

The contribution of microfinance institutions in the development of small and medium enterprises in Tanzania: the case of evidence from Ilala municipal enterprises

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The purpose of this study was to examine the contribution of microfinance institutions (MFIs) in the development of small and medium enterprises (SMEs) in Ilala Municipality. The study aimed to determine the relationship between both financial and non-financial services from MFIs vis-à-vis SME capital growth, income growth and employment creation. The data was collected from primary sources who were the owners of the SMEs. The study found out that microfinance institution services had positive impact on both SME capital growth and income growth. While MFI services had positive but insignificant impact on the SME's ability to create employment and Chi-Square test showed that there is a strong relationship between MFI services and SME development. The study concluded that, although loans have played a significant role on the development of SMEs, but the interest charges were high limiting SMEs' ability to generate profits. Demand of skills to manage SMEs was noted. The study, therefore, recommends that public sector policy analyst and managers to review policy governing MFIs mainly by putting limits or a ceiling on the interest charges so to attract more entrepreneurs to engage in SMEs as it is the largest employing sector in the country. In addition, the study urges MFIs to offer more trainings and mentorship to these SMEs to ensure prompt payments of loans and survival of these enterprises. Further studies can therefore, look on to enterprises that fall under the medium bracket, operated by highly educated personnel and employ advanced technology to determine the influence of MFI services on SME development.