth their consumptions, manage their risks better, build their assets gradually, develop their micro enterprises, enhance their income earnings capacity, and enjoy an improved quality of life.

The objective of this study was to assess the extent to which microfinance institutions contribute to the growth of microenterprises in Tanga city council. Specific objectives that guided the study were to assess which sectors of microenterprises use microfinance loans in Tanga city council for the period of 2012 to 2014; to assess the relationship between microfinance loans and the growth of microenterprises in Tanga city council; and to assess factors determining sustainability of access to microfinance in Tanga city council.

The study was a diagnostic as it was looking to demonstrate a causative relationship between financing and the growth of microenterprises. The population of the study was microfinance officers and their clients (micro entrepreneurs). The study used stratified random sampling for microfinance clients and census for microfinance officers for sampling procedures. A cross sectional survey research design involved the use of interview, telephone and questionnaire research tools to a sample of 112 respondents in qualitative and quantitative data collection techniques from both microfinance and their clients.

The result findings on the sectors of microenterprises that use microfinance loans in Tanga city council for the period of 2012 to 2014 were that, small retail trade sector scored by 97% on average, followed by food vendor sectors which showed a use of 90%, fishing and livestock sector which showed a 84% while the agricultural sector also showed a 84%. This indicates that these sectors use microfinance loans in a high percent for the growth of their microenterprises.

Based on the relationship between microfinance loans and the growth of microenterprises in Tanga city council for the period of 2012 to 2014, the study findings revealed that there is a linear correlation between the variables like sales/profit, employment and assets against the loans. By applying the correlation analysis model, the results showed that sales/profit against loans is 0.9360 or 93.6%, employments against loans are 0.8506 and assets are 0.8865.

Factors that determining sustainability access of microfinance loans in Tanga city council for the period of 2012 to 2014, study findings revealed that small loans disbursed to clients or members attributed to 72% to access to MFI's. Small loans are inadequate for business start up or expansions hence made them to keep up accessing loans so as to reach their target goals. Another sustainability factor was repayment period whereby short term loans have short repayment period with no grace period. Therefore this factor compels clients or members to keep up being active members to MFI's so as to access loans for their business. 65% of respondents agreed with this factor as an attributing cause to sustainability access to microfinance. Economic instability was a third factor mentioned by respondents, most families are not financially viable hence tend to seek MFI's loans to empower themselves. The study findings revealed that 89% of respondents agreed on this as a causing factor. 76% of respondents indicated that investment diversity as a factor that determining sustainability access to microfinance loans in Tanga city council. Furthermore, the drop out level showed an average of 8.4% for 2012, 8.6% for 2013 and 7.6% on 2014 indicating that there is drop out level of members from MFI's. Also graduating members from MFI's is as follows, 6% on 2012, 6% in 2013 and 5% in 2014 indicating that there are members who graduated from MFI's although both in a very small percent.

The study recommends that regarding the issue of small loans, the microfinance should be flexible by raising the minimum base to reflect changes in the value for money over time, interest rate should be lowered to level that would cover micro enterprises operating expenses and facilitating the growth of the clients business, payment period should be reversed in both MFI's by considering more grace periods and nature of business of the microenterprises. The government should look into revising the microfinance policy of 2000 so as to enable clients or members of these MFI's to borrow an amount of money that can be enough to start up business expansion rather than borrowing the same on stages which actually takes long time to reach the intended loans. The MFI's should revised carefully on their loan policies so that graduating members should increase meaning that the loans provided has successfully improved their capital and business expansions

TABLE OF CONTENTS

	Page no:
<i>Certification</i>	i
<i>Declarations and copyright</i>	ii
<i>Acknowledgement</i>	iii
<i>Dedications</i>	iv
<i>List of abbreviations</i>	v
<i>Abstract</i>	vi
<i>Table of contents</i>	viii
<i>List of tables</i>	xiv
<i>List of figures</i>	xv
List of appendices.....	xvi

CHAPTER ONE

INTRODUCTION

1.1	Introductions.....	1
1.2	Background information.....	1
1.3	Statement of the problem.....	3
1.4	Research objectives.....	3
1.4.1	General objectives.....	3
1.4.2	Specific objectives.....	3
1.5	Research questions.....	4

1.6	Significant of the study.....	4
1.7	Scope and Limitations of the study.....	5
1.7.1	Geographical study.....	5
1.7.2	Subject scope.....	5
CHAPTER TWO		
LITERATURE REVIEW		
2.1	Introduction.....	6
2.2	Theoretical literature review.....	6
2.2.1	Introduction.....	6
2.2.2	Supply and demand of microfinance.....	6
2.2.3	Leading approach on microfinance.....	7
2.2.4	Microfinance.....	8
2.2.5	The need for microfinance.....	9
2.2.6	Financially self-sufficient microfinance institutions.....	9
2.2.7	Providing credit and savings services profitably.....	10
2.2.8	Micro enterprises.....	10
2.2.9	Intervention in the micro enterprises sector.....	11
2.2.10	Microfinance policy in Tanzania.....	12
2.2.11	Relationship between microfinance and macro enterprises.....	12
2.3.0	Empirical literature review.....	13
2.3.1	Review of the studies done outside Tanzania.....	13

2.3.2 Review of the studies done in Tanzania.....	16
2.4.0 Conceptual Frameworks.....	18

CHAPTER THREE

RESEARCH METHODOLOGY

3.1.0 Introduction.....	20
3.2.0 Research designs.....	20
3.3.0 Units of the population of study.....	20
3.3.1 Units of the study.....	20
3.3.2 Population of the study.....	20
3.4.0 Sampling Procedures.....	21
3.5.0 Sample size.....	21
3.6.0 Period of study.....	21
3.7.0 Data collections.....	22
3.7.1 Meaning of data collection.....	22
3.7.2 Primary data.....	22
3.7.3 Secondary data.....	22
3.8.0 Methods of data collections and tools.....	22
3.8.1 Methods of data collections.....	22
3.8.2 Tools of data collections.....	23
3.9.0 Validity and reliability of data.....	24
3.9.1 Pre-testing.....	24

3.9.2 Reliability of data.....	24
3.10.0 Data Processing and analysis.....	25
3.10.1 Data Processing.....	25
3.10.2 Data Analysis.....	25

CHAPTER FOUR

PRESENTATIONS OF FINDINGS

4.1 Introductions.....	26
4.2.0 Profile of respondents.....	26
4.2.1 Gender of respondents.....	26
4.2.2 Age wise of respondents.....	27
4.2.3 Marital status of the respondents.....	28
4.2.4 Education level of respondents.....	28
4.2.5 Forms of business respondents.....	29
4.3.0 Sectors of microenterprises mostly use MFI's loans in Tanga city council	29
4.3.1 SIDO Tanga.....	29
4.3.1.1 SIDO Tanga organization structure.....	30
4.3.1.2 SIDO loan target group and program.....	30
4.3.1.3 Sectors of microenterprises mostly use MFI's loans at SIDO Tanga.....	31
4.3.2 MSHIKAMANO SACCOS LTD.....	31
4.3.2.1 Loan size, collateral, interest rate and repayment period.....	32
4.3.2.2 Sectors of microenterprises mostly use MFI's loans.....	32

4.3.3 PRIDE TANZANIA TANGA BRANCH.....	33
4.3.3.1 PRIDE TZ organization structure.....	33
4.3.3.2 PRIDE TZ lending methodology and loan products.....	33
4.3.3.3 Loan size, interest rate and repayment period.....	34
4.3.3.4 Sectors of microenterprises mostly use MFI's loans.....	34
4.3.4 BRAC TZ TANGA BRANCH.....	35
4.3.4.1 Organization structure.....	35
4.3.4.2 Loan structure and products.....	35
4.3.4.3 Interest rates and repayment period.....	35
4.3.4.4 Sectors of microenterprises applied for loans at BRAC.....	35
4.4.0 The relationship between MFI's loans and growth of microenterprises.....	36
4.4.1 The relationship between loans versus variables.....	39
4.4.1.1 Correlation analysis model.....	39
4.5.0 Factors determining sustainability access to microfinance.....	40
4.5.1 Small loans disbursed.....	40
4.5.2 Repayment period of loans.....	40
4.5.3 Economic instability.....	40
4.5.4 Investment diversity.....	41
4.5.5 Graduating levels of borrowers.....	41
4.5.6 Drop out level from microfinance firms.....	42
4.6.0 Constraints faced by microenterprises.....	43

4.6.1 Too small loan sizes.....	43
4.6.2 High interest rates.....	43
4.6.3 Repayment periods.....	43
CHAPTER FIVE	
DISCUSSION OF THE FINDINGS	
5.1 Introductions	44
5.2 Profile of respondents.....	44
5.3 Sectors of microenterprises mostly use MFI's loans in Tanga city council	45
5.4 The relationship between MFI's loans and the growth of microenterprises.....	46
5.5 To assess factors determining sustainability of access to MFI's loans.....	46
5.6 Graduation and drop out level of micro entrepreneurs.....	48
CHAPTER SIX	
5.1 Introduction.....	49
5.2 Summary.....	49
5.3 Conclusions.....	51
5.4 Recommendations.....	52
5.5 Recommended areas of future research.....	52
REFERENCES.....	54

LIST OF TABLES

Table 3.0: Population of the study.....	21
Table 4.0: Gender of respondents.....	27
Table 4.1: Age wise of respondents.....	27
Table 4.2: Marital status of respondents.....	28
Table 4.3: Education level of respondents.....	29
Table 4.4: Forms of business of respondents.....	29
Table 4.5: Sectors of microenterprises mostly use microfinance loans at SIDO.....	31
Table 4.6: Sectors of microenterprises mostly use loans at Mshikamano Saccos Ltd....	32
Table 4.7: Sectors of microenterprises applied for loans at PRIDE TZ Tanga.....	34
Table 4.8: Sectors of microenterprises applied for loans at BRAC TZ Tanga.....	36
Table 4.9: Sales/profit, employment and sales as a function of loan.....	38
Table 4.9.1: Measures of central tendency.....	39
Table 4.9.2: Small loans given to respondents.....	40
Table 4.9.3 Repayment period of respondents.....	40
Table 4.9.4: Economic instability of respondents and country.....	41
Table 4.9.5: Investment diversity of respondents.....	41
Table 4.9.6: Graduation level of respondents.....	42
Table 4.9.7: Drop out level of respondents from microfinance firms.....	42

LIST OF FIGURES

Figure 2.0: The conceptual framework model.....	19
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LIST OF APPENDICES

Appendix A: Organization structure

Structure 1: SIDO Tanga organization structure.....	58
Structure 2: MSHIKAMANO Saccos LTD organization structure...	58
Structure 3: PRIDE Tanga organization structure.....	59
Structure 4: BRAC TZ Tanga organization structure.....	59

Appendix B: Questionnaires guide for loan beneficiaries.....	60
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