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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DR.HARUN J.MAPESA

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Accepted for the Board of

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Director of postgraduate studies/dean

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……………………………

AKNOWLEDGEMENT

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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 ABREVIATIONS

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 access the extent to which microfinance institutions contributes on the growth of microenterprises in Tanga city council. Specific objectives that guided the study were to assess which sectors of microenterprises uses 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, telephones and questionnaires research tools to a sample of 112 respondents in qualitative and quantitative data collections 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 uses of 90%, fishing and livestock sector which showed a 84% while the agricultural sector also showed a 84%.This indicates that these sectors uses 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

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