MICROFINANCE INSTIRUTIONS IN DEVELOPMENT OF SMALL AND MICRO-ENTREPRENEURS IN TANZANIA: A CASE STUDY OF NATIONAL MICRO-FINANCE BANK LIMITED, CHAKE CHAKE PEMBA.

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Master of Business Administration

By:

Mwantatu Fadhil Khamis

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DECLARATION A

"This dissertation is my original work and has not been presented for a Degree or any other academic award in any University or Institution of Learning".

MWANTATU FADHIL KHAMIS

Name and Signature of Candidate

20/09/2010

Date

DECLARATION B

"I/We confirm that the work reported in this dissertation was carried out by the candidate under my/our supervision".

Name and Signature of Supervisor

Dr Kensi J. Basime

Name and Signature of Supervisor

Date

21/09/2010

Date

APPROVAL SHEET

This dissertation entitled" **Microfinance Institutions in Development of Small and Micro- Entrepreneurs in Tanzania: A case Study of National Micro-Finance Bank Limited, Chake Chake Pemba**. **"** prepared and submitted by **Mwantatu Fadhil Khamis** in partial fulfillment of the requirements for the degree of **Master of Business Administration** has been examined and approved by the panel on oral examination with a grade of <u>PASSED</u>.

Dr. Kerosi J. Bosire

Name and Sig. of Chairman

Dr Kerosi J. Bosire

Name and Sig of Supervisor

KIWEEWA EMMANUEL

Name and Sig. of Panelist

GULEBYO MUZAMIR SAID

Name and Sig. of Panelist

OMARA. T.

Name and Sig. of Panelist

Date of Comprehensive Examination: ____________________

Grade: ____________________

____

Name and Sig of Director, SPGSR

____

Name and Sig of DVC, SPGSR

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ACRONYMS

GFEP	Global Financial Education Program
GOU	Government of Uganda
MFIs	Microfinance Institutions
NMB	National Microfinance Bank
NGOs	Non-Governmental Organizations
SACCOS	Savings and Loans Cooperatives
SMEs	Small and Medium Entrepreneurs
TGT	Tanzania Gatsby Trust
UN	United Nations

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ABSTRACT

This study examined role of microfinance institutions in development of small and micro-entrepreneurs in Chake Chake, Pemba district in Tanzania. In this manner, the study investigated aspects of debt recovery, loan levels and clients' business project monitoring procedures as specific objectives of the study.

In the literature review, theories were used to support the study and concepts linked and analyzed to bring a conceptual framework. As such, different scholars' views regarding debt recovery strategies, project monitoring and loan provision are internalized.

A case study design was used and 70 respondents were sampled through stratified sampling methods. Interview, questionnaire and observation were the instruments used and both primary and secondary sources of data were all of great importance.

The findings reveal that bad debt recovery methods have detrimental economic, social and psychological impacts on clients and the reverse was true. Concerning the issue of project monitoring, it was found out that projects closely monitored yield better profits, expand and grow unlike their counterparts. Clients who accesses big mount of money operate fair business that gives them high profit margins and the reverse was true.

The researcher recommended that NMB should empower SMEs economically and reduce the moral hazards associated with clients; monitoring system should be put in place for

proper use of money and skilled personnel should be employed to monitor clients' projects.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The historical background of Microfinance Institutions (MFIs) throughout the world has not clearly been mentioned. However, since mid 1990s the financial institutions are said to have gained a wider recognition for their role in providing financial services to the low income people and their contribution to poverty alleviation (Stuart Rutherford, 2000). This recognition is evidenced by the rapid advances by the different governments in developing world, donors and other practitioners in developing and implementing programs that support microfinance initiatives in developing countries throughout the world, hence the dramatic expansion of the microfinance industry.

Over the last few years, microfinance institutions picked up form in many developing countries throughout the world (World Bank, 2007). It is estimated that thirteen million (13,000,000) people around the world are being helped by the loans from more than 7000 microfinance institutions (MFIs) with over 7 billions in total loans and the loan repaid rate is very impressive at 97%. Due to this success, microfinance institutions have been gaining momentum worldwide growing at 30% p.a (Murray Mc Adam, 2004).

In Africa, currently there are over three thousand MFIs being accessed by the low income people especially the rural poor (UNDP, 2004). These institutions are said to have made tremendous successes in reducing poverty levels in Africa.

In Tanzania for instance, the financial institution began with NGOs and SACCOS (Savings and Loans Cooperatives) in 1995 and has continued to grow with the increased success of microfinance internationally. It is still a relatively new concept in Tanzania. Beginning in 1995, it was mainly linked to women and poverty alleviation. The government tried to convince commercial banks to support small and micro entrepreneurs. Once the National Microfinance Policy was implemented in 2001, microfinance was officially recognized as a tool for poverty eradication and with its increased use and exposure to the country; banks have taken an interest in offering microfinance. The financial institution in Tanzania for example grew rapidly in 2003 due to combination of significant donor funding (approximately $40 millions). At the end of 2003, approximately 1500 MFIs were serving more than 935,000 small and medium savers and close to 400,000 borrowers in the country (UMSER, March 2004). This study attempted to establish the role of microfinance institutions in development of small and medium entrepreneurs in Tanzania while considering National Microfinance Bank (NMB), Chake Chake Branch as a case study.

1.2 Background of the Case Study

The National Microfinance Bank (NMB), Chake Chake Brach that is a case study for this study is one of the first branches of National Microfinance Bank in the country and is located in town centre of ChakaChake.

Employing the mission statement of the main branch, the financial institution is specialized providers of financial services to micro-enterprises. Contrary to traditional money lenders, the National Microfinance Bank (NMB) offers a large number of clients the opportunity to enter into a virtuous cycle of growth and capital accumulation thanks to their scale of operations and cost efficiency. According to the brochure (2009) the financial institution currently has over 500 borrowers involving both small and medium entrepreneurs.

Nationwide, NMB has portfolio at risk rates under 6% which largely beats the non-performing loans levels of mainstream finance and commercial credit banks. Randhawa & Gallardo (2003).

Some of the clients of this bank who faced many hurdles in getting startup financing, are said to be having successful small and medium entrepreneurs hence contributing greatly to society by creating wealth, economic assets, and jobs (Albaladejo, & Schmitz, 2001). However, many of SMEs still lag behind since they lacked skills necessary to manage the financial aspect of their business. As a result, many small and micro entrepreneurs have failed to grow and develop their business beyond a micro enterprise.

1.3 Statement of Problem

Although Microfinance has been praised for its effectiveness in poverty reduction strategy in many countries, Randhawa and Gallardo (2003) revealed that microfinance services have failed in addressing their cardinal objective that is, empowering the poor economically. In their explanation, Randhawa and Gallardo (2003) indicated that microfinance institutions tend to charge high interest rates on borrowers and their volume of lending tend to be minimum.

However, some personalities like Annan, (2003) assert that Microfinance Institutions still remain powerful poverty alleviation tool among the poor. The micro financing at the grassroots have activities that involve the poor and this could be benefiting them as well in their capacity as borrowers and clients. This study thus is an attempt to find out the role played by microfinance institutions particularly focusing on the development of small and micro enterprises.

1.4 Purpose of study.

The research aims to analyze and evaluate the role of micro finance institutions in the development of small and micro entrepreneurs in Chake Chake district.

1.5 Objectives of the study.

i) To determine how MFIs' debt recovery affects economic empowerment and livelihood of clients in Chake Chake District.

ii) To determine how the frequency of project monitoring by MFIs affect economic empowerment and livelihood of clients Chake Chake District.

iii) To determine how loan provision influences economic empowerment and livelihood of clients Chake Chake District.

1.6 Research questions

The study seeks to answers the following research questions;

i) What ways are used by MFIs to recover their debts and how does this affect economic empowerment and livelihood of clients in Chake Chake district?

ii) How does the intensity of project monitoring by MFIs affect clients' economic empowerment and livelihood in Chake Chake district?

iii) How does loan provided by MFIs affect the clients' economic empowerment and livelihood in Chake Chake district?

1.7 Scope of the study:

Concerning the geographical scope of this study, the study was carried in Chake Chake District, Pemba Island-Eastern part of Tanzania.

The content scope of the study dwelled on role of microfinance institutions in development of small and micro-entrepreneurs in Chake Chake district. In doing so, aspects of credit recovery, project monitoring and loan provision were investigated and their influence on economic empowerment and livelihood of SMEs.

The time scope of the research was within a period of 11 months; that is to say from the months of March 2009 to January 2010.

1.8 Significance of the study

The study may to be significant in the following ways;

Information provided in this research may help policy makers in formulating strategic policies with regards to poverty alleviations through microfinance institutions. If this is done, millennium development goal that every developing country aims to achieve may be reached.

1.8.1 Debt Recovery

This refers to all possible ways employed by microfinance institutions to ensure that all the arrears with clients from the loans granted are fully and appropriately returned with interest rates charged within a specified period of time so that the SMEs are continue to be economically empowered and their livelihood improved.

1.8. 2 Project Monitoring

In this research, project monitoring involves following up, examining, supervising or keeping an eye on financial investment projects of clients to ensure that clients benefit from these investment projects and pay back their loans in the required time frame and to take appropriate measures against project barriers or obstacles hence empowering them economically and improving their livelihood.

1.8.3 Loan Provision

Loan provision in this research involves the act of lending some amount of money to an individual or group of individuals for investment purpose such that the person or persons pay the amount borrowed back with agreed terms and conditions within a specified period of time while remaining economically empowered and their livelihood is improved.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

This chapter analyzes what other authors and scholars have said about the topic under study. Issues of interest to be analyzed in this chapter include credit recovery, project monitoring and loan provision and the influence of each of these aspects on economic and livelihood of clients.

2.2 Theoretical Review

A theory of Global Financial Education Program (GFEP) in partnership with Finrural in Bolivia based on consumer protection concerns and needs to support or hinder individuals' ability to either expand business capacity or hinder its development is appropriate for this study.

This theory emphasizes that financial institutions with friendly service approaches or strategies tend to promote well being and livelihood of their clients and over 65 percent of the clients tend to have clearer trend in their economic advancement than their counter parts.

2.3 Review of Past Related Studies

The related literature reviewed was done objective after objective.

2.3.1. Influence of Debt Recovery on Economic Empowerment and Livelihood of SMEs

While regulators and financial service providers readily discuss statements on ethical treatment of clients; pro-consumer protection pledges, and codes of conduct, Bates (2006) noted that one of the issues of great concern in microfinance industry is debt recovery approaches.

Brach et al (2002) for example asserts that reducing arrears is crucial if MFIs are to achieve self-sufficiency. They however, cautioned the MFI staff to understand the causes of arrears – whether from clients' testing the MFI's determination to collect, crises in clients' lives, loans that are too large, or loans given on the basis of favoritism. In the authors analysis they indicated that inappropriate debt recovery methods should not be used since they will have long term financial effects on the lives of SMEs.

In January 2008, the Global Financial Education Program (GFEP) in partnership with Finrural in Bolivia1 conducted market research to identify consumer protection concerns and needs. The GFEP noted that financial institutions with friendly debt recovery strategies tend to promote well being and livelihood of their clients and 65 percent of the clients of such institutions had clearer trend in their economic advancement than their counter parts.

Brown (2008).This suggests that treatment of clients also forms an important aspect of economic empowerment. Although GFEP did not present how exactly friendly debt collection approaches enhance economic empowerment of SME and improve their livelihood, the researcher believes that debt recovery approaches psychologically play tremendous role in building business confidence hence facilitating their economic affairs.

In research by Christen et al (2004) it has been noted that some microfinance institutions use improper debt-recovery methods including seizing assets or publicly embarrassing the borrower. Study in Bolivia for example, showed that such practices are legal and widely accepted, and clients do not denounce them. This improper debt recovery approaches affects economic empowerment and livelihood of SMEs in sense that the value of asset seized in most cases exceeds the actual amount demanded by microfinance institution.

In one of the recent report, it was revealed that unprofessional debt collection approaches destabilize the SMEs' economic and social life. Goetz and Gupta (1995) noted clearly that debt collection requires a strategic, appropriate and specialized approach and an understanding of the people involved, their businesses, families and other relationships. The authors suggest that MFIs should establish a depth of understanding, in addition to skills and resources to work together with their clients and each other to identify appropriate options of debt collection and implement effective solutions that can sustain economic stands of SMES.

In a similar way Mishkin (2006) noted that although MFIs incur a lot of risks in their business deals with SMEs, they should take appropriate measures in debt collection that does not endanger the economic and social welfare of their client. Citing an example with some MFIs in Bangladesh, Mishkin (2006) indicated that MFIs that have dedicated team of debt recovery specialists understand professional and personal relationships, are experts in company and personal insolvency, pro-actively identify and manage risks, manage commercial sensitivities, maintain independence to avoid conflicts of interest and financial and economic damage of their clients as well as of the financial institution.

In one of the MFIs with friendly debt collection strategies in India, it was found that 72 percent of the SMEs of the MFI were empowered economically hence capable of meeting their basic needs (Goetz. & Gupta 1995). One of the factors for the clients economic empowerment and prosperity was that the institution's team works closely with financiers and companies which are genuine about solving financial problems by, taking time to understand the strategic issues and stresses unique to each situation; providing investigative accounting and debt recovery techniques to maximize outcomes; determining the appropriate course of action – whether a formal insolvency administration or informal role; working through implementation of the plan for the benefit of the relevant stakeholders - financiers, directors, shareholders or credit providers; offering alternatives to bankruptcy or liquidation.

From different analysis of authors or scholars on debt recovery, the researcher is of the view that much as MFIs need to recover all debts for their sustainability, they need to have clear and effective credit policies and procedures approved by the board of directors that are followed by credit officers. If the policies and procedures are not effective, then the credit officers need to have a hand in creating new ones. Management and credit officers also need to pay attention to details. The average arrears rate of each credit officer's portfolio should be tracked weekly or biweekly and credit officers must respond quickly to problem of clients in their portfolios. Likewise the credit supervisor must respond quickly to solve credit officer problems.

2.3.2. Intensity of Project Monitoring by MFIs and Its effect on Economic Empowerment and Livelihood of SMEs

Manu (1998) noted that one of the main objectives of microfinance program among others is to promote entrepreneurship, to simplify and improve the regulatory framework and to improve the financial environment for entrepreneurs. Manu therefore cautioned that it is impossible to reach these objectives if microfinance institutions do not closely monitor the financial investment projects of their clients. He therefore asserted that Microfinance institutions need to assist in the creation of business and promote specific policies which favour SMEs to start up and monitor their projects as a way of empowering SMEs economically and improving their livelihood.

Additionally, O'Sullivan and Sheffrin (1998) also indicated that microfinance institutions should include project monitoring programs if they real seek to promote the development of small and micro enterprises through establishing support agencies and enterprise development projects. The authors suggest provision of business development services (BDS) such as training, advice, information, business planning, marketing, technology, communications and other services useful in complementing credit and micro-finance programmes and in assisting small enterprises with growth potential to become medium-sized enterprises. This suggests that if microfinance institutions remain at the point of lending to SMEs only, the SMEs may not progress economically hence limiting their growth.

A Report by Tanzania Gatsby Trust (2008) establishes that 70 percent of SMEs whose financial investment projects have been closely monitored demonstrated successful financial investments projects and their growth have been explicitly witnessed unlike their counterparts that have not been closely monitored. In deeper analysis, the report indicated that through monitoring processes constraints that tend to limit clients are identified and reduced and issues associated with poor accounting and financial records are often resolved hence facilitating economic empowerment of the SMEs.

Another investigation in Bangladesh on fundamental question regarding whether SMEs can successful be empowered economically if they are closely monitored was done, and De Aghion et al (2005), indicated that the answers were yes and yes. Project monitoring and supervision led to better business practices and increased revenues and profits. Clients report engaging in some of the exact activities being directed by supervisors in the program: separating money between business and household, reinvesting profits in the business, maintaining records of sales and expenses, and thinking proactively about new markets and opportunities for profits. The implementation of these strategies seemed to have helped clients increased business income, mainly by smoothing fluctuations between good and bad periods.

Financial investment projects monitoring by MFIs have also been found to be useful in facilitating growth and development of SMEs projects in sense that it encourages seeking new opportunities, gathering information systematically, and improving quality of goods and services hence helping entrepreneurs to maintain and grow their businesses even during times of economic downturn (Ghatak, 1999). This means that through financial project monitoring by MFIs, SMEs can take advantage of being flexible and innovative in an ever-fast-changing economic landscape and get economically sound.

Through MFI initiative in monitoring projects of their clients especially in Bangladesh, SMEs and MFIs relationship have been defined as one of the world's best entrepreneurial programmes in the country (Ghatak, 1999). This has been so since MFIs in the country provide unique methodology instilling enthusiasm and commitment in its network of entrepreneurs, participants in the meeting. Further, MFIs serve as a business matchmaking platform for entrepreneurs around the country hence examining ways through their respective business environment.

Further studies on MFIs in Bangladesh by Aghion et al (2005) establishes that in business monitoring process and intervention by MFIs, SMEs are provided with accountants or solicitors. This means that they generally turn to their accountants or solicitors when faced with financial crises. MFIs provides valuable services to accounting firms, solicitors and other professional advisers to assist their clients with advice and tailored solutions to best meet the needs of individual circumstances.

Concerning various illustrations and analysis on the issues of business monitoring process of clients, there seems that client's business monitoring initiative works tremendously to the success of SMEs since the SMEs get different business solutions that can help them solve their financial problems, arrange pre-bankruptcy advice for debtors and financiers, provide investigative accounting and recovery techniques to realize divisible assets among others.

2.3.3 Loan Provision by MFIs and its Influence on Economic Empowerment and Livelihood of Clients

The issue on loan provision in microfinance has also been greatly discussed and there has been divergence in ideas concerning interest rates charged on loans given to clients.

In study on loan provision to SMEs in Bangladesh, Jairo et al (2004) noted that microfinance is at least as much about business as it is about philanthropy. Although microfinance institutions, or MFIs, take a risk by lending to people with almost no collateral, the high interest rates they charge - sometimes as high as 20% - can have the inverse effect of what's intended: Rather than giving the poor a hand to help them out of poverty, having to pay such high interest can prevent the families from being able to build their own savings, keeping them reliant on loans forever, or at least, for the foreseeable future. According to Jairo. et al, the longer they're (SMEs) on loans, the more money the MFI makes. The interest rates seem especially unnecessary when you consider the fact that some of the larger MFIs, such as the Grameen Bank and BRAC, had surpluses amounting to more than a million dollars in recent years.

In a similar way Khandker and Shahidier (1999) indicated that some SMEs in Bangladesh often seen MFIs as doing nothing more than "drinking the people's blood."

In answering why microfinance institutions charge higher interest rates on their lending Christen et al (2003) highlights some of the key issues related to micro credit interest rates. Christen et al stressed that MFIs interest rates are set with the aim of providing viable, long-term financial services on a large scale. As for him, MFIs must set interest rates that cover all administrative costs, plus the cost of capital (including inflation), loan losses, and a provision for increasing equity. "Unless MFIs do so, they may only operate for a limited time; reach a limited number of clients". In the authors analysis they noted that the fact that microfinance institutions' clients continue to increase reveals that MFI loan provisions are affordable and do boost economic power of SMEs and sustain their livelihood.

MFIs loans have also been seen as helpful to avail the poor with small scale loans that would introduce them to small enterprise sector (Annan, 2003). This could allow them to be more self reliant, create employment opportunities and help to engage the SMEs in economically productive work which helps to improve their standards of living. UN report (2003) reveals that over two million entrepreneurs help themselves out of poverty through micro finance loans in every five years.

MFIs enable people to access a wide pool of stable low cost funding which can reduce dependency on external funding sources and present an opportunity to become self reliant through the expansion of their businesses (World Bank 2003).

In Mishkin's research report on MFI (2006) it was indicated that Microfinance institutions (MFIs) have since mid 1990s gained a wider recognition for the role they play in providing financial services to SMEs and their contribution to poverty alleviation. As the loan provision by MFIs was evidenced to be instrumental in development process, Mishkin (2006) noted that government, donors and other practitioners in developing and implementing programs have rapidly advanced supports to microfinance initiatives in Uganda, as well as the dramatic expansion of the microfinance industry.

Research on MFIs in Africa recently shows that over three thousand MFIs are being accessed by low income people especially the rural poor (UNDP, 2004). These institutions are said to have made tremendous successes in reducing poverty levels in Africa. Microfinance institutions in Uganda for example is said to have grown rapidly between 1998-2003 due to the combination of significant donor funding (approximately $40 millions). At the end of 2003, approximately 1500 MFIs were serving more than 935,000 small savers and close to 400,000 borrowers in the country (Mishkin, 2006). The microfinance industry in Uganda became most vibrant in 2003, when the government of

Uganda (GOU) in seventh parliament passed an Act which created conditions for MFIs to become regulated deposit taking institutions. Recently the GOU earmarked Ministry of Microfinance in order to enable efficient microfinance outreach in rural areas.

In one of the recent discussion by directors of major Microfinance institutions in Jordan on how to plan activities (Goetz, 1995), expansion of business development services to small- and medium-sized enterprises (SMEs), and consider new strategic directions for the programme, it was revealed that SMEs account for 98% of overall employment in Jordan (Christen et al, 2003). This means that the loans provided by MFIs to SMEs have been properly invested and the institution is playing its rightful role in alleviating poverty.

Accessibility to financing has also been found to be one of the critical factors that ensures the viability and sustainability of a business venture. To the poor, accessibility to financing is often the biggest stumbling block towards realizing a business opportunity mainly due to lack of physical collateral. Realizing this limitation, Mishkin (2006) put it that microfinance is being introduced with the objective of providing the poor the accessibility to finance so that their standard of living can be improved. Microfinance can be seen as an effort to improve poor people's access to loans and saving services.

Having seen how useful is the micro credit is to the economic prosperity of SMEs around the globe, it has been established that a movement in India is seeking to establish credit as a human right and to raise $20 billion to provide microfinance to 100 million of the world's poorest families by 2005 (Khandker & Shahidier, 1999). Today, microfinance has a global outreach and become the fastest growing and most widely recognized anti-poverty tool. The concept of microfinance has been widely accepted and applied as an element of national development policy for poverty reduction strategy in many countries throughout the world.

From indications of various scholars such as Khandker and Shahidier (1999), Mishkin (2006) and Christen et al (2003) on loan provision by MFIs, there still exist differences in ideas where some scholars reveal that microfinance loans are draining the poor while others believe that loan provisions by microfinance institutions tremendously play greeter role in economic empowerment and improving the livelihood of clients. This calls for further investigated in the case of NMB.

CHAPTER THREE

METHODOLOGY

3.1 Overview

This chapter dealt with the research design, sampling procedure which included stratified random sampling, sample size, method of data collection which included interviews and questionnaire, and the method of analysis.

3.2 Research design

A case study design with both qualitative and quantitative techniques was used. This design was chosen as appropriate because the study investigated role of microfinance institutions on development of small and micro-entrepreneurs and it would be tiresome and expensive for the researcher to conduct the study in all different micro-finance institutions. The design was also chosen because case studies are suitable for intensive investigations and analysis of a single phenomenon structure or group being studied.

3.3 Target Population

The study was conducted at National Microfinance Bank Limited Chake Chake branch in the heart of Pemba. This microfinance institution was selected to act as a representative for all other microfinance institutions because it is more accessible than other microfinance institutions in the district.

The target population was 700 people and this included SMEs who get loans from National Microfinance Bank, Chake Chake branch. Additionally, staff members of the bank involving both management and operatives were selected. The study sampled 10 percent of the total population, that is, 70 respondents. The SMEs and the staff of the financial institution were selected in order to provide appropriate, relevant, sufficient and realistic information about the topic under study.

3.4 Sampling Design

Stratified random sampling was used to select respondents in this study. Stratified random sampling was chosen because of its flexibility in permitting investigation of different personalities of interest for specific subgroups. Mugenda et al (2003) in their research report assert that stratified random sampling desi gn is significant in sense that it enables the researcher to carefully select key respondents that are relevant for the study. This suggests that stratified sampling method helped in selecting informants who were capable of providing sufficient and topic related data for the study. The researcher selected 70 respondents for this study and this involved the management, loan officers and NMB clients or the SMEs.

Table 3.1: Sample Size

Departments	Population	Sample Size (10 % of total population)
Management	40	4
Loan Officers	120	12
NMB borrowers (SMEs)	540	54
Total	**700**	**70**

Source: Primary Data Centre

Following the recommendation of Gay (2003) on descriptive research, the researcher accessed ten percent of total population as representation for investigation. This means that from the management department a ten percent of 40, that is 4 respondents, 12 respondents were picked from ten percent of 120 loan officers, and 54 informants selected from ten percent of 540 NMB borrowers hence making study population large enough to represent the salient characteristic of the accessible population and hence a target group. In the research process, the researcher also noted that the ten percent of respondents sampled from the various departments were capable of delivering information the researcher needed.

3.5 Data Collection Tools and Procedures

While carrying the study, the researcher employed a variety of methods among which included questionnaires, interviews and observation.

3.5.1. The Questionnaire

Questionnaires were used because they could collect information from many respondents in a projected timeframe. All respondents were asked the same questions except in technical circumstances. 70 copies of questionnaires were used to collect data from respondents. 16 questionnaires were administered to NMB staff and 54 copies went to small and micro-entrepreneurs (borrowers) of the bank. These questionnaires composed of both close-ended and open ended part. Close ended questions were preferred because they were easy to answer and score, while open ended questions were intended to give respondents a chance to support their opinions in a free atmosphere in addition to predetermined choices.

3.5.2. Interviews

Both formal and informal interviews were conducted with 4 staff members of NMB and 6 long term customers of NMB. Guiding questions were used for interviews but during the course, other questions were asked depending on the responses by the respondents. Results from interviews helped in complementing information that was obtained from questionnaire. During interviews, clarification on some of the statements made by informants took place enabling the interviewee to reveal his or her view point. Information that could not be revealed through questionnaire method was obtained through interview technique.

3.5.3. Observation

NMB borrowers' economic status and livelihood in Chake Chake district was also observed and monitored in order to analyze role of microfinance institutions in development of small and micro-entrepreneurs. Open observation techniques were used so that participants were informed of the nature of the study and the identity of the researcher was passive. An observation checklist was used to guide the researcher during this process.

3.5.4 Reliability and validity of data collection tools

The validity of the research instruments were established by expert judgment method proposed by Patton (2002). Two experts in the field of research were contacted to judge the materials. The researcher adjusted the materials according to the expert's recommendation and analysis. The prove whether the research instruments were reliable or not, the researcher tested the instruments with some few employees and clients of Pride Microfinance Institution, Chake Chake Branch and the results were answered the research questions satisfactory. This therefore encouraged the researcher to trust in their validity and reliability in data collection.

3.5.5 Research Procedures

An introduction letter was secured from the Kampala International University, School of Postgraduate Studies and Research to enable the researcher to visit

NMB (Chake Chake Branch) to inform them formally about the forthcoming study. A list of employees was obtained from the branch manager and a list of NMB borrowers were obtained from loan officers.

Permission to conduct the study was then obtained from the relevant authorities at National Microfinance Bank, Chake Chake branch.With the help of research assistants, the researcher administered questionnaires to the SMEs and to the selected staff members of National Microfinance Bank, Chake Chake branch; additionally interviews were organized.

3.6. Data Analysis

Both qualitative and quantitative data analysis techniques were used in the data analysis and presentation. The findings were discussed, analyzed and presented in form of tables, charts and other descriptive methods that were backed by frequency and percentage presentation.

3.7. Limitations of the Study

In some instances, some respondents were a bit reluctant and suspicious to the researcher and looked at her as a stranger especially during the moments of interviews. This somewhat presented some problems to the researcher in the data collection process. To curb this problem, the researcher properly introduced herself and created rapport with the respondents such that they could give needed data without fear.

Since the questionnaires were meant to be self addressed, some respondents failed to fill and return the questionnaires. However, due to the researcher's efforts in making constant visitations to the respondents and kept reminding them, most of the questionnaires were filled in and returned.

Some informants demanded money for what they were asked to do, that is, filling in the questionnaire. This presented some problems to the researcher in the collection of data. However, the researcher finally managed to convince the respondents to fill in the questionnaires free of charge.

The researcher was also faced with some financial constraints for proper facilitation in terms of transport, lunch, and accessing some of the relevant information for this researcher. To curb this limitation, the researcher struggled to respect the budget drawn for this research and mobilized some fund from friends and relatives.

CHAPTER FOUR

DATA PRESENTATIONS, ANALYSIS AND DISCUSSION OF FINDINGS

4.1. Overview

This chapter presents the findings of the study, the analysis and interpretation of the results. The findings were analyzed in relation to the objectives of the study and literature reviewed. Findings were derived from the questionnaires and interviews to the respondent in Chake Chake Pemba.

4.2. Demographic Characteristics of Respondents

4.2.1Age group

Respondents were asked to tick their relevant age interval as indicated in table 4.1.

Table 4.1: Age Distribution of Respondents

Item (Age)	Frequency (f)	Percentage
20-29	20	28.6
30-39	18	25.7
40-49	15	21.4
50-59	10	14.3
60-69	7	10
Total	70	100

Source: Primary Data

As it can be seen from Table 4.1, respondents with different age range were sampled. The majority of the participants (53.4 percent) in this research were the youth from age range of 20 to 39 while the elderly, from the age of 60 and above formed the least (10 percent). The majority of the respondents were youth because of their active participation in social and economic activities in the area; hence they formed the greatest percentage especially in SMEs as well as the staff members. The differences in age in the field research were helpful to the researcher since people from different age groups in some occasions gave varied information that helped in the data analysis.

4.2.2 Gender

Respondents were also asked to tick their appropriate gender during the study process. Table 4.2 illustrates the summary on the gender of respondents.

Table 4.2: Gender-Wise Distribution of Respondents

Gender	Frequency	Percentage Frequency
Female	22	31.4
Male	48	68.6
Total	**70**	**100**

Source: Primary Data

As shown on Table 4.2, most of the respondents sampled for this research were men. Women formed 31 % of the respondents while men formed 69 %. The reason for gender imbalance was that most of the clients (SMEs) and workers of NMB were men due to various reasons among which lack of sensitization and awareness regarding the services provided by the bank, hence few women in the area of the study accessed services of the bank as SMEs.

4.2.3 Highest Education Level

Education level of respondents was also considered in the field. The summary of this is presented in table 4.3.

Table 4.3: Education Based Distribution of Respondents

Level of education	Male Freq	Percentage	Female Freq	Percentage	Total Percentage
Primary	5	7.14	2	2.86	10
O-level	14	20.0	6	8.57	28.6
A-Level	15	21.43	10	14.29	35.7
Higher Institution	14	20.0	4	5.71	25.7
Total	**48**	**68.6**	**22**	**31.4**	**100**

Source: Primary Data

Table 4.3 shows that a big number of respondents (35.7 %) attained A-Level and this was followed by (28.6 %) of respondents who attained O-Level. Those who attained higher level of education formed 25.7 % of the respondents while those who stopped in primary school were 10 %. This suggests that most of the respondents were literate enough to reveal relevant information needed for the study. The number of respondents who stopped in primary school was less because NMB mostly deals with those who are capable of understanding financial details of the bank.

4.2.4. Number of Years Worked in NMB

Both SMEs and staff members of NMB were asked of how many years they have worked in or with NMB. This information was investigated so as obtain detailed information on strategies of debt recovery, project monitoring and loan provision as employed by NMB since the researcher believed that those who have worked with or in the institution for longer period could have had richer experiences on issues such as debt recovery, project recovery and issues of loan provision. Below is the summary on the number of years the respondents had spent with the financial institution.

Table 4.4: Number of Years Worked in NMB

Number of Years	Frequency (f)	percentage
1-5	10	14
6-10	22	31
11-15	20	29
16-20	18	26
Total	**70**	**100**

Source: Primary Data

Table 4.4 shows that majority of the respondents (55.5 %) have so far worked in or with NMB for more than 10 years, while 31 percent of them have experience of more than 6 years and the least of the participants (14 percent) have been with the bank for less than 5 years. This means that most of the respondents sampled and administered in this research were knowledgeable about the happenings in and out NMB hence capable of revealing the truth about the issues of debt recovery, project monitoring and loan provision.

4.3 Debt Recovery by NMB and Economic Empowerment and Livelihood of SMEs in Chake Chake Pemba.

Respondents were asked about whether NMB has debts with SMEs and the responses are summarized in the Table 4.5.

Table 4.5: Whether NMB has Debts with SMEs

Responses	**Frequency**	**Percentage**
Yes	52	74.3
No	14	20
Non response	4	5.7
Total	**70**	**100**

Source: Primary Data

From Table 4.5, it can be observed that 74.3 % of the respondents confirmed that NMB demands some of its clients because they have not complied with their loan repayment agreement. According to the credit officer of NMB Cheka Cheka Pemba branch, despite measures being taken, the challenge of clients failing to pay or delaying to repay their loans remains high. Since it has discovered that NMB demands the SMEs of debts, let's see some of the ways in which NMB recovers debts from SMEs.

Having found that NMB has debts with respondents, the researcher had to direct the question to clients seeking to find whether they face challenges in their loan repayments and the results of these are presented in Table 4.6.

Table 4.6: Whether SMEs face Problems in Repaying their Loans

Response	Frequency	Percentage
Yes	54	77
No	14	20
Non Response	2	3
	70	**100**

Source: Primary Data

From the data presented on Table 4.6, it was noted that 77 percent of the respondents claimed that they truly face difficulties in trying to repay their loans while 20 percent declared that loan repayment was not a problem. Much as most of the respondents consulted agreed that they face challenges in their loan repayment, the researcher discovered that it was the clients making themselves in problems since many of them could not put their loans into the rightful uses.

4.3.1 Debt Recovery Strategies Used by NMB

Research on debt recovery strategies employed by NMB was done and the summary of this is summarized in Table 4.7.

Table 4.7: Strategies of Debt Recovery Employed by NMB

Responses on Strategies	Frequencies	Percentages
Seizing clients assets	12	17.1
Selling clients assets	8	11.4
Asking referees to pay	5	8.6
Cutting clients salaries	5	7.1
Giving clients more time to pay	4	4.3
All of the above	36	51.4
Total	70	100

Source: Primary Data

From the data presented on table 4.7, the researcher discovered that NMB employs various debt recovery strategies depending on which strategy is appropriate for a particular client. The effect of each debt recovery approach used by NMB was then established and the details on this are shown below.

4.4 SMEs' Project Monitoring by NMB and their Economic Empowerment and Livelihood in Chake Chake Pemba.

Respondents were asked if constant project monitoring of clients financial investment projects can lead to economic empowerment and livelihood of SMEs and the responses are summarized in Table 4.8 below.

Table 4.8: Project Monitoring Leading to Economic Empowerment and Livelihood

Responses	Frequency	Percentage
Yes	66	94.2
No	2	2.9
Non response	2	2.9
Total	70	100

Source: Primary Data

From the data presented on Table 4.8, it was clear that SMEs' investment project monitoring has been seen as instrumental to their economic empowerment and livelihood. The finding on Table 4.8 again led to the question on whether NMB monitors business projects of SMEs and the findings are presented on Table 4.9.

Table 4.9: Whether NMB Monitors SMEs Businesses

Responses	Frequency	Percentage
Yes	28	40
No	32	45.7
Do not know	10	14.3
Total	70	100

Source: Primary Data

From Table 4.9, it can be seen that 40 percent of the respondents agree that NMB monitors SMEs business activities, 45.7 percent of them reveal that NMB does not monitor SMEs business affairs while 14.3 of the respondents had nothing to say about project monitoring activities of the bank. From these findings, the researcher was convinced to conclude that NMB employs insufficient monitoring activities on clients or SMEs businesses since a bigger number of respondents (60 %) either disagreed or did not know about the monitoring activities of the bank. In other terms, fewer clients' businesses have been monitored.

Although fewer clients' businesses activities have been monitored, the researcher investigated the ways in which clients' businesses have been monitored. Below is the summary of the findings on the ways NMB monitors businesses of its clients.

Table 4.10: Business Monitoring Strategies Employed by NMB

Responses	Frequency	Percentage
Physical follow up	3	4.3
Written reminder	4	5.7
Loan officer supervision	13	18.6
Telephone reminder	3	4.3
All of the above	5	7.1
Do not know	42	60
Total	70	100

Source: Primary Data

As indicated on Table 4.10, most of the respondents (60 %) did not know about the business monitoring activities of NMB. This made the researcher to believe that most of the SMEs' businesses are not monitored. Additionally, out of the businesses monitored, the researcher noted that most of the few businesses supervised (18.6 %) are performed by loan officers whose cardinally focus is on prompt repayment of loans rather than addressing clients business challenges for business prosperity.

4.4.1 Time Interval for Monitoring Clients' Project

The time interval of clients' business monitoring was then investigated and findings are indicated on Table 4.11.

Table 4.11: Time Interval of Monitoring Clients Business

Responses	Frequency	Percentage
Weakly	-	-
Once in a fortnight	1	1.4
Monthly	3	4.3
Once in three months	5	7.1
Once in six months	7	10
Once in a year	12	17.1
Do not know	42	60
Total	70	100

Source: Primary Data

Findings presented on Table 4.11 reveal that most of the few clients' businesses are not closely monitored. This is supported by the fact that out of the 44.3 percent of the projects monitored, 17.1 percent of them are monitored once in a year, and 10 percent of them are monitored once in six months time. This means that the management of NMB provides inadequate advisory services to support SMEs' economic empowerment.

4.4.2 Need for Monitoring SMEs' Projects

On the question why financial investment projects of clients need to be monitored, 90 percent of the respondents reveal that monitoring is important in sense that it enables clients to deal with business obstacles that would limit them from realizing growth and development. This means that business supervision and advisory permits identification of business risks and their possible solution. For the 10 percent of the respondents, monitoring activities would enable loan officers understand some of the hindrances to loan repayment or delays of repayment hence try to work on factors that lead to delays or hindrances of repayment.

Concerning the implication of intensity of project monitoring on clients economic empowerment and livelihood in Chake Chake, the researcher observed that the implication of intensity of project monitoring varied depending on how often projects are monitored. Hence, 70 percent of the businesses that were somewhat closely monitored earned relatively high profits and their annual growth rate was estimated to be 5 percent. This was contrary to the performances of businesses that were not closely monitored, that is those monitored once in six months time and those once in a year that yielded insignificant profits and had their annual growth rate below 1.4 percent in estimation. The researcher therefore contends that close supervisory and constant advisory services on clients' businesses investments are vital to the growth of their business hence empowering them economically and uplifting their livelihood.

4.5 Loan provision and Economic Prosperity and Livelihood of SMEs

Before a deeper investigation into the issue of loan acquiring on the side of clients, the researcher demanded how SMEs had come to know about NMB, Tanzania and the results of this is summarized on Table 4.12.

Table 4.12: How SMEs Come to Know about NMB Tanzania

Responses	Frequency	Percentage
Colleague	24	34
Newspapers	18	26
Seminars/ Workshop	8	11
Media	20	29
Total	**70**	**100**

Source: Primary Data

As it can be witnessed on Table 4.12, most of the clients of NMB (34 percent) came to know about the bank through their colleagues, 29 percent of them, through the media, 26 of them by newspapers and 11 percent of the respondents came to know about NMB through seminars and workshops. This therefore suggests that the bank uses all the possible means to ensure that the local population gets to know about them and access its services and products.

4.5.1 Target Groups of NMB Loans

One of the issues on loan provision that was investigated was the target groups for NMB. The findings are presented on Table 4.13.

Table 4.13: Target Groups of NMB Loans

Responses	Frequency	Percentage
Groups	8	11.4
Individuals	6	8.6
All the above	56	80
Total	70	100

Source: Primary Data

From the findings on Table 4.13, 11.4 percent of the respondents indicted that, the microfinance bank only lends to a group or groups of people, eight percent of them indicated that the financial institution only lends to individual clients while 80 percent of the respondents affirmed that the NMB targets or lends both to individuals and groups. This suggests that the bank is not discriminative in its lending procedure hence trying to empower all kinds of people both economically and socially.

Further investigation was also on whether both small and medium entrepreneurs benefit from NMB and the findings are summarized on Table 4.14.

Table 4.14: Whether both Small and Medium Entrepreneurs Benefit from NMB

Responses	Frequency	Percentage
Yes	65	92.9
No	4	7.1
Total	70	100

Source: Primary Data

As it can be noted from Table 4.14, over 90 percent of the respondents investigated in this research affirmed that the beneficiaries of NMB come from both small and medium entrepreneurs, while 7 percent of them pointed that the institution either benefits the small or the medium. The impression on the above data presented in Table 4.14 is that both small and medium entrepreneurs benefit from NMB, meaning that they all do access loans from the bank for business purposes.

4.5.2 Level of Loans Lend by NMB to SMEs in Chake Chake

The researcher was also interested in finding out the level of loans given to SMEs to start up business and 4.15 is the summary of the findings.

Table 4.15: **Loan Levels given to SMEs from the year 2007-2009**

Loan levels	Frequency	Percentages
100000-250000	17	24.3
250000-400000	15	21.4
400000-550000	13	18.6
550000-600000	10	14.3
600000-750000	7	10
750000-800000	5	7.1
800000-5000000	3	4.3
	70	100

Source: Primary Data

As indicated in Table4.15, 24.3 percent of the SMEs acquire loan levels of Tshs 100000-250000, 21.4 percent of them get 250000-400000, 18.6 percent of them get 400000-550000, 14.3 percent of the SMEs were given 550000-600000, 10 percent of the SMEs got 600000-750000, 7.1 percent of them got 750000-800000, finally, 4.3 percent of the SMEs were given 800000-

5000000. From the findings presented on Table 4.15, it can be discovered that the maximum amount of money given by NMB to SMEs is 5 million Tanzanian shillings. However, most of the clients received or were given minimum amount of money to start up businesses. According to one of the management of NMB, the institution first gives small amount of money to testify clients' capability to repay back loans and if they prove capable, their volume of loan increases over time.

4.5.3: The Grace Period Given and the Interest Rate Charged by NMB

The issue on the grace period given to clients was also vital in this research. Respondents were asked to specify the grace period NMB offers them to start their loan repayment and this is summarized in Table 4.16

Table 4.16: Grace Period offered to Borrowers' of NMB Loans

Responses	Frequency	Percentage
Two Weeks	7	10
One Month	38	54.3
Two Months	8	11.4
All of the above	17	24.3
Total	**70**	**100**

Source: Primary Data

Table 4.16 indicates that most of the respondents (about 54.3 p ercent) confirm that NMB offer a period of one month as a grace period for its borrowers to start repaying their loans, 1.4 percent of them indicated that the bank offers two months to start repaying the loan, as for 10 percent of the respondents, SMEs start their repayments after two weeks while for 24.3 percent of the respondents, all the time frame indicated are applicable for repayment.

Further investigation into why NMB offers different grace period reveals that it is due to the nature of the business a client endorses to the management of the bank that determines the grace period. This means that projects that can mature in shorter period of time are given a shorter grace period while those that tend to take long to mature are given longer grace period. This justifies the difference in grace period.

Having found the different periods of grace period given to clients to repay their loans, the researcher went a head to ask whether the grace period given to the SMEs was sufficient enough or not and the results are demonstrated on Table 4.17

Table 4.17: Whether Grace Period given is Sufficient or not

Responses	**Frequency**	**Percentage**
Yes	18	26
No	50	71
Non Response	2	3
Total	**70**	**100**

Source: Primary Data

From the Table 4.17, it can be noted that most of the respondents (71 percent) claimed that the grace period offered to them to enable them start repay their loan was sufficient, 26 percent of the respondents believe that the grace period was sufficient enough for them while 3 percent of the respondent s had nothing to say about the question. From these responses, the researcher contends that much as most of the respondents reveal that the grace period given to them was not enough for them; this could have been for their selfish interest since they could not resist or negotiate with the bank for an extension of grace period.

The level of interest rates charged on clients' loan was also investigated and Table 4.18 indicates the summary of findings regarding the interest rate charged by NMB.

Table 4.18: Interest Rate Charged by NMB on Loans

Interest Rate	f	Percentage
01-05	-	0
06-10	-	0
11-15	-	0
16-20	70	100
21-25	-	0
	70	100

Source: Primary Data

From the data presented on Table 4.18, it can be observed that respondents unanimously agreed that the interest rate charged on loans acquired ranges from 16-20 percent.

Since the interest rates were ranging from 16-20 percent of the money acquired, the researcher contends that the interest rates are relatively affordable for clients whose business intentions are to be economically empowered and improve their livelihood.

4.6 Qualitative Analysis of Data

4.6.1 Aspect of Debt Recovery and Economic Empowerment and Livelihood of SMEs

An investigation into the methods of debt recovery through comprehensive interview reveals that NMB uses both client friendly and those that are non tolerant to clients. The methods used by the bank to recover its debts include making clients to voluntarily bring their loans as specified, giving them more time to pay but with another additional interest rates, cutting their interest rates in case they fail to show up, asking their referees to pay in case the clients run away or totally fail to pay, selling clients assets in case they have some that can cover what they owe, seizing clients productive assets. These methods of debt recovery at NMB are explained below.

Seizing clients' assets approach is one of the commonest debt recovery approaches used by NMB. In this, the bank confiscates valuable assets of individual offenders. It is unless the individual repays the loan that the confiscated asset is released. As said by the branch manager of National Microfinance Bank, this method is used on clients who fail to beat deadlines for their repayment hence this strategy in one way or another reminding them on the agreement of repayment. Although this strategy helps the bank to recover its debt easily and eliminates cases of loses, it was somewhat detrimental to clients in sense that: they are denied of the use of their productive assets until they fully repay their loans with a fine of 3 percent of what they were supposed to repay. Therefore, it is through holding clients productive assets and making them pay more than what they were supposed to pay that their economic empowerment and livelihood are negatively affected.

Similar to seizing clients assets but distinct is forceful selling of clients assets without their consent in order to recover debts. This debt recovery approach is commonly used on clients the bank believes are somewhat resistant to their repayment agreement. What is striking about this strategy is that the value of assets sold by the bank usually exceed the actual money the bank demands from clients. This method tremendously works for NMB at the cost of clients since the clients are not given any chance to negotiate prices for their assets. This leads to poverty and frustration among such clients as many of them loose assets of high value for relatively low loan levels.

Asking the referees of the clients to pay is also another debt recovery approach by NMB. According to branch manager of National Microfinance Bank, this method is used on clients who deliberately refuse to pay or who have decided to run away from their homestead so as to avoid loan repayments. Therefore, in order to avoid working for loses, NMB asks the referees of such clients to repay loans. Under critical cases, such referees are taken to court such that the bank recovers all it's money. This negatively affects the relationship between the clients' families and that of referees' as they face hatred, shame and loneliness from the families of the referees.

Arranging to cut the clients salaries is also one of the strategies NMB uses to recover loans from clients who are employed with organized institutions or companies and are facing challenges in repaying their loans. Here, the bank arranges with the employer of the client such that some percentage of their salary is cut on monthly basis to recover the bank's money. As one of the respondents interviewed reveals, the bad element with this approach is that the bank determines how much money should be given to clients. This sometimes worsens the economic situation and living standard of such clients since remaining part of their salary may not be sufficient enough to support their families' basic needs.

Some times clients are also given more time to repay their loan. This is not a common debt recovery approach in NMB. In this case, SMEs are given more time to repay debts. This strategy is used on clients whose problems have been investigated and understood by the management. More time could be given to clients who faced unpredictable economic problems such as accidents, robbery among others on their business trips. In other terms, those whose businesses have been affected by circumstances beyond their control and there are clear evidences for such circumstances. However, most of the clients who have been given more time are those that had been consistent in repaying debts. This strategy has been helpful to clients as it enables them to recover from losses incurred and encourage them to work harder within the time frame given to them.

Demanding whether the debt recovery approaches used by the bank were sensible especially in respecting the rights of clients, the management believes that ones rights should not be respected at the cost of another. In further explanation, the management believes that the money they lend belongs to other clients as such failing to use appropriate approaches that can enable the bank to get back savers money is also violating the savers rights. From this point, the researcher believes that the management was somewhat right to use all the possible ways to ensure that savers money is recovered but recommends that the clients should first be given some chance to explain themselves and prove why they were unable to pay the loans in specified period of time.

Asking whether the debt recovery approaches of NMB positively affect the economic activities of SMEs, about 80 percent (in estimation) of the respondents interviewed confessed that though most of the means are detrimental to clients' economic recovery, it would have been more damaging to the bank and the savers. As revealed by one of the managements of the bank, failing to pay what belongs to savers would completely damage the image of the bank hence making it hard for the bank to compete with other financial institutions around.

In explaining how debt recovery strategies of NMB affect the SMEs economic plans, it was found out that such defaulters had to restart afresh or from the beginning since what would have helped them to prosper economically is either consificated or sold out. With frustration, many of them lack public trust and many of such clients resort to drinking alcohol, hence deteriorating their economic plans.

Though about 60 percent of the respondents interviewed reveal that the bank offers sufficient information regarding issues related to debt, the researcher found out that detailed information regarding some of the tough penalties against defaulters is concealed to the clients such that many of them could be attracted to the financial services of the bank. This therefore leaves many clients vulnerable to the loans they acquire since little briefing and emphasis regarding what would happen to them is somewhat hidden.

Challenges facing the management of the bank in trying to secure or recover debts from clients were also some of the aspects investigated in the research process. The finding regarding this reveal that the management incurs high administrative cost to finance credit officer in aspects such as food, allowances, and communications and transport facilities among others and this somewhat affects the budgeting system of the bank.

Besides high costs administrative incurred, hostilities from some of the local communities especially the relatives of some defaulters was also cited as one of the challenges facing the management of NMB. As one of the managers of the bank explained, in one of their operations to recover loans through seizing client's assets, they were attacked and if it was not with the help of the police, it was going to be hectic for them to approach the situation. This therefore indicates how difficult it is for the management of the bank to recover loans from defaulters.

Other challenges mentioned included poor transport facilities especially in rural areas, fatigue in trying to trace some of the defaulters, clients escaping among others.

4.6.2 Project Monitoring Services and SMEs Economic Empowerment and Livelihood

As a matter of fact, over 90 percent of the respondents (in estimation) administered through interview method affirm that monitoring of clients projects is instrumental in boosting their economic milestone. Though most of the respondents in this category supported the view that monitoring clients' projects, the question on whether NMB offers monitoring activities on clients' investment projects was answered with some hesitation among clients. In other term terms, there was somewhat controversy on this point among respondents. Some respondents revealed that the bank offers some monitoring services on clients' projects while others were bold enough to say that the bank does not offer these services. This made the researcher to believe that bank might have put little emphasis on monitoring clients' projects.

In demanding the department or the category of people involved in monitoring of clients business especially from those who claimed that NMB offers monitoring services, most of them reveal that this service has been entrusted to the credit officers of the bank. From this, the researcher contends that the aspect of project monitoring may be insufficiently done since most of the credit officers were not trained to handle project monitoring activities. Further investigation also reveal that few of the projects monitored are irregularly attended to, meaning that they were not constantly and frequently monitored.

In answering the question on how monitoring clients' projects enhance the economic empowerment and livelihood of clients, respondents revealed that one of the ways in which project monitoring influences economic empowerment of SMEs is through guiding the clients towards the project objectives and goals. As the cardinal reason for the existence of microfinance institutions is to empower its clients both economically and socially, in their monitoring programs, they make sure that their clients keep the direction of their projects hence guiding them against all the temptations of mismanagement of their business. This therefore encourages concentration hence leading to economic empowerment of clients.

Additionally, according to some of the respondents interviewed, monitoring process by the bank official makes some of the core obstacles to clients business identified and remedies against them are appropriately taken. It is therefore through this process that clients' projects yield better profits hence enabling their business growth at a better pace.

In some instances, clients also manage to get some training during project monitoring affairs. In this, they learn some aspects regarding record keeping and accountability which all are important aspects regarding business. Through this process, loses that would have come as a result of poor book keeping and lack of accountability are either minimized or curbed hence prosperity.

Another way through which monitoring activities enhance economic empowerment of clients is that in the monitoring process SMEs get chances to ask some of the issues affecting them. In this, they get some important information either regarding available market for their produce or where they can get resources cheaply. This facilitates their production rate and enable them advance economically.

As stated by one of the respondents investigated, in the monitoring activity, clients are reminded of their repayment period or process. This therefore reminds the SMEs to get focused on their business and avoid cases that are likely to mislead them in their business affairs.

4.6.3. Loan Provision and Economic Empowerment and Livelihood of SMEs

The issue of loan provision to clients was also one of the focal points in this research. One of the important aspects demanded of respondents was requirements considered before a client accesses a loan. According to the information from respondents, one need first to open up an account with NMB in order to access its loans, authentically give out his or her permanent address and valid identification card (ID), declare and have genuine referees such as employer or relatives who also consent of your idea of wanting to acquire loans. Additionally, one also needs to spell out clearly their reason of acquiring the loan and understand and agree with the terms and conditions in place. For those who want big loans, some collateral in form of some tangible and fixed valuable assets are required. These aspects therefore give some assurance to the bank and enable the bank freely lend the sum of amount an individual or a group of individual acquires.

The management of NMB has also set its minimum and maximum amount of money to be given to clients inform of loans. As one of the senior managers of the bank said, the minimum amount of money the bank offers to clients is 100000 Tanzanian Shillings and in most cases the maximum is 5000000 Tanzanian Shillings. Gi ving reasons to explain why the bank offers such figures, the senior manager exclaimed that since the money given out is purposely to encourage local population to engage in business activities, the management believes that amount below 100000 Tanzanian Shilling may be insufficient for individuals to run business properly and offering amount more than 5000000 Tanzanian Shillings is sometimes risky and to make sure that the bank remains with sufficient amount of money required by the central bank. However, under special cases, the bank may make some arrangements to offer a loan of more than 5000000 millions to some clients depending on the level of money in the bank and the value of the collateral the client has.

Respondents also reveal that NMB loans are accessed by both individual clients and group of individuals so long as the individuals agree with the terms and conditions already set by the bank. Some of the activities in which the clients of NMB engage themselves with the loans they acquire include poultry keeping, food joints and restaurants, retailing and wholesaling, welding, dairy farms, fishing among others.

Much as most of the clients complained of the 19 percent of the interest rates set by the bank, the management praised the interest rates of the bank by saying the it is actually one of the lowest interest rates in the country since most of the financial institutions around charge from 20 percent and others even more than 20. As such, the researcher sided with the management as clients continue to be attracted by the interest rates and by the fact that the clients continue borrowing from the bank. This suggests that the interest rates of the bank are affordable and client friendly. The interest rate charged on clients enables the bank to meet its operational costs hence encourages the sustainability of the Microfinance institutions.

In citing some of the tangible effects of the NMB loans on clients' economic empowerment and livelihood, it was noted that the clients who properly invest their money in productive and well planned business activities earn some profits which enables them to expand and develop their business activities hence empowering them economically.

Besides expanding their business activities with the profits realized from the business, over 70 percent of the clients in estimation were also capable of catering for their families basic needs such as medication, education, better structure houses and get at least tow hot meals in a day. This means that most of the NMB clients' who are focused in their business activities generally have improved standard of living as compared to their counterparts or those who could not access the loans.

Furthermore, due to some training, sensitization procedures and guidelines on how clients can manage their business activities and progress, it was noted that over 60 percent of the NMB clients have become knowledgeable and experienced in issues regarding loans and business opportunities. This allows the clients to borrow loans from any financial institutions and engage in different businesses.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Overview

In this chapter, the researcher summarizes the major findings in this study, presents some recommendations on how microfinance institutions can work together with their clients in reducing poverty level and improve standard of living of the poor. Lastly some conclusions on some of the major issues discussed in the previous chapters will be drawn.

5.2 Summary

Summary of this research is based on the demographic characteristics of respondents, findings on debt recovery, intensity of project monitoring and the level of loan provision to the clients' economic empowerment and livelihood.

The demographic characteristics of the respondents indicated that the greatest participants (53.4 percent) in this study were the youth; male respondents also formed the highest population (69 percent). Sixty one percent of the respondents sampled were literate and well informed; and 55.5 percent the respondents had spent more than 10 years with the bank either as clients or staff.

74 percent of the respondents reveal that NMB has debts with SMEs; and finding reports also indicated that about 70 percent of the debt recovery strategies used by NMB were inappropriately and unfriendly to clients hence, found to be detrimental to the economic and livelihood of SMEs. All SMEs who were prompt in their repayment procedures were never affected by the bank's debt recovery strategies. Many clients blamed the problems of becoming loan defaulters due to insufficient information offered to them regarding loans.

About 70 percent of the respondents face problems in trying to repay their loans and the management faces challenges of administrative costs, hostilities from the relatives of defaulters, poor transport facilities in rural areas and fatigue in trying to trace the places of clients.

Over 94 percent of the respondents affirm that frequent and regular project monitoring by NMB officials would lead to economic empowerment and improved livelihood of SMEs. However, 60 percent of the SMEs projects were not monitored and about 68 percent of the projects in estimation were monitored once in six months and the monitoring process was done by loan officers who were inexperienced in the area of project monitoring.

NMB project monitoring is essential to clients in sense that it enables clients to be more focused on business objectives and goals, enables business obstacles to be addressed, and encourages training and sensitization of clients on accountabilities and book keeping issues.

Over 60 percent of clients of NMB come to know about the institution from their colleagues and media and the grace period offered by the bank to clients ranges from two weeks to two months. More than 60 percent of the money to be lent as loan goes to groups; and 92 percent of the respondents confirm that both small and medium entrepreneurs do benefit from NMB loans. 64 percent of the SMEs under NMB access less than 550000 Tanzanian Shillings and yet amount below 550000 could not enable them operate a business capable of lifting them up easily especially economically. What was quite interesting was that the interest rate (19 percent) of the bank was relatively ok.

Before an individual is offered a loan, they need to posses valid identification card and give their permanent address, have genuine referees, declare their reason of wanting to borrow loans, have collateral and must clearly understand and agree on terms and condition out in place.

5.3 Conclusion

In evaluating the relationship between debt recovery and economic empowerment and livelihood of SMEs in Chake Chake district, it can be concluded that 70 percent of the debt recovery strategies employed by the

NMB are quite detrimental to SMEs economic empowerment and livelihood. Some of the debt recovery strategies such as seizing clients' assets, selling clients assets, over cutting clients monthly salaries, and forcing the referees of the clients to pay are quite client unfriendly.

Weaknesses in the project monitoring by the NMB officials has also acted as a hard-hit blow to the economic prosperity of the SMEs since many of them many of them either were unskilled or semi-skilled to handle businesses without expertise help. This suggests that the bank needs to offer some training facilities to its clients if they can not afford to supervise the clients' business enterprises for successful economic prosperity. Lack of project monitoring has led to the downfall of over 50 percent of the business projects while many of the remaining ones stagnate.

Although 75 percent of the SMEs complaint of the interest rate charges by NMB, they were not discouraged to borrow further loans. This asserts that the interest rates were generally affordable hence could not contribute greatly to the downfall of SMEs businesses.

It can also be clearly noted that NMB offers relatively low loans to clients. Over 70 percent of the respondents are given 1000000 Tanzanian Shillings. This states that the expansion of SMEs businesses is made quite complicated since many of them operate businesses at very low capital, hence insignificant business towards economic empowerment and livelihood.

In general, it can be concluded that the NMB loan provision in Chake Chake has not yielded much as expected. This demands that some few areas need to be reviewed for its best operation if the core objective and goal of NMB that is, to alleviate poverty among the rural and hopeless poor is to be achieved.

5.4 Recommendations

In efforts to reduce the moral hazard problem after the funds are disbursed, there is an urgent need for the NMB to closely monitor how the funds are being spent by the recipients. Post disbursement monitoring system would include close supervision on the status or progress of the business undertaken and some technical assistance in achieving a viable business project. This includes advice to be given during the initial stage, ensuring consistent progress evaluation, marketing and ensuring the continuity of the business.

The structure of financing determines the extent to which the recipient can maneuver with the funds being released. Since in general, around 50 to 60 percent of the loans are needed to buy machinery or equipment related to the business project, NMB can appoint an agent to purchase the machinery right away, without having to release that portion of the funds to the recipients. The lesser the amount of cash given to the recipient, the smaller the chances of moral hazard occurring. In the case of chicken farm, NMB might appoint a supplier for equipment and the chicken, and some cash to meet the daily expenses to run the farm.

For projects that are undertaken on a relatively large scale basis, NMB can arrange that the output of the industry to be sold to only the appointed purchaser. The importance of selling the business output to the appointed purchaser is so that there can be an arrangement that a certain portion of the sale can be used to repay the microfinance loan and the balance to be returned to the seller/recipient as profit. By this way, the repayment is ensured and the risk of default can be reduced substantially.

Basic business skill and knowledge are very much needed to ensure a viable business venture in a microfinance program. As such, the financial support provided by the NMB must also be complemented with the technical support to the recipient. Indirectly, this ensures close supervision of the project at every stage of the business venture since it requires an active participation of NMB starting from its planning period until the plan for expansion. For instance, the technical assistance would require pre-disbursement support (in terms of project assessment or viability and providing the recipients with the basic knowledge in the particular project of interest); initial stage of fund disbursement (purchasing of machines and ensuring quality raw materials); mid-course evaluation (ensuring progress of the project) and final stage consulting (marketing of produce and expansion plan which include possible down-stream activities). It is important to note that all the technical supports needed require that the field workers of NMB to be well-equipped with the skills and knowledge to convey effective advice to the recipients. There is, therefore, a need for a strong and intensive training system for the field workers as well.

To avoid the recipients to use the loan for more pressing personal needs such as for medical expenses, NMB can require the recipient to also undertake insurance policy for health coverage. Health issue is highly relevant in microfinance since approximately 10 to 15 percent of the recipients defaulted on their loan payments to meet medical expenses for the family members. As a result, insurance policy for health coverage for the recipients could indirectly reduce the possibility of default in microfinance. In addition, as a way of prevention, NMB could have the health awareness campaign which include promoting cleanliness, proper sanitation and good eating habits to reduce the diseases which is quite common among the recipients.

Immediate fixed repayment schedule on either weekly or monthly basis for all type of projects has shown to be burdensome for many recipients, particularly those with business projects that require relatively long incubation period. NMB should be aware that the time needed for a business project to turn in profit depends on the nature of business, for example, chicken-rearing farm takes at least two weeks, while goat-rearing farm takes about one to two months. In this circumstance, NMB should discuss with the borrower and need to know the real nature of business before deciding on the repayment plan. Payment should ideally starts after the incubation period, once the farm produce can be sold. In this regard, a more flexible repayment schedule would benefit clients and potentially improve their repayment capacity.

To ensure the recipients are motivated to do the best in whatever business project that they are undertaking, frequent motivational talks should be given to the recipients so as to have a paradigm shift to further improve their standard of living. At the same time, it is also important to remind the recipients of their responsibility to ensure the success of the business project, thus to be able to re-pay NMB of the loan that have been extended.

Since microfinance has become a major anti-poverty tool in many developing countries, microfinance could be used to complement government's objective to eradicate poverty. As such, NMB could get the support from the government that could ensure its successful implementation. Smart partnership between the NMB and the government would help to expedite the implementation of microfinance in poverty alleviation on a national scale basis. While NMB could extend financial assistance, the government could contribute in terms of promoting healthy lifestyle among the recipients as well as providing education infrastructure to the poor people. All these work hand in hand to ensure the success of microfinance projects, thus, reducing the possibility of default among the borrowers. The government could also provide a conducive environment for microfinance to grow by providing favorable tax incentives for the parties involve in microfinance.

5.5 Areas for further research

1. Challenges faced by microfinance institutions in economic empowerment of SMEs
2. Role of microfinance institution in promoting savings among the rural poor
3. How do microfinance institutions create money for development and operation?

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KAMPALA
INTERNATIONAL UNIVERSITY

P.O.BOX 20000
KAMPALA- UGANDA.
TEL:-041-266813

OFFICE OF THE DEPUTY DIRECTOR
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH

May 28, 2009

The Managing Director
National Micro Finance Bank,
Tanzania

Dear Sir/Madam,

RE: INTRODUCTION FOR MWANTATU FADHIL KHAMIS

This is to inform you that the above named is our registered student (MBA/10015/81/DF) in the School of Postgraduate Studies pursuing a Master of Business Administration (MBA-Finance and Banking).

She is interested in carrying out research in your organization entitled"**Role of Micro Finance Institutions in Development of Small and Micro Entrepreneurs in Tanzania: a case Study of National Micro Finance Bank, Chake Chake Branch**".

Any assistance rendered to her regarding research will be highly appreciated.

Yours faithfully,

Dr. Kepha Natolooka
DEPUTY DIRECTOR-SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH

APPENDIX B

THE ROLE OF MICROFINANCE INSTITUTIONS FOR THE DEVELOPMENT OF SMALL AND MICRO-ENTREPRENEURS IN TANZANIA: A CASE STUDY OF NATIONAL MICRO-FINANCE BANK LIMITED, CHAKE CHAKE PEMBA.

Dear respondents as part of my requirements to the award of a Masters in Business Administration at Kampala International University. I am administering this questionnaire to collect information on the role of microfinance institutions for the development of small and micro entrepreneurs in Tanzania. Please answer as honestly as possible.

INSTRUCTIONS:

1. Do not sign your name any where on this questionnaire.
2. For Section tick for section A and fill in Section B.

QUESTIONNAIRE FOR NMB CLIENTS

1.1 Gender: Male ☐ Female ☐

1.2 Age: 20-29 ☐

30-39 ☐

40-49 ☐

50-59 ☐

60-69 ☐

1.3 How long have you been a client of NMB, Tanzania?

1-5 ☐ 6-10 ☐ 11-15 ☐ 16-20 ☐

1.4 Education Background

Primary ☐ O-Level ☐ A-Level ☐ Higher education ☐

SECTION B

2. How did you know about NMB, Tanzania?

a) Colleague ☐

b) Newspaper ☐

c) Seminar/workshop ☐

d) Other (please Specify)

3. Why do you choose NMB as your business partner?

....

....

4. Do you acquire loan as a group or an individual?

Group ☐ Individual ☐ Both individual and group ☐

5. What kind of business do you do with the loans you acquire?

....

....

6. How much did you borrow from NMB to start up your business?

1. 100 000 -250 000 ☐
2. 250 000 -400 000 ☐
3. 400 000 – 550 000 ☐
4. 550 000- 600 000 ☐

5. If other specify ....

7. What grace period does NMB offer to its borrowers to start loan repayment?

1. Two Weeks ☐ 2. One Month ☐
3. Two Months ☐
4. Others (specify) ....

8. Is the grace time given for loan repayment sufficient?

Yes ☐ No ☐

9. What interest rate was charged on the loan you acquired?

1- 5 percent ☐
6-10 percent ☐
11-15 percent ☐
16-20 percent ☐
21-25 percent ☐

10. Do you find the interest rates effective enough for you business?

Yes ☐ No ☐

11. According to your answer to question 10, what explanation (s) do you give to support your answer? ....
....
....

12. Do you face problems in repaying your loans? Yes ☐ No ☐

13. How does NMB collect its debts from clients?

By seizing their assets ☐ By imprisoning them ☐

By other ways (specify the ways)..

....

14. How does debt recovery approaches by NMB affect economic empowerment and livelihood of SMEs?...

....

15. Are your businesses monitored by NMB? Yes ☐ No ☐

16. How often are these business monitored?..

....

17. How has the monitoring process influence the growth of your business?

....

....

18. What other things would you like to say about monitoring businesses of clients by MFI and its influence on economic empowerment and livelihood of clients?..

....

Thanks for your time to respond to these questions

APPENDIX C

THE ROLE OF MICROFINANCE INSTITUTIONS IN THE DEVELOPMENT OF SMALL AND MICRO ENTREPRENEURS, TANZANIA: A CASE STUDY OF NATIONAL MICRO-FINANCE BANK LIMITED, CHAKE CHAKE BRANCH.

Dear respondents as part of my requirements to the Award of a Masters Degree in Business Administration at Kampala International University. I am administering this questionnaire to collect information on the role of microfinance institutions for the development of small and micro entrepreneurs in Tanzania. Please answer as honestly as possible.

INSTRUCTIONS:

2 Do not sign your name any where on this questionnaire.

3 For Section A, tick in the boxes and fill in Section B .

QUESTIONNAIRE FOR EMPLOYEES OF NMB

SECTION A: DEMOGRAPHIC INFORMATION OF RESPONDENTS (TICK WHERE APPROPRIATE)

1.1 Gender: Male ☐ Female ☐

1.2 Age: 20-29 ☐

30-39 ☐

40-49 ☐

50-59 ☐

60-69 ☐

1.3 Number of years worked in the organization

1-5 ☐ 6-10 ☐ 11-15 ☐ 16-20 ☐

1.4 Education Background

Primary ☐ O-Level ☐ A-Level ☐ Higher education ☐

SECTION B:

2.0 Loan Provision and Economic Empowerment and Livelihood of SME

2.1 What is the target group for this micro –finance?

Individual ☐ Group ☐ Both individuals and groups ☐

2.2 Do small and medium entrepreneurs benefit from microfinance institutions?

Yes ☐ No ☐

2.4 How much do you give to each client as base or start up loan?

1. 100 000 -250 000 ☐
2. 250 000 -400 000 ☐
3. 400 000 – 550 000 ☐
4. 550 000- 600 000 ☐
5. If other specify ....

2.5 What interest rates do you charge on the loans given?

1- 5 percent ☐

6-10 percent ☐

11-15 percent ☐

16-20 percent ☐

21-25 percent ☐

2.6 Why do you charge such interest rates? ....

....

2.7 How have your clients benefited from your loans?

....

....

2.8 What good things can you say about your loan provisions? ....

....

....

2.9 What bad things can you say about your loan provision? ....

....

....

2.10 According to your answer to question 2.8 and 2.9, what recommendations can you give to both the management and clients of NMB?...

....

....

3.0 Project Monitoring and Economic Empowerment of SMEs

3.1 Some scholars assert that microfinance institutions must closely monitor the financial investment projects of their clients so as to achieve their cardinal objectives of economically empowering the clients. Do you agree?

Yes ☐ No ☐

3.2 Does NMB offers project monitoring services to SMEs?

Yes ☐ No ☐

3.3 If yes how does NMB offer monitoring services to its clients?

Physical Follow up ☐ Loan officer supervising ☐

Written Reminder ☐ Tele-phone Reminder ☐

Other...

5.5 How often does NMB monitor activities of SMEs?

Weakly ☐ After a fortnigh☐

Monthly ☐ Other (specify).....................................

....

....

3.5 How does SMEs project monitoring affect their economic empowerment?

....

....

4.0 Debt Recovery and Economic Empowerment of SMEs

4.1. Do you have some debts with some SMEs?

Yes ☐ No ☐

4.2. In which ways have you been collecting or recovering debts from SMEs?

By seizing their assets ☐ By imprisoning them ☐

By other ways (specify the ways)..

....

4.3 According to your answers in question 4.2, how do these dedt recovery strategies affect the economic performances of SMEs? Mention both positive and negative effects...

....

....

4.4 What challenges do you face while trying to recover all the debt?

....

....

....

Thanks for your time to respond to these questions

APPENDIX D

INTERVIEW GUIDE FOR MANAGEMENT

1. What debt recovery methods does the National Microfinance Bank use?
2. Do you see sense in these debt recovery approaches especially in respecting the rights of your clients?
3. Do debt recovery approaches of your institution positively affect economic activities of your clients?
4. According to your answer in question 3, explain how debt recovery strategies of NMB affect the SMEs' economic plans?
5. Does the management of this institution provide sufficient information about debt to clients? If yes how and if no why?
6. Some researchers believe that microfinance institutions should provide monitoring services to their clients' projects. Do you agree?
7. Does this institution provide monitoring of financial investment projects of SMEs?
8. If yes, who or which department does the monitoring of SMEs' financial projects? If no why is there no monitoring programs on SMEs' projects?
9. How do you think monitoring services can enhance economic empowerment of SMEs?
10. As Concerns loan provision, what aspects do you consider before lending to SMEs?

11. What is your minimum and maximum lending to SMEs?

12. What reason do you give for lending such figures?

13. What interest rates do you charge on your loans and why do you charge such percentage?

14. Do you think this interest rate is client friendly? If yes how, if no why do you maintain the rate?

15. What are the effects of NMB loans on the economic empowerment and livelihood of clients?

16. What other things would you like to say about debt recovery, financial investment project monitoring of clients and loan provision and their influence on economic empowerment and livelihood of SMEs?