

**MICROFINANCE CREDIT TERMS ON THE PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES (SMEs): A CASE OF DAR -ES- SALAAM REGION -TANZANIA**

A Dissertation

Submitted to Directorate of Postgraduate
Studies and Research, Kampala International
University in Tanzania

In Partial Fulfillment of the Requirements for the Award of Master's
Degree of Business Administration
(Finance and Banking)

GLORIA HAONGA
MBA/18568/602/DT

June, 2019

DECLARATION A

I hereby declare that this dissertation titled: “*Microfinance Credit Terms On The Performance Of Small And Medium Enterprises (SMEs): A Case Of Dar -Es- Salaam Region –Tanzania*” is my original work and has not been presented for a degree or any other academic award in any other university or institution of learning.

Gloria Haonga

Signature -----

Date-----

DECLARATION B

I declare that the work presented by the student on “*Microfinance Credit Terms On The Performance Of Small And Medium Enterprises (SMEs): A Case Of Dar -Es- Salaam Region –Tanzania*” was carried out by the candidate, under my supervision.

Name of Supervisor

Dr Wario Wako

Signature

Date.....

APPROVAL

I confirm that this dissertation was carried out by the candidate, under my supervision.

Name of Supervisor

Dr Wario Wako

Signature

Date.....

Name of director of Postgraduate studies and Research

Signature of the Director of Postgraduate studies and research

Date

DEDICATION

This work is dedicated to my brother Bernard Haonga, my son Michael Mzanda, my sister Dorothea Haonga, My mother Eunice my aunties; Rita, Gift, Veronica Magreth, Josephine and all those who stood with me during the preparation of this work.

ACKNOWLEDGMENT

First and foremost, I thank Almighty God that has kept me healthy throughout the study, indeed without him; this would have not been achieved.

My special thanks go to the faculty of Computing, Management and Social Sciences, Directorate of Post graduate studies and research and Kampala International University in Tanzania for providing convenience environment during the study.

Also, I would like to thank my supervisor Dr.Wario Wako and his assistant Mr. Farid Sumry for his generosity, guidance, encouragement, patience, constructive comments, and advice throughout the stages of writing this dissertation. I appreciate his support and the time he devoted during my study. Let God richly reward you.

On the other hand, I would like to take this opportunity to express deepest gratitude to Small and Medium Enterprises (SMEs) owners for their time and corporation during my study.

In addition, I thank my colleagues of Quality Assurance of Kampala international University in Tanzania, namely: Director Dr. Victor, Abraham, Mariam and Herme, for their moral support.

Finally, I am indebted to my mother Eunice Haonga and brother Bernard for financial and moral support during my study. May God bless you in abundance!

TABLE OF CONTENTS

DECLARATION A	i
DECLARATION B	ii
APPROVAL.....	iii
DEDICATION	iv
ACKNOWLEDGMENT	v
TABLE OF CONTENTS.....	vi
LIST OF TABLES	x
LIST OF FIGURES	xi
LIST OF ACRONYMS	xii
ABSTRACT.....	xiii
CHAPTER ONE.....	1
OVERVIEW OF THE STUDY	1
1.1 Introduction	1
1.2 Background of the Study	1
1.2.1 Historical Perspective	1
1.2.2 Conceptual Perspective	3
1.2.3 Contextual Perspective.....	4
1.3 Statement of the Problem	5
1.4 Purpose of the Study	6
1.5 Objectives of the Study	6
1.5.1 General Objective	6
1.5.2 Specific Objectives	6
1.6 Research Questions.....	6
1.7 Scope of the Study	6
1.7.1 Geographical Scope	7

1.7.2 Content Scope.....	7
1.7.3 Theoretical Scope	7
1.7.4 Time Scope.....	7
1.8 Significance of the Study	8
1.9 Definitions of Key Terms.....	8
CHAPTER TWO.....	10
LITERATURE REVIEW	10
2.1 Introduction	10
2.2 Theoretical Literature Review	10
2.2.1 Resource-Based View (RBV) Theory.....	10
2.2.2 Classical Theory of Interest Rates	12
2.3 Conceptual Framework.....	15
2.4 Empirical Literature Review	17
CHAPTER THREE.....	22
METHODOLOGY	22
3.1 Introduction	22
3.2 Research Design	22
3.3 Population of the Study.....	22
3.4 Sample Size	22
3.4 Sampling Procedure.....	23
3.5 Research Instruments	24
3.6 Validity and Reliability of Instruments.....	24
3.6.1 Validity.....	24
3.6.2 Reliability	24
3.8 Data Analysis	25

3.9 Ethical Considerations	25
3.10 Limitations of the Study	26
CHAPTER FOUR	27
PRESENTATION, ANALYSIS, AND INTERPRETATION OF DATA.....	27
4.1 Introduction	27
4.2 SMEs' Members Background Information	27
4.2.1 Characteristics of Sample Respondents.....	27
4.3 SMEs' Background Information.....	30
4.3.1 Type of SMEs' Business Ventures	30
4.3.2 The number of members the respondents firm has at the present time	31
4.3.4 SMEs' Level of Increase in Assets and/or Facilities.....	33
4.3.5 Frequency of Microloan Applications made to Microfinance Institutions and Rate of Success.....	35
4.4 The eventual outcomes of microloan interest rate on the performance of SMEs	35
4.6 The outcome of microloan repayment period on the performance of SMEs.....	38
4.7 The effect of microloan repayment amount on the performance of SMEs	41
CHAPTER FIVE.....	51
SUMMARY OF FINDINGS, RECOMMENDATIONS, AND CONCLUSION.....	51
5.1 Introduction	51
5.2 Summary of Findings.....	51
5.2.1 SMEs' Members Background Information	51
5.2.2 SMEs' Background Information.....	51
5.2.3 The eventual outcomes of microloan interest rate on the performance of SMEs	53
5.2.4 The outcome of microloan repayment period on the performance of SMEs.....	53
5.2.5 The effect of microloan repayment amount on the performance of SMEs.....	54
5.3 Conclusion.....	54
5.4 Recommendations.....	56

5.5 Areas for further study	56
REFERENCES.....	57
APPENDICES.....	68
APPENDIX A: QUESTIONNAIRE.....	68
APPENDIX B: INTERVIEW GUIDE FOR FIRM'S MANAGERS AND LEADERS.....	70
APPENDIX C: TIME FRAME	73
APPENDIX D: ESTIMETAD FINANCIAL BUDGET.....	74

LIST OF TABLES

Table 4.2.1: Sex distribution of SMEs' members.....	27
Table 4.2.2: Age group distribution of SMEs' members	28
Table 4.2.3: Distribution of SMEs members' education level	28
Table 4.2.4: Marital statuses of SMEs' members.....	29
Table 4.3.1: Type of business enterprise involved by SMEs	30
Table 4.3.4: SMEs' level of increase in asset or facilities for the whole period of being in business	34
Table 4.4.1: SMEs members' perception on the eventual outcomes of microloan interest rate on the performance of SMEs.	36
Table 4.5: Merged percentage means scores on SMEs members' perception on the eventual outcomes of microloan interest rate on the performance of SMEs.....	37
Table 4.6a: SMEs members' perception on the outcome of microloan repayment period on the performance of SMEs.	39
Table 4.6b: Merged percentage mean scores on SMEs members' perception on the outcome of microloan repayment period on the performance of SMEs.....	40
Table 4.7a: SMEs members' opinion on the effect of microloan repayment amount on the performance of SMEs.	42
Table 4.7b: Merged percentages mean scores on SMEs members' perception on the effect of microloan repayment amount on the performance of SMEs.....	43
Table 4.8: Number of times the respondents/owners succeeded at securing the finance from financial institution	45
Table 4.9: The level of interest rate at which respondents borrowed the loans.....	45
Table 4.10: The repayment period for the loan at which SMEs owners borrowed	46
Table 4.11: The monthly repayment amount	46

LIST OF FIGURES

Figure 2.1: Conceptual framework	12
Figure 4.1: The number of times respondents firm sought finances/loans from microfinance institutions like SACCOS or small bank.....	34
Figure 4.2: The types of credit terms the lender posed to the borrower.....	35
Figure 4.3: Responses from the SMEs owners/ respondents on whether firms have the capacity to make savings.....	36
Figure 4.4 Responses on whether the firm's qualified for bigger loans since you started the business..	38

LIST OF ACRONYMS

BRELA	-Business Registration and Licensing Agency
DFIs	-Development Financial Institutions
GDP	-Gross Domestic Product
KIPPRA	-Kenya Institute for Public Policy Research and Analysis
MFIs	-Microfinance Institutions
MIT	-Ministry of Industry and Trade
SMEs	-Small and Medium Enterprises
SMME	-Small, Micro, and Medium Enterprises
OECD	-Organization for Economic Cooperation and Development
SACCOS	-Savings and Credit Cooperative Societies
FSDT	-Financial sector depending trust
CRDB	-Commercial and Rural Development Bank
NMB	-National Microfinance Bank
AKIBA	-Akiba Bank
PRIDE	-Promotion of Rural Initiative and Development Enterprises
SEDA	-Small Enterprise Development Agency
TPB	-Tanzania Postal Bank
FINCA	-Foundation for International Community Assistance
SACCOS	- Savings and Credit Cooperative Societies

ABSTRACT

The study focused on the assessment of the impact of Microfinance credit terms on the performance of SMEs in Dar es Salaam Region, Tanzania. With three objectives namely: To analyze the effect of microloan interest rate, to examine the effect of microloan repayment period and to establish the effect of microloan repayment amount on the performance of SME's in Dar es Salaam region. This study used cross-sectional and survey research designs. The sample size used in the study constituted registered small and medium enterprises (SME's) operating in Dar es Salaam region as well as, 392 respondents were selected. Data were collected by questionnaire, interview and documentary review and analyzed by descriptive statistics (percentage distributions, mean, and standard deviations). The study revealed that 65% of respondents denied the existence of positive experience by SMEs with microloan interest rate. On the other hand, about 49% indicated unsatisfied with loan repayment periods, In addition, 64% of respondents rejected the contention that microloan repayment amounts posed by microfinance lenders were fair enough to positively contribute to their performance. Thus, credit terms namely microloan interest rate, microloan repayment period, and microloan repayment amount significantly affected the performance of SMEs in Dar es Salaam. The study recommended that there is a need to establish SMEs credit bureau to provide credit rates ceiling and floor of SMEs and provide financial institutions and other lenders with easy access to credit information timely, accurate and reliable. Also, financial institutions should careful understand the SMEs nature of businesses in order to offer reasonable loan sizes and the booming seasons of SMEs business so that they can give reasonable loan period which in turn leads to their better Performance.

CHAPTER ONE

OVERVIEW OF THE STUDY

1.1 Introduction

The chapter presented the background of the study, the statement of the problem, purpose of the study, research objectives, research questions, scope and implications of the study, and definitions of the key terms.

1.2 Background of the Study

1.2.1 Historical Perspective

An earlier revolution, truly in microfinance, urban and rural, started in Germany some 150-200 years ago from small informal beginnings as part of an emerging self-help movement: with the first thrift society established in Hamburg in 1778; the first community bank in 1801; and the first urban and rural cooperative credit associations in 1850 and 1864, respectively. The provision of legal status, prudential regulation and effectively delegated supervision played a crucial role in their further development, starting with the Prussian Savings Banks Decree in 1838 and the Cooperative Act of the German Reich in 1889, the first cooperative law in the world. (Seibel 2003a) Microfinance is thus not a recent development, and it is not just a temporary solution for poor countries. Every now developed country has its own history of microfinance. It is important to recognize this because it presents a view different from that of many in the microfinance community who associate microfinance with credit NGOs and believe that microfinance was invented in Bangladesh some 20-odd years ago. Attributing the origin of microfinance to recent initiatives misses not only the historical depth and scale of microfinance, but also centuries of experience, which means: learning from trial and error, failure and success.

In 2007, more than 100 million of the world's small enterprises received microloans internationally (Daley, 2009). Idea connecting to microcredit can be established in different ways in recent history, such as the Starr – Bowkett society, Jonathan Swift inspired the Irish Loan Funds of the 18th and 19th centuries in the mid-19th century, individualist anarchist Lysander Spooner wrote about the reimbursement of various micro loans for entrepreneurial activities such as micro financing (Moruf, 2012).

Microcredit and microfinance are often applied interchangeably; however it is relevant to draw attention to the distinction between them. Also, microcredit as a small loans, whereas microfinance is suitable

where Non-Governmental Organizations and microfinance organizations complement the loans with other financial services such as savings, insurance, pension, and payment services, hence microcredit is a element of microfinance (Ampofo, 2014).

Microfinance has been acknowledged as one of the most proficient mechanisms of directly boosting the economy of SMEs by making accessible suitable financial intermediation to the micro business enterprises which are typically unable to raise the crucial collateral to access credit from the mainstream economic market (Adu-Gyamfi and Ampofo, 2014).

The beginnings in Europe and Africa, notably in Nigeria, were all informal and small-scale. Community- and member-based as well as other informal financial institutions are exceedingly widespread throughout the world. The major difference seems to be the legal recognition given to informal finance in different parts of the world. The earliest evidence of financial institutions in Africa dates back to the 16th century: to *esusu*, a rotating savings and credit association (RoSCA) among the Yoruba. As a form of social capital, the *esusu* as a financial self-help group was transported during the slave trade to the Caribbean islands (Bascom 1952:69), where both the institution and the term still exist today and are now carried by a new wave of migrants to major American cities. Its origin were probably rotating work associations, in which labour as a scarce commodity was accumulated and allocated to one member at a time; and then, with the spreading of commercial transactions, replaced by money, such as cowries, pounds and Naira.

In Nigeria, the miserable performance of the conventional economics sectors triggered the advocacy of micro financing by policy makers, practitioners, and global organizations as a tool for poverty alleviation. The Microfinance Banking notion is an expansion of the old society banking system. With the establishment of community banking system the Micro Small and Medium Enterprises access to credit had to a great extent enhanced, (Moruf, 2013).

In Ghana, Gyamfi (2012) stated that it witnessed a development of the Microfinance industry from 2003 to 2007. A study conducted indicated that SMEs which used microfinance contributed between 23% and 30% to the annual GDP of Ghana. In South Africa in the words of Leboea (2017) the performance of SMEs has faced immense expansion crisis related to the high failure rate on microloan interest rate, microloan repayment period and microloan repayment amount which are present among SMEs, this lead to the fact that entrepreneurs are not able to turn their businesses into sustainable business enterprise.

Micro finance activities in Tanzania started in 1995 with Savings and Credit Cooperative Organization (SACCOS) and NGOs. It has since then contributed to the increment of success of national micro

financing. Microfinance remains a relatively new activity in Tanzania due to having not penetrated many regions. Ever since 1995, microfinance activity has been associated with poverty alleviation programs and women empowerment (Harvey et al., 2018). The government made significant efforts to ensure that commercial banks continue to provide financial support to the small and medium entrepreneurial business. On the other hand, microfinance National Policy was implemented in 2002 to promote and support micro finance activities in the country. Ever since the implementation, micro finance activity was officially launched and recognized as a poverty eradication tool. Due to micro-finance activities increment, exposure and use in the country, commercial banks have developed interests in to offer microfinance services. There are several microfinance institutions that operate as supporting institutions in the nation that normally provide microfinance services. These may include the CRDB, National Microfinance Bank, and AKIBA (Lindvert et al., 2018). Although there are also other few micro banks that are concerned with micro financing in Tanzania such as the PRIDE and SEDA, Tanzania Postal Bank and FINCA. Community and small banks have also expressed interest in the same including the NGOs and other non-profit organizations.

In Tanzania, Savings and Credit Cooperative Societies (SACCOS) are the major providers of microfinance services in both urban and rural areas. In December 2006, there were over 3,500 SACCOS registered with the Ministry of Agriculture, Food Security and Cooperatives, with approximately 420,000 (Girabi and Mwakaje, 2013). Although SMEs are contributing to the development of the financial system, their performance is still at risk due to inauspicious microcredit terms such: microloan interest, microloan repayment amount and microloan repayment period (Lyimo, 2014).

In Dar es Salaam, SMEs are mostly positioned and concentrated in this region. To enable the SMEs, FSDT have supported SMEs in Dar es Salaam to access funding and effective use of financial products and services of SMEs and by stimulating enhanced access to financial products and services that respond to requirements of SMES development. This showed that credit terms are still at risk for the growth of SMEs in Dar es Salaam (FSDT, 2017).

1.2.2 Conceptual Perspective

This study was conceptualized to interest rates on loans, loan repayment period and repayment amount as constructs for Microfinance Credit terms. And Increase of operation capital, capacity to make savings and increased capacity to repay.

Harvie (2010) states that, SMEs have difficulties in accessing bank loans as a results of the high risk, low profitability and lack of collateral required by the financial institutions. The overall argument is that micro-finance loan's interest rates are not compatible with the performance of the SMEs and that most of

these MFIs charge high interest rates and hence the SMEs tend not to be profitable since the operation of SMEs is usually lower than the loan borrowed. Larger firms usually comply with higher disclosure requirements to a greater extent than SMEs because of their access to a broad range of external funds including bonds, equity and loans as well as having higher collateral security and making high profit makes such firms to pay for the high interest from the micro finance institutions easily. This is the evidence that, financial institutions charge high interest rates to SMEs than to bigger companies which borrow bigger amount, in order to compensate for the higher costs of information collection, the smaller volume of external financing and the greater risk of failure (Zhi Wang,2010), Harve (2010), Wang (2010), and Ping (2013).

Micro finance institutions offers financial facilities to SMEs in terms of loans and non-financial services like; business training, financial and business management to help improve the capacity of their clients in managing the loan resources given to them (Quaye, 2011) cited by Asantey and Tengey (2014), where they are required to pay an extra amount “interest” after receiving the loans for their businesses. Even though, SMEs faces challenges in accessing bank loans as a results of the high risk, low profitability and lack of collateral security required by banks. In the ears and eyes of lenders; loan’s interest rates are not compatible with the performance of the SMEs and that these MFIs charge high interest rates and hence SMEs tend not to be profitable (Harvie, 2010).

The studies by different authors reveal that Loan characteristics and firm characteristics are major factors impeding the successful loan repayment of SMEs. Among this inconvenience loan payback period, Lack of financial skills and planning, lack of marketing skills, lack of performance monitoring (Million (2012). Mukono(2015),Individual characteristics include the age of borrower, gender, level of education, business experience, household size, credit use experience, household income, non-business income, type of business activity, and amount of business investment. Loan characteristics include the loan size, repayment period, collateral value, number of installments, and application costs, previous loan experience, and purpose of loan.

1.2.3 Contextual Perspective

In Tanzania, the SMEs employ over 33% of the labor force. While taking the informal sector collectively with the formal sector, the total percentage contribution of the sector to GDP is about 63%. Moreover, about 700,000 job seekers enter the labor market each year. The formal sector absorbs only 40,000 annually. The implication is that the remaining excess annual labor supply of about 660,000 are absorbed by MSMEs or left unemployed Based on these statistics, the role of MSMEs in Tanzania cannot be over-emphasized. Despite the crucial role played by MSMEs in employment creation, poverty reduction and fostering economic growth in both urban and rural areas, they still face many challenges. Among others,

access to finance has been mentioned to be top most by many MSMEs. Given the commercial orientation of the conventional financial system, it may not be surprising to see that banks are not lending to MSMEs. This is because MSMEs are risky in nature (either perceived or real or both), small in size, have high transaction costs per service and may lack transparency in their operations. Consequently, uncontrolled lending to this market segment (informal sector) may put at risk the core business of the formal banking system. Despite the abovementioned challenges, the importance of the sector to any developing economy necessitates a concerted effort in addressing the observed market failure.

However, such interventions call for a more innovative and alternative financing mechanism that is better suited for MSMEs. As part of the solution, the recent resurgence of development finance institutions including microfinance has played a key role as an alternative financing mechanism in this market segment. In Tanzania SMEs employ 59% of the population and supports over 78% household either directly or indirectly. However, SMEs are still collapsing. Could this be because of Microfinance Credit terms? (Alili 2019), although, there are many factors that may lead to collapse and non-performance of SMEs, this study opted to investigate the effect of microfinance credit terms on performance because of their integral use in the SMEs finances.

1.3 Statement of the Problem

Small and Medium Enterprises (SME's) have a potential to boost economic development and economic growth of a country, as Tanzanian government strives to reap its SMEs' potentials by providing micro-finance services such as loans given by public and private microfinance institutions, governs microfinance credit terms through Bank of Tanzania and establishing different financial policies such as credit rate policy (2017) aimed at controlling and regulating microcredit rates, establishing the SMEs policy 2017 of Financial sector depending trust (FSDT) with the aim of access finance and effective use of financial products and services, which they contribute only 27% of the GDP by employing more than 5.2 million people which is too low according to the number of SMEs and population in Dar es salaam.

Despite of all the struggle derived by the government yet there is low performance of SMEs due to financial constraints such as; limited access to finance, unfavorable microcredit terms long loan repayment period, microloan interest rate and microloan repayment amount which hamper their contributions to Tanzanian GDP as from 4% in 2017 to 2% in 2018 (BOT Annual Report, 2018). This brought the inquiry on what derives the performance of SMEs with respect to source of its finance? Therefore, there was a need to study on the impact of Microfinance credit terms on the performance of SMEs in Dar es Salaam Region, Tanzania.

1.4 Purpose of the Study

The purpose is to understand the performance of SMEs with respect to financial sources as their drives in Dar es Salaam Tanzania.

1.5 Objectives of the Study

The study was guided by general and specific objectives;

1.5.1 General Objective

The general objective of the study was to assess the impact of microfinance credit terms on the performance of Small and Medium Enterprises in Dar es Salaam region.

1.5.2 Specific Objectives

The study had the following specific objectives:

- i. To analyze the eventual outcomes of microloan interest rate on the performance of SME's in Dar es Salaam region.
- ii. To examine the outcome of microloan repayment period on the performance of SME's in Dar es Salaam region.
- iii. To establish the effect of microloan repayment amount on the performance of SME's in Dar es Salaam region.

1.6 Research Questions

Three research questions formed the focus of this study:

- i. What is the eventual outcome of microloan interest rate on the performance of SME's in Dar es Salaam region?
- ii. What is the outcome of microloan repayment period on the performance of SME's in Dar es Salaam region?
- iii. What is the effect of microloan repayment amount on the performance of SME's in Dar es Salaam region?

1.7 Scope of the Study

The scope of the study is divided into geographical, content, theoretical and time scopes.

1.7.1 Geographical Scope

The geographical coverage of the study constituted the Municipalities of Dar es Salaam region namely Kinondoni, Temeke, Ubungo, Ilala, and Kigamboni, located in Tanzania. The locality was chosen for reasons of having many microfinance institutions as well as many small and medium scale businesses.

1.7.2 Content Scope

The study focused on the effect of microfinance credit terms (with its constructs of Interest rates on loans, loan repayment period and repayment amount) on performance of SMEs (With the constructs of increase of operation capital and capacity to make savings).

1.7.3 Theoretical Scope

This study was underpinned by three theories namely Resource-Based View (RBV) Theory, Credit Rationing Theory, and Classical Theory of Interest Rates.

The credit rationing theory postulates that lending institutions use credit terms to achieve the target of rationing SMEs in that some SMEs who qualifies for loans with a given supply of credit were been denied loans at any interest rate (Converse et al., 2012). Thus, credit rationing limits SMEs' access to loans which in turn limits their financial performance.

The classical theory of interest rates applies the classical theory of economics to determining interest rates and defines the interest rate as the element that equates savings to investments (Mnang'at et al., 2016). Thus, by comparing the supply of savings with the demand for borrowing, the theory suggests the potential of interest rates to impact SMEs' performance because interest rates are important in controlling the flow of money in the SMEs' economy. According to Nyumba et al., (2015), when interest rates are high, people do not want to take loans out from the bank because it is more difficult to pay back the loans, and the number of purchase of real assets goes down. This theory guided this study in that interest rates being one of the common determinants of loan acquisition, its terms and conditions determine the performance of the SMEs concern.

The Resource-Based View (RBV) by Grant, Robert M., (1991) as a managerial framework is used to determine the strategic resources of a company with the ability to deliver competitive advantage to a organization. These resources can be exploited by the organization in order to achieve long run goes.

1.7.4 Time Scope

The time interval covered by this study was between the years 2014 to 2018. This is because it is during this period that many small and medium enterprises have been established in Tanzania and it is

during this period that many research on credit terms and SME's have been done in the context of Tanzania.

1.8 Significance of the Study

Conducting this research study would play an important role in stimulating the development of SME's via several stakeholders as described below:-

- i) To the SME's,** the research has drawn conclusions and recommendation for remedial action of improving the existing situations of Small and Medium Enterprises (SME's) in Tanzania.
- ii) To academicians and other researchers,** the study has added knowledge in the literature on the issues of credit terms and credit access specifically on SME's and has provided an empirical framework that will further serve as a reference to subsequent studies to be conducted on the same topic/field.
- iii) To other stakeholders,** this study is of useful value to policy and decision makers, lenders and other SME's' stakeholders as it involves empirical evidences to help the practitioners to intervene the problem of credit access by SME's as a major source of capital. The research findings have provided a framework or guidelines, which the stakeholders can utilize in future assessments of their investment in SME's. Again, the report that will be provided to the stakeholders will help them in knowing the status of their businesses which will let them know if they need to take loans as well as how to utilize them.

1.9 Definitions of Key Terms

Small and medium enterprises (SME's)

The definition of SMEs adopted in this study is that provided by the European union which categorizes companies with fewer than 50 employees as "small", and those with fewer than 250 as "medium" (Tanzania Ministry of Industry and Trade, 2002).

Credit Terms

In services of financial institutions offered to business entities, the term credit terms constitute a number of requirements that the business entity should meet to qualify for receiving those services. According to Deakins et al. (2008), to be able to access credit SME's operators and their businesses should maintain desirable attributes to enable them access credit from financial institutions. Thus, as

used in the current study, micro-finance credit terms refer to conditions and rules that microfinance institutions pose to SMEs and like firms as criteria to qualify for funding, notably receiving loans.

Performance of SME's

SME's business performance refers to the firm's success in the market, which may have different outcomes. Firm performance is a crucial occurrence in business studies. However, it is also a complex and multidimensional phenomenon (Derban, Binner, & Mullineux, 2005). Performance can be characterized as the firm's ability to create acceptable outcomes and actions. However, performance seems to be conceptualized, operationalized and measured in several ways. Strategically, SME's performance is often referred to as firm success or failure (Makundi, 2015).

In this study, performance of SMEs will be conceptualized by looking at three indicators: if the SMEs realize any increase/growth in operational capital; and if the SMEs have capacity to make savings despite having to repay loans.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presented theoretical literature review, conceptual framework, and empirical literature review and research gap.

2.2 Theoretical Literature Review

This study will be guided by three theories namely Resource-Based View (RBV) Theory, Credit rationing theory and Classical theory of Interest Rates.

2.2.1 Resource-Based View (RBV) Theory

According to Grant, Robert M., (1991), the resource-based view (RBV) as a managerial framework is used to analyze the strategic resources of the business with the possibility to deliver competitive advantage to the organization. These resources can be used by the firm so as to accomplish long lasting competitive advantage.

Resource-based theory of entrepreneurship contends that access to resources by founders is an important predictor of opportunity based entrepreneurship and new venture growth (Anderson and Miller, 2003; Davidson and Honing, 2003; Shane, 2003; Alvarez and Busenitz, 2001; Shane, 2000; Shane and Venkataraman, 2000; Aldrich, 1999). This theory postulates the need and importance of monetary, social and human resources (Aldrich, 1999). Basing on this theory, access to resources influences the individual's ability to detect and act upon discovered opportunities (Davidson and Honing, 2003).

However, empirical evidences suggest that some individuals are more able to recognize and exploit opportunities than others because they have better information and knowledge than others (Aldrich, 1999; Shane 2000, Shane, 2003; Anderson and Miller, 2003; Shane and Venkataraman, 2000). Thus three types of resources including financial capital requirements such as interest rate charged on the borrowed amount, loan repayment period and loan repayment amount, human capital and social capital have been advanced in the resource-based entrepreneurship theory. This study, however, was confined to one type of resources namely financial capital; whose relevance is discussed hereunder. The resource based theory of entrepreneurship suggests that people with financial capital are more able to acquire resources to effectively exploit entrepreneurial opportunities, and set up a firm to do so. Such financial capital may be derived from financial institutions such as micro loan institutions, banks and SACCOs, however the

entrepreneurs has to bear in mind factors such as interest rate, loan repayment amount and loan repayment period. In such a way the entrepreneurial businesses were succeeded from the financial assistance from the financial institution that gives loans with low interest rate and long repayment period.

Several researches have showed that the founding of new organizations is more regular when human resources have access to financial capital (Blanch et al., 2001; HoltzEakin et al., 1994; Evans and Jovanovic, 1989). In the context of this study, credit from various sources including microfinance institutions (MFIs), banks and money lenders constitute financial capital needed by women owners of microenterprises to propagate their already existing businesses or start up new ones. Given that most of women owners of microenterprises in Tanzania start their businesses out of their own savings (ILO, 2003) participation in microcredit schemes provides women entrepreneurs with capital to expand their businesses by enabling them to purchase more tradable goods and services.

It is against this background that microcredit is considered to be an important input to an overall business performance measured in terms of increased volume of sales, net profit and net business worth. An important point to note is that although this theory has been challenged with evidence that most founders start new ventures without much capital, and that financial capital is not significantly related to the probability of being nascent entrepreneurs (Hurst and Lusardi, 2004; Kim, Aldrich and Keister, 2003; Davidson and Honing, 2003; Aldrich, 1999), still in the context of Tanzania microcredit is a common source of capital to 18 women owners of microenterprises. This is evidenced by the fact that more than 80% of MFI clients are women (Mixmarket, 2010).

Critics of resource based theory

A first critique is that the RBV lacks substantial managerial implications or ‘operational validity’ (Priem & Butler, 2001a). It is hard to tell leaders to develop and obtain VRIN resources and develop a suitable firm, but it does not explain on how this should be done (Connor, 2002; Miller, 2003). A related argument is that the Resource Based View neglects the ‘illusion of total control’, rejecting the property-rights issues, exaggerating the extent at which leaders can control resources or foresee their future value (McGuinness & Morgan, 2000). Along comparable lines Lado et al. (2006) argue that Resource Based View suffers a tension between expressive and prescriptive theorizing. As this tension is present throughout management research and is not resolved (Van de Ven, 2007), this critique should not be leveled at the RBV especially.

The RBV is a theory aspiring to explain the SCA of some firms over others (Nelson, 1991; Rumelt, 1984) and, as such, was never intended to provide managerial prescriptions (Barney, 2005). Any explanations the RBV might provide may well be no more than indicative, yet still of value to managers, so we have no

reason to oblige the RBV to generate theoretically compelling prescriptions. Rather than worrying about the RBV's lack of managerial implications we should maybe worry more about The RBV: a Review and Assessment of its Critiques 7 its evident impact on organization practice, especially if it diverts organization's concentration from more productive theorizing (see also Ghoshal, 2005; Ghoshal & Moran, 1996).

A second critique is the RBV entails an infinite regress (Collis, 1994; Priem & Butler, 2001a). Collis provides an illustration of this, writing "A firm that has the superior capability to develop structures that better innovate products will, in due course, surpass the firm that has the best product innovation capability today..." (Collis, 1994: 148). Given that a second-order capability will in due course be more important than any first-order capability, the Resource Based View suggests organization should attempt to acquire such second-order capability. The point of this critique is that this step can be extended ad infinitum, leading firms into an endless search for ever higher-order capabilities. While this is true in an abstract sense, this critique does not really work against the Resource Based View. Any applied theory, such as the RBV, lacks an unlimited number of levels of analysis, for each shift in level takes the analysis farther from the empirical level and thus from any practical implications. In the case mentioned above, introducing a third-order capability would already lead to a synthetic theory that does not make a lot of sense.

2.2.2 Classical Theory of Interest Rates

The classical theory of interest rates by **Marshall and Fisher 1977** applies the classical theory of economics to determining interest rates. It defines the interest rate as the element that equates savings to investments. The theory compares the supply of savings with the demand for borrowing. In its perspective, if savings are greater than investments the interest rate drops until they reach equilibrium and vice versa; if savings are less than investment the interest rate increases until the reward for savings encourages increased savings rates causing the market to again reach equilibrium (Mnang'at et al., 2016).

The Theory of Interest Rates is importance to this study because interest rates are important in controlling the flow of money in the SME's' economy. According to Nyumba et al., (2015), when interest rates are high, people do not want to take loans out from the bank because it is more difficult to pay the loans back and the number of purchase of real assets goes down. The impact of a lesser interest rate on the financial system is very helpful for the buyer. Low interest rates are not beneficial for lenders, who are seeing less of a return on their loan than in times when interest rates are high. Nyumba et al., (2015), claims that the problem of high interest rates is one that is generally associated with Sub-Saharan African financial markets, which is seen as reflecting the absence of competition in the markets.

Generally, as Funkor (2010), overviews interest rates represent the cost of money. From borrowers' point of view, it is the cost of capital at the time of obtaining a loan. According to him, some of the factors that affect interest rate include high inflation, cost of intermediation, high credit risk, exchange rates, high bank rate and Treasury bill rates.

In the view of entrepreneurship development, borrowers will be willing to borrow financial capital to boost their businesses where the interest rates are low and with fair loan requirement terms and conditions such as loan repayment amount, period of repayment and the collateral security requirements. In situations where the financial institutions increase the interest rates, entrepreneurs tend to borrow less from the financial institutions and hence affecting the operations of entrepreneurial businesses.

Critiques of classical theory of interest

The classical theory assumes the prevalence of full employment which Keynes showed to be quite unrealistic and unreasonable for a capitalist economy. The classical, on this assumption, believed that an act of saving means abstinence or postponement of consumption. In a world with large scale unemployment of resources, there is no need to pay higher rate of interest to induce people to abstain from consumption or postpone it. The unemployed resources can always be used to carry out more investment. The most fundamental defect with the classical theory is its neglect of the influence of changes in income on saving and investment. The classical theory is based on a given level of income coming out of the full employment of resources. Full employment of resources is rare and changes in employment and hence income take place so quite often that a theory based on a given level of employment is quite inadequate and indeterminate. The classical believed that at a given level of income, the volume of saving out of it and the investment undertaken are brought into equality by the rate of interest.

An important implication of the assumption of full employment and a given level of income in the classical theory is the assumption of the independence of supply and demand schedules. This assumption is also untenable in view of the fact that when interest rate changes to change the level of investment, the level of income also changes which changes the level of savings.

2.2.3 The credit rationing theory

The study is underpinned by the credit rationing theoretical framework pioneered by Stiglitz and Weiss (1981). The framework, which is used to analyze financial market inefficiencies, fits well with the current situation of SME's and Micro-finance in urban areas including Dares Salaam city. In this locality, most SME's find it difficult to access credit from funding institutions in particular state owned development financial institutions (DFIs) due to failure to meet posed credit terms, which exist as means rationing enterprises to be funded by financial institutions, including microfinance ones.

The credit rationing theory postulates that even when there will be a large supply of credit, a certain group of individuals in the population who qualifies for loans with a given supply of credit will be denied loans at any interest rate (Converse et al., 2012). Stiglitz and Weiss (1981) defined credit rationing as a condition in which at current interest rate in a credit deal, the loan applicant would like to borrow more credit but is not permitted by the lender. This situation militates against SMEs' access to credit even when they are prepared to pay higher interest rates (Maziku, 2012). This results in the high attrition rate of these SME's as for them to survive they need credit. The challenge of SMME access to credit has been seen through the credit rationing conduct by funding institutions which, based on theoretical and empirical evidence, have an unfavorable effect on the formerly depressed groups who have inadequate access to credit (Stiglitz and Weiss, 1981; OECD, 2006).

The theory has been adopted in the current study because bank and non-bank financial institutions are concerned in lending money to SME's operators who are going to return it or to borrowers who are not likely to default after taking the loan. Based on the researcher's observation and the literatures reviewed, it is seen that the issue of the imperfect information is the main reason to some lending institutions to choose exclude some borrowers.

Storey (1994) identified two types of rationing imposed by lenders to borrowers, in particular SME's. The first type is where lending institutions agree to give smaller loan amounts to firms than those they applied for. The second is where a large number of borrowers are denied credit completely. The study by Maziku (2012) on credit rationing for SME's in the commercial bank loan market observed that funding institutions pay attention to two features of the loan during their credit decision process namely; the interest rate and the credit risk of the loan. Empirical and theoretical research on the aspect of credit rationing identified information asymmetry, fixed transaction costs, the risk profile of a firm, lack of collateral and firm and entrepreneurship characteristics as some of key factors determining credit rationing by funding institutions world-wide (Dlova, 2017).

Critiques of rationing credit theory

The central lesson of the theory of credit rationing is that the expected return of the bank is not monotonically increasing in interest rate due to asymmetric information. Consequently, the credit market is characterized by a rationing equilibrium which is inefficient. By applying the theory of credit rationing, imperfections that exist in credit market come to the fore. Enforcement problems, information problems and high transaction costs are imperfections that plague the credit market. These imperfections are accentuated by two features of the rural credit market in developing countries. Firstly the lack of collateral and secondly the underdeveloped complementary markets such as the market for insurance. The

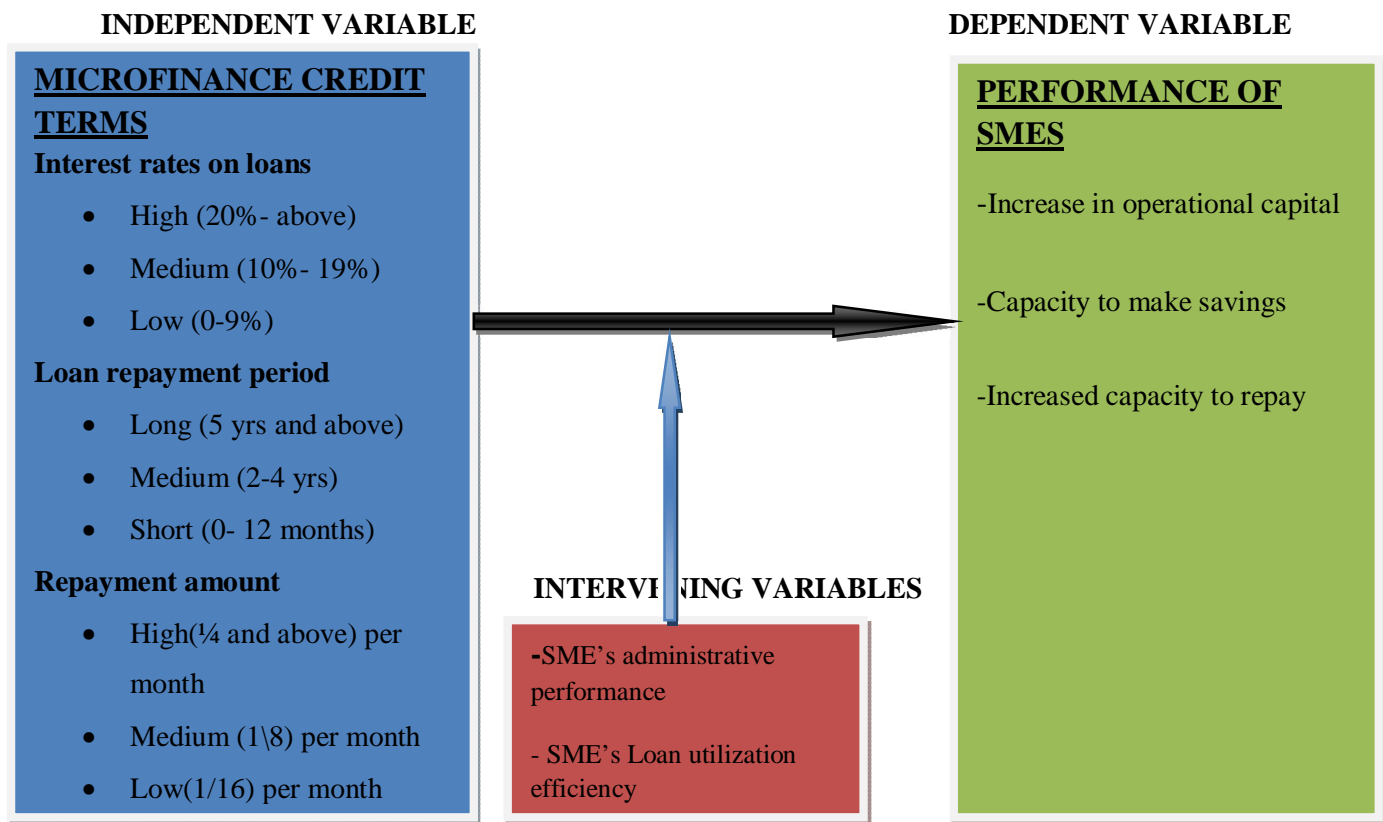
inefficiency of the credit market highlighted by this model created a need for government intervention. As a result, governments in developing countries attempted to improve the codification of property rights to solve the problem of collateral. To increase welfare by increasing lending, governments provided subsidized credit. Even though these policies were implemented with the best of intentions, they did more harm than good. Against this background, microfinance has created an economic and social impact in spite of challenges posed by the rural credit market in developing countries. A number of non-traditional mechanisms such as group lending with joint liability, use of substitutes of collateral, dynamic incentives and regular repayment schedule have helped MFIs to cope with information and enforcement problems.

The theory of credit-rationing allows us to identify problems that the traditional banking sector faces in credit markets. Significant features of the rural credit markets in developing countries that distinguish them from other credit markets intensify these problems. As a result, worthy borrowers are financially excluded. MFIs that are set in rural areas of developing countries, aim to provide small loans to these very borrowers. By deconstructing and analyzing aspects of microfinance, we can form an understanding of how MFIs minimize inherent problems associated with their setting. Therefore, the economic rationale behind microfinance provided by the literature on credit-rationing is limited to the identification of challenges posed by lending to low-income borrowers. This economic theory provides a limited explanation of microfinance. Apart from credit, microfinance provides a full range of financial services such as savings and insurance services. It relies on social capital and encourages entrepreneurship and innovation among its clients to bridge the schism between 'financially minded donors and socially minded programs' (Murdoch, 2000). These aspects of microfinance have yet to be adequately explained by the economic-theoretic literature in general and the formal literature on credit-rationing in particular.

2.3 Conceptual Framework

The conceptual framework is the researcher's illustration of how the particular phenomena in his/her study connects with each other. Thus, it analyzes the variables required in the research survey. In the conceptual framework below in figure 2.1, the independent variable is microfinance credit terms and the dependent variable is performance of SMEs. Under the independent variable, elements such as interest rate, on loan, loan repayment period and repayment amount are discussed and dependent variable has elements such as increase in operation capital and capacity to make savings (Miles & Huberman, 1994; Robson, 2011).

Figure 2.1: conceptual frame work



Source: (finding, 2019)

From the conceptual framework above is an illustration of how independent variable influences the dependent variable. Under the micro the microfinance credit terms, the study concentrated on the interest rate on loans, loan repayment period and repayment amount as variables under study. Under dependent variable the performance of SMEs, the study focused on increase in operational capital, capacity to make savings and increased capacity to repay.

On the independent variable, where three variables were discussed such as interest rates on the loans, loan repayment period and repayment amount. Basing on the Tanzanian context, the researcher formulated measurements towards the variables basing on monitory terms of the country. Interest rate was measured as high (20% and above), medium interest rate (10%- 19%) and low interest rate (0- 9%). It is anticipated that borrowers (SMES) who find high interest rate tend to borrow less or they do not borrow at all since they will find it hard to pay for the borrowed amount since the business may not be in position to pay for the borrowed loan.

On the loan repayment period, measurement such as long, medium and short periods such that long repayment period begins from 5 years and above and it is convenient for the borrowers medium repayment period is relatively fair and short repayment period which is unfair for the borrowers.

Repayment amount is measured as high, medium and low, when the repayment amount is low, the borrowers tend to borrow more and when the repayment amount is high, the borrowers tend to borrow less. The performance of SMEs was measured using: Increase in operational capital, Capacity to make savings and increased capacity to repay. It is assumed that when the micro credit terms are favorable, the performance of SMEs in terms of Increase in operational capital, Capacity to make savings and increased capacity to repay tend to be high and the process is vice-versa.

2.4 Empirical Literature Review

According to Nyumba et al (2015), on Loan Interest Rate and Performance of Small and Medium Enterprises in Kenya, a representative sample of 365 SME owner/managers of all small and medium enterprises in Lurambi Sub-County was selected. The study findings showed that there exists a statistically significant positive result of microloan interest rate on the performance of SME's in Lurambi Sub-County, Kenya. In the results, the correlation of the mean of credit limit and mean of performance had a beta term $\beta = 0.815$, $P=0.01$. The value of beta was positive and significant. Basing on this value, it then implies that From the results, 8.3% of performance of SMEs can be explained by reduction in interest rate ($r^2 = 0.083$) and the relationship followed a simple regression model of the nature $P = \alpha - \beta_1 \text{INR} + e$ where P is the performance of SME's, α is the constant intercept of which in my case is 3.615 and $\beta_1 = -0.289$, INR is the interest rate and e is the standard error term which is 0.69410.

Mnang'atet al. (2016) assessed The Effects of Interest Rate on Performance of Micro Enterprises in Makutano Township in West Pokot County. With the objective of examining the effect of risk free rate on micro enterprises, the study results revealed that there was a significant relationship between risk free rate and Performance ($p=0.000$). The study results indicated that 79.4% (mean=3.92) were of the view that risk free rate allows borrowers to repay both the principal and interest on time and also make savings; 74.2% (mean=3.71) were of the view that less risk free rate interest rate on loan may enhance micro enterprises to drop out of the micro finance program as they were pushed into indebtedness and could not repay the loans whereas 80.0% (mean=4.01) were of the view that SMEs are dissatisfaction with the loan processing procedure and time taken to secure the loan after risk free rate are induced by banks and lending institutions.

Msangula (2015), did an Examination of The Effect of Loan Interest Rates to SME's' Performance and Growth in Tanga City with the Case of Vision Fund Tanzania. The result of the study had revealed loan

interest rates to have effect on SMEs' performance and growth; which is presented by majority 68.7 percent who had yes response. This particular response was further supported by 44.6 percent who reported to experience slow growth of business capital and 39.8 percent who responded to have continued operating on less profit respectively. On the other hand, a sluggish growth of business capital was explained as the decision of borrowers opting to take small loan amount for the fear of paying more money charged on interest rate. However, price fluctuation, business seasonality and economic hardship emerged other factors that challenge their business performance.

Another study by Koech (2011), to find out the financial constraints that hinder growth of SMEs in Kenya, the researcher used the case study approach and targeted SMEs in Kamukunji District. The study used structured questioners as main tool for data collection. Data was analyzed and by explanatory factor analysis and descriptive analysis was the help of SPSS to obtain percentages and frequency distribution tables. The factor hindering growth of SMEs were identified as capital access, cost, capital market, collateral requirements, information access, capital management and cost of registration. The study recommended that business financiers through loans consider reducing collateral requirements to facilitate SMEs easy access to loans.

Quainoo (2011) assessed the Impact of Loans on SME's in Ghana by means of a Case Study of SME Customers in Stanbic Bank. The results of the study disclose that significant figure of the SME's benefited from the loans despite the fact that only few of them were able adequately to shelter the required amount needed. Interestingly, majority of the SME's acknowledge positive assistance of loans towards increasing their returns and sales thus placing them in the competitive arena.

A Survey study of Small Medium Enterprises in Nakuru Town study by Mbogo & Muturi (2015), on The Effect of MFI Credit on Assets of SMEs, found out that there was rather rapid growth in assets for SME's that receive MFI credit while those that do not receive the growth were just gradual. The study revealed that assets were increased either through direct loan use, as a benefit of income smoothing, or through the use of profits generated through the investment of a loan. On the trend of Assets of SME's that receive credit from MFI, The growth had been in upward trend, in the year 2008 to 2010. From 2009 it was rising at high rate up to 2010. There was slow growth in assets between the years 2010 and 2012. Total assets in 2010, 2011 and 2012 were sh4.8 million, sh4.9 and sh5 million respectively. The assets reached a maximum value of sh5million in the year 2012 and were lowest in 2008 with a value of sh3.6 million. SME's were able to invest in assets, in the year 2008 to 2010, because their working capital must have gone up, which arose due to increased revenue. Revenue boosts the growth of business. This ideal environment for growth was facilitated by funds from MFIs.

Musando (2013), found that SMEs have grown in the global economy during the last couple of decades. She states that inefficient financial management may damage SMEs performance, and as a result, complicate the difficulties of SMEs.

Kimunduu et al (2016), quoted that Performance refers to the total economic results of activities undertaken by an enterprise, whether directly or indirectly (Lusch and Lacznia, 1989). It is the effectiveness and efficiency of the firm (Letting, 2009). Particularly, Performance of a firm determines how healthy the business is doing in wealth creation and acquiring of resources (Komppula, 2004).

Khan et al (2014), attributes performance to the capability of an organization to transform the resources within the firm in an efficient and effective manner to achieve organization goals. Vijfvinkel et al (2011) quoted Wijewardena et al (2004), who stated that to measure Performance, diverse measure approaches have been adopted by different researchers together with sales revenue, profits, and return on investment / equity.

Another study however indicates that “75 percent of applications for credit by new businesses in South Africa are rejected and only two percent of new SMEs are able to access loans, whilst only 2% of businesses seeking private equity are successful” (Dalberg and Morgan 2012, p.4). In Ireland the second most significant source of funding for SMEs as highlighted by Inter Trade Ireland (2013, p.13) is external equity finance as represented by seed capital, venture capital and business angel finance however it is mainly targeted at a small number of business sectors, mainly Information and Communications Technology, Professional, Scientific and Technical Services, Manufacturing and Medical Devices. In Kenya lack of credit has been identified as one of the most serious constraints facing SMEs and hindering their development.

Mwobobia (2012) asserts that loans from Kenyan microfinance institutions tend to be limited in amount, have limited grace period, are short termed in design and carry very high interest rates. These studies may be important in stressing the providers of small capital in these African countries Tanzania inclusive but they have not discussed the effect of small capital on the growth of SMEs.

A study by Kehinde and Ashamu (2014) on the effect on growth and earning of SMEs in Nigeria revealed that granting pioneering status for tax purpose will go a long way to create a strong earnings base for the SMEs. It was also revealed that personal saving is mostly used by the SMEs owner to start the business but it is not better than debt financing (government financing and leasing) at growth stage of the SMEs’ life. The study further highlighted the pecking order theory that stated companies prioritize on using internal sources of finance than taking on debt this involve issuing equity to enable companies access capital at the initial stage of their development. “Government should reduce tax and social security

compliance burdens therefore securing fair tax and social security treatment for new firms” (OECD, 2010). SMEs also are underprivileged when accessing small capital through debt as the costs of providing a small amount of finance are practically identical to the costs of providing a large amount (Heide, 2006). These studies provide an important base for assessing the impact of seed capital on growth of SMEs however it does not give a detailed analysis of the role of seed capital on the growth of SMEs.

Ahiawodzi and Adede (2012) in a study of Ho-Municipality of Ghana indicate that access to credit exerts a significant positive effect on growth of SMEs, the result from the regression model shows that there is significant positive relationship between the expansion of the SMEs and access to loans while this study addresses effect of access to credit on growth of SMEs it does not specifically mention seed capital.

A study done by H, Madole, (2013) on the impact of microfinance credit on the performance of SMEs in Tanzania, shows that credit obtained from NMB Bank in Morogoro, SMEs have been able to improve businesses in term of: increased business profit, increased employees, increased sales turnover, increased business diversification, increased business capital and assets as well as reduction of poverty among customers surveyed. Result also shows that collateral, age or experience of the SMEs owners, and, size of the firm influence the access of credit.

The study concluded most of the small businesses depend on bank loan for business capital growth. Bank loan especially NMB loan plays a very important role to promote small business growth. Although some of the small businesses fail to repay bank loan due to various reasons such as grace period, moral hazard and high interest rate. In relation to the findings, though, it was recommended that MFIs should raise credit and enhance participation in SMEs financing, in order to sustain the growth and maximal contribution to economic growth and development of the nation.

Waithanji, S. W, (2011) studied the effect of microfinance credit on the financial performance of small and medium enterprises in Kiambu county, Kenya. The study was done through the use of survey design. Out of the 2,061 Small and Medium Enterprises licensed, the study randomly sampled 60 SME's. The study found that there is a direct relationship of access to credit and financial performance of the companies. The study also concludes that the enterprises benefit from loans from microfinance institutions, the SMEs seek financial assistance from the MFIs due to interest rate, easy loan repayment and amount offered. There is need to provide an enabling environment for SME's to grow and prosper, for that reason there is a need to formulate strategies to enhance increased access to microfinance credit terms by SME s from commercial banks and microfinance institutions.

2.4 Research Gap

A study done by H, Madole, (2013) on the impact of microfinance credit on the performance of SMEs in Tanzania, shows that credit obtained from NMB Bank in Morogoro, SMEs have been able to improve businesses in term of: increased business profit, increased employees, increased sales turnover, increased business diversification, increased business capital and assets as well as reduction of poverty among customers surveyed. Result also shows that collateral, age or experience of the SMEs owners, and, size of the firm influence the access of credit.

A study by Kehinde and Ashamu (2014) on the effect on growth and earning of SMEs in Nigeria revealed that granting pioneering status for tax purpose will go a long way to create a strong earnings base for the SMEs. It was also revealed that personal saving is mostly used by the SMEs owner to start the business but it is not better than debt financing growth stage of the SMEs' life.

Msangula (2015), did an Examination of the Effect of Loan Interest Rates to SME's' Performance and Growth in Tanga City with the Case of Vision Fund Tanzania. The result of the study had revealed loan interest rates to have effect on SMEs' performance and growth; which is presented by majority 69 percent who had yes response. This particular reply was further supported by 45 percent who reported to experience slow expansion of business capital and 40 percent who responded to have continued operating on less profit respectively.

All the above studies were carried out in different regions and countries but also in dare s salaam region where such studies has been carried out, they used different methodologies in their studies such as case studies with few sample size, this study on the impact of credit terms and performance of SMEs was carried out in Dar es salaam and used both questionnaire and interview guide on the sample size of 392 registered SMEs by BRELA to give ample results through use of both qualitative and quantitative method where both cross-sectional and survey designs were used.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter describes the research design, population study, sample size, sampling procedures, research instrument, and data gathering procedure, data analysis, and limitation of the study.

3.2 Research Design

According to Kothari (2004), research design is the concrete structure within which investigation is conducted; it constitutes the blueprint for the collection, measurement and analysis of data collected. This study used both cross-sectional and survey designs. A cross sectional study design involved data collection at once using structured questionnaire. It was important to use since it provided rich details about the variables under investigation. A cross sectional study generally aims at providing insight into a particular situation and often stresses the experiences and interpretations of those involved (Bryman, 2004). The survey research design helped to describe the characteristics of a large population i.e Dar es Salaam region to ascertain SMEs features, operations and credit terms such as loan repayment period, interest rates and repayment amount. In addition, the study employed a quantitative approach in the sense that mathematical and statistical techniques were used to describe and analyze data.

3.3 Population of the Study

The population for a research is that category of subjects (here people) about whom conclusions about the findings are made (Babbie, 2008). The population of the current study constituted registered small and medium enterprises (SME's) operating in Dar es Salaam region. According to the National Baseline Survey Report (2017), until 2017 there were 405,922 micro-, small, and medium enterprises in Dare es Salaam region. Out of these, about 5% (equivalent to 20,296) were registered under BRELA by National Baseline Survey Report (2012). Therefore the population of registered SMEs in Dar es Salaam is 20,296 SMEs. Using the registered population of registered SMEs by BRELA ensured easy access to important information concerning the study as well as enabling calculation of accurate sample size to represent the entire population.

3.4 Sample Size

Saunders et al, (2003), states that selection of a sample should reflect representativeness of the targeted population. The sample strata were SMEs dealing in Goods, Services, Manufacturing, Goods and services and Fabrications. The sample size was calculated using Slovene's formula and therefore was convenient

enough to provide the information to give the in-depth study of the phenomena without bias. The formula was stipulated as below:

$$\frac{N}{1 + N(e)^2}$$

Where: N is the Population; n is the sample size; e is the level of significance or error term at 0.05.

For legal registered owners;

$$\begin{aligned} & \frac{20,296}{1+20,296(0.05)^2} \\ & \frac{20,296}{1+20,296(0.0025)} \\ & = \mathbf{392} \end{aligned}$$

NB: 392 are the registered sampled SMEs

3.4 Sampling Procedure

The study employed both purposive and simple random sampling procedures. Purposive sampling was applied in the selection of respondents for questionnaires that inquired on the SMEs' characteristics and general operation. Here, for purposes of getting relevant data, the researcher chose respondents from the SME's leadership group. Therefore purposive sampling was used to select SMEs respondents who were the owners and founders of the business and had the relevant information needed for the study.

From this group, the researcher was also able to secure data on the general performance of the firm. This information is likely to be distorted if sought from other SMEs' members. Secondly, simple random sampling was used to recruit participants for questionnaires from the other SMEs' member group because every member on this category had an equal chance of taking part in delivering information. In the second category, the questionnaires inquired on the general experiences of respondents on what effect credit terms have on their SMEs' performance.

3.5 Research Instruments

The study used structured and unstructured questionnaires to get the information needed from the respondents. One part of the questionnaires comprised of open and unstructured questions to probe information on the in depth analysis of SMEs' characteristics and general operation. The other part comprised of close-ended questions to ascertain members' awareness of microfinance credit terms and whether or not they attribute the SMEs' performance to the conditions attached to those terms.

3.6 Validity and Reliability of Instruments

3.6.1 Validity

According to Bashir et al (2008), validity ascertains whether the study really measures that which it was aimed to measure or how authentic the study results are. The validity of an instrument is the degree to which an instrument measures what it is intended to measure Wario and Khalfan (2015). The questionnaire was taken to experts in accounting to crosscheck if the questions are valid (relevant and irrelevant) against the objectives of the study. There after the researcher used the Content Validity Index, to test the validity of the instruments. The result was that $r = 0.811$. Amin (2005) observe that this methods ensures only valid instrument is used to collect data since if the Content Validity Index is below 0.796 then the instruments must be revised accordingly before proceeding to collect data

3.6.2 Reliability

Zorhabi (2013) defines reliability as the degree to which results are constant over time and a precise representation of the total population under study. A pilot study was administered on ten (20) potential respondents. Reliability was actualized by use of the test-retest method. The sample of ten respondents from different but distant time points was subjected to the instrument; correlation coefficient between the two time data was set and established. A correlation coefficient of 0.823 was realized and the study concluded that the instrument was highly reliable. Wario and Khalfan (2015) asserted that if a high coefficient was realized then the instrument was said to be highly reliable.

Before data gathering, the researcher worked to accomplish the task of defending the proposal for the current study and have it passed out by the research panel. Afterwards, an introductory letter was obtained from the Department of Business and Management of Kampala International University in Tanzania. The researcher then went and presented the introductory letter to SMEs' management bodies or leaders for purposes of seeking for permission to get access to the targeted respondents.

During data gathering, at each site of the firm, the researcher put in the printed unstructured and structured questionnaire as well as necessary note books for records. The researcher then worked to

secure the assistance of the firms' leaders to distribute the questionnaires to other respondents. The researcher provided detailed directives to assistants and/or respondents on the purpose of the questionnaire and how to go about filling them. Then, for those who were to volunteer to fill in the questionnaires, the researcher had set with then a reasonable deadline (day and time) for handing back the sheets. For those respondents who for illiteracy reasons were not able to fill the sheets, the researcher had made arrangements to have assistants who would help them fill the questionnaires.

After data gathering, the filled questionnaires were coded, edited, categorized and entered into computer using tables, charts and graphs. Further treatment of these data is a focus of the next subsection.

3.8 Data Analysis

In this study, demographic data of respondents, descriptive data of the SME's, and questionnaire responses on questions touching the study objectives' were analysed using simple descriptive statistics namely percentage distributions, means, frequency tables, pie chart and standard deviations. The presentation of data was done using tables as advocated by Wario and Khafau(2015).

Content analysis was used to analyze data that is qualitative in nature or aspect of the data that was collected from the open ended questions. According to Baulcomb, (2003), content analysis uses a set of categorization for making valid and replicable inferences from data to their context.

3.9 Ethical Considerations

Human research ethics rest on a number of basic principles that are considered the foundation of regulations governing researchers' behaviors. These principles were observed for respondents met in the field.

First, the code of informed consent was keenly observed with which the researcher ensured that all participants were informed about the purpose of the study and what their participation involved on the basis of which they had the right to choose or reject participating in the study.

Second, confidential treatment of respondents' data was ensured. Here, the researcher made sure that all details provided by respondents that would constitute any part of their identity were kept confidential and never revealed to any third part.

Third, the researcher worked with data to achieve scientific value. The premise of scientific value requires the researcher to ensure that the research process be implemented in a way that avoids bias in data collection, data analysis, data interpretation, literature review, and in other aspects where objectivity is required.

3.10 Limitations of the Study

In the current study, some of the limitation that might hamper the accuracy and effectiveness of the methodologies including the following:

Unwillingness and inability of the respondents to provide relevant information: This limitation was especially likely to occur when respondents were projected with questions inquiring their personal data such as age, marital status, and level of education. Some respondents might be unable to correctly answer such inquiries (for reasons unknown to the researcher) or might show reluctance due to certain personal liabilities. To overcome this challenge the researcher used set the question that aim to trigger needed information as well as, respondents were assured that all the information offered will be used only for academic purpose and no one would be indentified as resulted to positive response.

CHAPTER FOUR

PRESENTATION, ANALYSIS, AND INTERPRETATION OF DATA

4.1 Introduction

This chapter presented the findings of the study guided by its specific objectives namely: To analyze the eventual outcomes of micro-loan interest rate on the performance of SME's; to examine the outcome of microloan repayment period on the performance of SME's; and to establish the effect of microloan repayment amount on the performance of SME's. The study was conducted with 392 respondents, where all questionnaires were secured from respondents. Data were analyzed using descriptive statistical counts namely frequencies, pie chart, percentages, modes, and means.

4.2 SMEs' Members Background Information

4.2.1 Characteristics of Sample Respondents

The background information of the surveyed sample entails on four characteristics namely sex, age group, level of education, and marital status. Tables 4.2.1 present a summary of these characteristics.

Table 4.2.1: Sex distribution of SMEs' members

Sex	Frequency	Percentage
Male	247	63.0%
Female	145	37.0%
Total	392	100.0%

Source: (findings, 2019)

In the sex aspect, males accounted for 247 respondents equal to 63% while females accounted were 145 respondents equal to 37 percent. The fact that the researcher found more males than females in the field, was attributed to the nature of activities or enterprises the SMEs were engaged in. As indicated in table 4.2.1, most of the enterprises surveyed were preferably male businesses like brick making, carpentry, motorcycle spare parts, shoe and sandal making, and compute repair and maintenance.

Table 4.2.2: Age group distribution of SMEs' members

Age group	Frequency	Percentage
18 to 25	114	29.0%
26 to 35	141	36.0%
36 to 45	90	23%
46 and above	47	12.0%
Total	392	100.0%

Source: (findings, 2019)

The age groups of respondents fell in four major categories as: (18 - 25) years; (26 – 35) years; (36- 45) years; and 46 years and above. The percentage distribution of respondents in these age ranges were, 114(29.0%), 141(36.0%), 90(23.0%), and 47(12.0%). Thus, majority belonged to the young adulthood group (age 18 to 35) constituting 65.0% and the rest belonged to the middle or old age group (age 36 and above) constituting 35.0%, Most of the SMEs where owned by the youths ranging from 26 -25 years.

Table 4.2.3: Distribution of SMEs members' education level

Educational attainment	Frequency	Percentage
Standard seven	47	12.0%
Ordinary secondary (Form four)	130	33.0%
Advanced secondary	100	26.0%
College certificate and diplomas	75	19.0%
Degrees and above	35	10.0%
Total	392	100.0%

Source: (findings, 2019)

The educational attainment of respondents was such that about 47 respondents or 12.0% had standard seven education, 130 respondents or 33.0% had form four education or ordinary secondary education, 100 respondents or 26.0% had advanced secondary, and 75 or 19.0% had attained a college certificate or diploma and degree and above had 35 respondents or 10.0%. The general educational attainment was relatively low constituting majority in secondary education with 59.0% while those with college education and above constituted less than one-third (29.0%).

The researcher obtained data on participants' level of education because at times SMEs' performance is associated with the level and type of education of those who run them. A study by Atsmegiorgis (2013), on the Survival Analysis of Loan Repayment Rate of a Commercial Bank Customers revealed that the

loan repayment by SMEs was significantly related to the educational level of borrowers in addition to other factors: loan size, loan type, previous loan experience, and type of collateral offered.

Another study in Ogbomoso zone of Oyo State identified level of education to be among the factors that have significant positive influence on loan repayment as against age of farmers that had a negative influence (Oladeebo and Oladeebo, 2008). Other factors were loan size, and farming experience with credit.

Table 4.2.4: Marital statuses of SMEs' members

Marital status	Frequency	Percentage
Single with no children	94	24.0%
Single with children	188	48.0%
Married with children	110	28.0%
Total	392	100.0%

Source: (findings, 2019)

The marital status of respondents fell in any of the three groups namely “single with no children,” “single with children,” and “single with children” with a distribution of 94 (24.0%), 188 (48.0%) and 110 (28.0%) respectively. Thus, in total, majority of participants (76.0%) were either single or married with children. This coincided with the age range factor, for which it was found that about 65.0% were young adults most of whom are expected not to be in marriage unions (i.e. single) or if married to have some children. The remaining 24.0% expectedly constituted a few young adults who had not married and had not delivered children.

Although participants' data on marital status were obtained for descriptive purposes, it is among numerous factors that have been identified in various studies as having an impact on credit on SMEs' loan repayment performance. Lodha (2011), in his study on factors of default in small and medium enterprises application indicated that several factors such as marital status, interest rates, age, location and numbers of dependents are said to impact on the likelihood of default. Also, the study by Evans and Winston (2008), on Loan Delinquency among Small Business Owners in Ghana concurred with the study by Halkias (2008), on the Global Impact of Female Immigrant Entrepreneurship all of which showed that the marital statuses of 'singlehood', in addition to college education were positively associated with women's capability to managed their credit more prudently than both men in general and married women.

4.3 SMEs' Background Information

SMEs' Background information looked at included the types of business ventures that were being done, SMEs' years of being in operation and increase in number of workers/members, SMEs' level of increase in assets and/or facilities, and frequency of microloan applications made to microfinance institutions and rate of success. Tables 4.3.1 present these data in summary.

4.3.1 Type of SMEs' Business Ventures

Table 4.3.1: Type of business enterprise involved by SMEs

S/NO	Type of Enterprise	frequency SMEs involved	Percentage
1	Shoe and sandal making	4	8.3%
2	Motorcycle and Bajaj spares	3	6.3%
3	Men's Clothes and shoe sales	5	10.4%
4	Hardware shops	4	8.3%
5	Women clothes and shoes supplies	3	6.3%
6	Welding	5	10.4%
7	Computer repair and maintenance	2	4.2%
8	Poultry (Eggs and chicks)	1	2.0%
9	Fishponds	2	4.2%
10	Brick making	5	10.4%
11	Carpentry	4	8.3%
12	Tailoring (dress making)	3	6.3%
14	Art works (drawings and sculpture)	1	2.0%
15	Stationery services	3	6.3%
16	Tie and dye Cloth Coloring	2	4.2%
17	Glass works and Aluminum partitions and finishing	1	2.0%
	Total	48	100.0%

Source: (findings, 2019)

In this study, the researcher was able to point out from background data the different types of ventures that the surveyed SMEs were engaged in. In total, there were 48 different business ventures run by the SMEs surveyed. These included Shoe and sandal making, which were being run by four SMEs or 8.3%; Motorcycle and Bajaj spares, which were being run by three SMEs or 6.3%. Women clothes and shoes

supplies were being run by three SMEs or 6.3%; Tailoring alike by three SMEs or 6.3%; Tie and dye Cloth Coloring by two SMEs or 4.2%; and Computer repair and maintenance (run by two SMEs or 4.2%), among others. Table 4.3.1 summarizes these data.

As indicated in table 4.3.1, the most practiced businesses were Men's clothes and shoe sales, which were represented by five SMEs in total or 10.4%, Welding (represented by five SMEs or 10.4%) and Brick making (represented by five SMEs or 10.4%). On the other hand, the least practiced businesses were Art works i.e. drawings and sculpture, Glass works and Aluminum partitions and finishing, and Poultry, all which got represented by 1 each SME each or 2.0% of all SMEs.

4.3.2 The number of members the respondents firm has at the present time

number of workers	Frequency of respondents on the Number of members/ staff at the beginning of the firm	Frequency of respondents on the Number of members/ staff at the present
(1-3) workers	90	81
(4-6) workers	99	102
(7-9) workers	119	121
(10-12) workers	40	43
(13-15) workers	30	32
(16-18) workers	12	13
Above 19 workers	02	00
Total	392	392

Source: (findings, 2019)

The table 4.3.2 above is a presentation of the number of workers/staff at the present of respondents enterprise, the table above shows a slight improvement on the number of manpower at the enterprise, the slight increase in due to sluggish improve on the overall performance of SMEs. Between 1 to 3 workers, had a frequency of 90 respondents at the beginning of the firm and 81 frequencies at the present business operation.

Between 4- 6 workers had a frequency of 99 respondents at the beginning of the firm and 102 at the current of the firm; in this case the number of workers had slightly increased since the business had improved slightly such as brick making, welding hardware attendants etc. Between 7-9 workers, had a frequency of respondents 119 at the beginning of the firm and 121 frequency response at the present, this implies that the number of workers in this category had also slightly increased and this could be attributed

to the access of loans which increased their financial capital. The study shows that the workers who had work for more years had greater knowledge than those who worked for few years as shown in the table 4.3.2 above.

Between 10- 12 workers had a frequency of 40 respondents at the beginning of the firm and 43 frequency responses at the present, this implies that the business had also improved slightly and thus improved the number of workers. Between 13 -15 workers had a frequency of 30 respondents at the beginning of the firm and 32 at the end, and between 16- 18 had a frequency of 12 respondents at the beginning of the firm and 13 at the present operation. Lastly above 19 workers had 2 respondents at the beginning of the firm and 0 at the current, this are firms that started with big ambitions but failed to manage their operations well with big number of workers and thus failed to continue in operations.

Table 4.3.3: Number of Years of being in Operation and increase in number of workers/members

SMEs' Number of Years of being in Operation		Increase in Number of Workers/Members								
		Increase by 5		Increased by 10		Increase by 20		Increase by 30		Sub-total
	<i>Freq</i>	<i>Freq</i>	(%)	<i>Freq</i>	(%)	<i>Freq</i>	(%)	<i>Freq</i>	(%)	(%)
7	4	—	—	—	—	3	12%	1	4%	16%
6	5	—	—	2	8%	3	12%	—	—	20%
5	7	1	4%	2	8%	2	8%	2	8%	28%
4	2	1	4%	1	4%	—	—	—	—	8%
3	4	1	4%	2	8%	1	4%	—	—	16%
2	3	1	4%	1	4%	1	4%	—	—	12%
Total	25	4	16%	8	32%	10	40%	3	12%	100%

Source: (findings, 2019)

In this study, for purposes of description, the researcher had asked SMEs' managers and members on the number of years that their firms had been in operation plus whether or not they had been encountered increase in the number of members or workers. It was revealed that the span of existence of the SMEs ranged between 7 and 2 years. On the other hand, the increase in number of workers/members ranged between 5 and 30. Of all the surveyed SMEs, 4 had existed for seven years, 5 had existed for six years, 7 had existed for five years, 2 had operated for four years, 4 had existed for three years, and 3 had operated for two years. Table 4.3.2 gives a summary of the SMEs' span and respective increase in number of workers or members.

There was a slight orientation for SMEs that had operated for a longer time to have experienced high increase in number of workers compared to those that had existed for a shorter period of time. To illustrate, 3 out of the 4 SMEs that had operated for seven years, had their members/workers increased by 20 and 1 SME had its workers increased by 30. Again, 3 out of the 5 SMEs that had operated for six years had their members/workers increased by 20 and 2 had theirs increased by 30. On the other hand, only 1 out of the 4 SMEs that had operated for three years, had their members/workers increased by 20, 2 had theirs increased by 10, and 1 had their increased by 5.

The trend that most of the SMEs that had existed for many years also had encountered a higher increase in the number of workers/members suggests the occurrence of growth and of course the increase in performance of the surveyed SMEs over a period of existence. Generally, 16 of the 25 SME had operated between 5 and 7 years and 60% of them had their worker/members increased by 10, 20 or 30. Nine of the 25 SME had operated between 4 and 2 years and 28% of them had their worker/members increased either by 5 or 10 and only 8% had theirs increased by 20.

However, parallel increase in number of workers/members had not occurred to all SMEs. A few SMEs had existed for many years only to realize a very small increase in number of workers while some had experienced exponential increase in a short period of existence. Several individual SME's factors would have accounted for this including type of business, efficiency of business management, booming or downfall of the business market, and capacity of initial and progressive investment capital, among others.

4.3.4 SMEs' Level of Increase in Assets and/or Facilities

To depict on the potential for increased performance and growth, the researcher had included in the questionnaire questions that inquired SME's managers to indicate to what extent their firms had realized increased in number of tangible assets and/or facilities after the whole period of being in operation. Table 4.2.3 contains data on this variable.

Table 4.3.4: SMEs’ level of increase in asset or facilities for the whole period of being in business

S/No	Level of asset increase and/or facilities	Number of SMEs involved (Frequency)	Percentage
1	No increase in assets	0	0.0%
2	One other asset	3	12.0%
3	Two other assets	6	24.0%
4	Three other assets	7	28.0%
5	Two-fold assets increase	5	20.0%
6	Three-fold asset increase or more	4	16.0%
Total		25	100.0%

Source: (findings, 2019)

Table 4.3.4 shows that no one SME had realized zero increase in assets or facilities. About 12.0% equal to 3 SMEs in number had added one asset, 24.0% equal to 6 SMEs had added two other assets, 28.0% equal to 7 SMEs had added three assets, 20.0% equal to 5 SMEs had their assets increased by two-fold, and 16.0% equal to 4 SMEs had theirs increased by three-fold or more. If one combines figures, it is seen that about 64.0% equal to 16 SMEs of all the 25 had realized increase in assets or facilities by “three other,” “two-fold increase,” or “three-fold and more.” About 36.0% or 9 SMEs had realized assets/facilities increase either by “one other asset” or “two other assets.”

These trends of growth or increased performance in terms of on asset or facilities matched the trend of performance of the SMEs’ in terms of increase in number workers and members with respect to number of years of an SME’s operation. In section 4.3.2, it was revealed that 16 of the 25 SME had operated between 5 and 7 years and 60% of them had their worker/members increased by 10, 20 or 30. Nine of the 25 SME had operated between 4 and 2 years and 28% of them had their worker/members increased either by 5 or 10 and only 8% had theirs increased by 20.

The researcher concluded that despite other factors, the data on asset or facility increase suggested that at least each one of the studied SMEs didn’t have stagnant performance or growth but rather had experienced a measure of increased performance and growth in their businesses. About 64.0% equal to 16 SMEs of all the 25 surveyed, had realized increase in assets or facilities by “three other,” “two-fold increase,” or “three-fold and more” While 36.0% or 9 SMEs had realized assets/facilities increase either by “one other asset” or “two other assets.”

4.3.5 Frequency of Microloan Applications made to Microfinance Institutions and Rate of Success

In this study, SME's managers were inquired to state how many times they had sought microloans from microfinance institutions as well as how many times they have succeeded or failed to secure those loans. This trend would give a general picture on the easiness or difficulty of accessing loans encountered by the SMEs. Table 4.3.5 presents the number of microloan applications by SMEs and number of successful/unsuccessful ones.

Table 4.3.5: Number of loan applications made by SMEs and success turn up

S/No	Number of SMEs that applied for loans (N)	Frequency of loan applications made (F)	Total number of loan applications (N*F)	Number of successful applications		Number of unsuccessful applications		Total (%)
				<i>Freq</i>	(%)	<i>Freq</i>	(%)	
1	5	2	10	4	40%	6	60%	100%
2	10	3	30	14	47%	16	53%	100%
3	7	4	28	12	43%	16	57%	100%
4	3	5	15	9	60%	6	40%	100%
Total	25	14	83	39	47%	44	53%	100%

Source: (findings, 2019)

In this study, all SMEs had made at least two loan applications to Microfinance institutions. Five SMEs had made 2 applications each; ten SMEs had made 3 applications each; seven had made 3 applications each; and three had made 4 applications each. In total, all SMEs had made a total of 83 loan applications with frequency of application for each SME ranging between 2 and 5.

As table 4.3.5 shows that, 83 loan applications made by SMEs to microfinance institutions, 39 applications which equal to 47% had been successful while 44 equal to 53% turned out unsuccessful. Thus, in this study there was a 44% rate of failed loan applications among SMEs.

4.4 The eventual outcomes of microloan interest rate on the performance of SMEs

To assess the perception of SMEs' members on how microloan interest rates would affect the performance of SMEs, six items were posed to participants as positive statements. These items depicted on the positive experience by SMEs with microloan interest rate in six aspects as: ability to repay the principal and interest on time, ability to retain money for savings, encountering low costs of production, qualifying for bigger loans, experiencing financial growth in general, and good flow of money in the market. Respondents indicated their agreement with the six aspects using any of the five levels of response namely "Strongly Agree" (SA or level 1), "Agree" (A or level 2), "Undecided" (U or level 3),

“Disagree” (D or level 4) and “Strongly Disagree (SD or level 5). Table 4.4.1 summarizes responses on all the five levels.

Table 4.4.1: SMEs members’ perception on the eventual outcomes of microloan interest rate on the performance of SMEs.

	Statement	Percentage and frequency scores of responses (N=392)				
		SA	A	U	D	SD
1	The interest rate charged by microloan lenders allows our SME (as a borrower) to repay both the principal and interest on time.	8% (106)	11% (43)	6% (24)	48% (188)	27% (31)
2	The interest rate posed by microloan lenders allows our SME as a borrower to make savings.	9% (35)	21% (82)	2% (8)	37% (145)	31% (122)
3	Microloan lenders charge fair interest rates that allow our SMEs to encounter low costs of production and set fair prices.	5% (20)	22% (86)	0% (0)	53% (208)	20% (78)
4	Generally, our SME has qualified for bigger loans because microloan lenders have affordable interest rates.	14% (55)	29% (113)	0% (0)	39% (153)	18% (71)
5	Generally I see that low interest rate charges on credits strategically boost the chances of SMEs’ business growth.	17% (66)	19% (75)	3% (12)	23% (90)	38% (149)
6	Generally, high interest rates do not affect the flow of money into the economy of an SME.	5% (20)	17% (66)	2% (8)	44% (173)	32% (125)
Column percentage Mean (%)		13.17	19.83	2.17	40.67	24.17
Standard deviations		12.61	5.95	2.23	10.44	6.68

Key of response levels:

Strongly agree	Agree	Undecided	Disagree	Strongly disagree
SA	A	U	D	SD

Source: (findings, 2019)

As Table 4.4.1 indicates, a larger number of respondents “disagreed” or “strongly disagreed” to have encountered the stipulated positive experiences with microloan interest rates with mean scores of 41% and 24% respectively. A lesser number of respondents either had “strongly agreed” or “disagreed” on the

items with mean scores of 13% and 20% respectively. Only 2% of respondents replied with the “undecided” response.

Summary response

To be able to overview on the general perception of participants on whether microloan interest rates had a significant or rather hampering eventual outcomes on SMEs’ performance, the five percentage means were merged into three, two of which combines the two means at both ends of the scale i.e. “strongly agree” plus “agree” and “strongly disagree” plus “disagree.” then, the merged responses yield “accept” on the agreeing side and “reject” on the disagreeing side while “undecided” remains in the centre and is not treated. Table 4.5b indicates the results of merging the stated scores.

To illustrate, “accept” combines both ‘strongly agree’ and ‘agree’ scores giving out one score that helps the researcher determine the orientation on participants’ opinions/perceptions in the positive direction. In contrast, “reject” combines both ‘disagree’ and ‘strongly disagree’ giving out one score that suggests the orientation of participants’ opinions/perceptions in the negative perspective or direction. A summary of merged responses is provided by table 4.5.

Table 4.5: Merged percentage means scores on SMEs members’ perception on the eventual outcomes of microloan interest rate on the performance of SMEs.

Response	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
Column mean	13.17%	19.83%	2.17%	40.67%	24.17%
Combined mean totals	33.0%		2.2%	64.84%	
Interpretation	Accept		Undecided	Reject	

Source: (findings, 2019)

From table 4.5, it is seen that 65% of respondents fell in the “reject” response while 33% fell in the “accept” one. Making reference to the questionnaire items, this suggests that majority of respondents (as many as 65%) denied the existence of positive experience by SMEs with microloan interest rate in such aspects as the rate enabling SMEs to repay the principal and interest on time; allowing opportunity to retain money for savings; allowing encountering of low costs of production; qualifying for bigger loans; experiencing financial growth in general; and being associated with good flow of money in the market.

In the current study, the 33% who agreed on positive or gain regarding the posed aspects, directly indicates that some SMEs viewed microloan interest rates posed by microfinance lender as fair and so allowing benefits that contribute to the good performance of an SME. Although this number is lower than that which fell in the “reject” category, it is quite significant. This implies that not all SMEs studied

had their performance negatively impacted by microloan interest rate. Several background factors would have contributed to this variation including the specific interest rate amount charged by a specific lender, loan utilization discipline of the particular SME, and the SME's management efficiency.

In line with these findings is Quainoo's study conducted in 2011 to examine the Impact of Loans on SME's in Ghana using a Case Study of SME Customers in Stanbic Bank. The results of the study had revealed that only few of the SMEs were capable enough to secure the required amount needed. However, in Quainoo's study, contrary to the results of the current study, it was the majority of the SME's that acknowledged positive contributions of loans towards increasing their returns and sales not the minority.

It should be concluded from these findings that whether the surveyed SMEs' members viewed microloan interest rates as contributing to the SME's Performance or not, this factor is of significant role. As Nyumba et al. (2015) had found out in one study, there exists a statistically significant positive effect of loan interest rate on the performance of SME's. Nyumba et al. (2015) found out that the correlation of the mean of credit limit and mean of performance had a beta term $\beta = 0.815$, $P=0.01$. The value of beta was positive and significant and results implied that at least 8.3% of performance of SMEs could be explained by reduction in interest rate ($r^2 = 0.083$).

Generally, as several studies have indicated interest rates as either 'low' or 'high,' eventual outcome SMEs' performance both in their general business operation and in loan repayment per se. As Chong (2010) pointed out, one of the two main determinants of repayment obligations are the interest rate charged; the other one being the amount of debt. Furthermore, according to Hietalahti and Linden, (2006) loans that have high interest rates also lead to repayment problems, dissatisfaction and high dropouts.

In addition, Weinberg (2006) advocated that interest charged and the amounts of debt are the two main factors affecting repayment obligations. Some banks use the interest rates that an individual is willing to pay as a screening device to identify borrowers with a high probability of repayment. This may be dangerous since high risk-takers are the worst rate payers, in the process affecting default by borrowers on loans.

4.6 The outcome of microloan repayment period on the performance of SMEs

The study investigated the outcome of microloan repayment period on the performance of SMEs and the findings are shown on the table 4.6 below.

Table 4.6a: SMEs members' perception on the outcome of microloan repayment period on the performance of SMEs

	Statement-	Percentage and frequency scores of responses (N=392)				
		SA	A	U	D	SD
1	The repayment period set by microloan lenders is long enough to enable our SMEs to repay back in time.	18% (71)	19% (75)	7% (27)	31% (121)	25% (98)
2	Microloan lenders set lengthy repayment periods such that the firm operators don't always work under time pressure to meet up.	15% (59)	21% (82)	13% (51)	31% (122)	20% (78)
3	Loan repayment periods set by our lenders are fairly proportional to the repayment amount and so firms can meet up.	12% (47)	10% (39)	10% (39)	38% (149)	30% (118)
4	Generally, I think that repayment periods are not a major problem for our firm and many other small businesses to fail to repay back loans.	6% (24)	12% (47)	6% (24)	39% (153)	37% (142)
5	In my view, most firms would still perform better had the loan repayment periods been left without being elongated.	11% (43)	25% (98)	2% (8)	38% (149)	24% (94)
Column percentage means (%)		14.80	23.80	6.33	27.50	20.80
Standard deviations		7.60	7.73	4.16	8.46	10.38

Source: (findings, 2019)

As Table 4.6a indicates, slightly more than a quarter of respondents (28% mean percentage) “disagreed” on the items depicting satisfaction with microloan repayment period, while the “agree” and “Strongly disagree” responses had 24% and 21% percentage means respectively, which suggests variation in levels of satisfaction with the length of microloan repayment periods among different SMEs and their members. About 14% showed strong satisfaction with the repayment periods and accompanying benefits while 6% couldn't define their position (replied with “undecided”).

Summary response

Toward having an overview on the perception of participants on whether microloan repayment period had a significantly positive or negative impact on SMEs' performance, the five percentage mean were merged into three: "accept" "undecided", and "reject." Table 4.6b presents the summary results.

Table 4.6b: Merged percentage mean scores on SMEs members' perception on the outcome of microloan repayment period on the performance of SMEs.

Responses	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
Column mean	14.8%	23.8%	6.3%	27.5%	20.8%
Combined mean totals	38.6%		6.3%	48.3%	
Interpretation	Accept		Undecided	Reject	

As table 4.6b indicates, about 48% response on the impact of microloan repayment period on the performance of SMEs fell in the "reject" category while 39% fell in the "accept" category.

This indicates that a larger percentage of respondents, generally disagreed on the existence of satisfaction by SMEs' runners and members with loan repayment periods in the posed aspects; repayment periods being long enough to enable timely repayment of loans; repayment periods being lengthy enough such that SME s operators don't work under extreme pressure of meeting up; repayment periods being fairly proportional to the repayment amount; a realization that repayment periods are not a major problem for the respective SME/firm; and possessing a view that most firms would still perform better had the loan repayment periods been left without being elongated.

To align with the above findings, a study by Mwang'at et al (2016), on the eventual outcomes of Interest Rate on Performance of Micro Enterprises, pointed out that majority of SME's are dissatisfied with the loan repayment period along with loan processing procedures. The study concluded also that maturity matching between debts on loans with high interest rate plays an important role in deciding the length of the debt maturity. This particular finding also reflected the findings from Vitor and Wangnaa (2013) who had found out that about 41% of the Yam farmers in Sene district Ghana were not able to pay off their loan within stipulated time due to the factors associated with time schedule for repayment.

The study showed that not all SMEs were dissatisfied with loan repayments period as negatively impacting their business performance. On average, about 38.6% of respondents fell in the "accept" response level, which indicates that they were satisfied with the duration of loans (repayment period) posed by the lenders. This aligns with a study done by Kaaya (2015) on the Impacts of Lutheran Church

Microcredit Loans on Borrowers in Northern Tanzania, somewhat contrary findings are revealed, where it was revealed that loan durations were not favorable to business plans. In this study, out of 30 participants who defaulted their loans, 19(63%) reported that the loan duration had no negative effects on their business plan and that it did not contribute to default.

Generally, the loan periods or terms that might affect SMEs' business performances are usually classified as either short-term or long-term periods. Most of the time, short-term loan periods are favored over long-term ones, although that might not be case with some SMEs or businesses. While reporting findings on "Loan period in credit management," Bragg (2010), asserted that "the short time frame reduces the risk of non-repayment to the bank, which can be reasonably positive that the business's fortunes will not decline so far within such a short time period that it cannot repay the loan borrowed, while the bank will also be protected from long-term variations in the interest rate paid".

However, as Berger and Frame (2005) conclude that although the relationship between loan repayment periods and borrower risk has been addressed in some theoretical models (Ortiz-Molina and Penas, 2004), there is very little observed investigation that tests these theoretical models in the framework of bank lending to small firms.

In addition to the finding of the current study sought that 39% of respondents were satisfied with microloan repayment periods and realized some benefits posed along this factor despite the dissatisfaction among the 48%, implied that one credit factor can affect the performance of different SMEs in quite different ways; some may have their performance boosted while others may have their performance hampered. As shown in the conceptual framework (figure 2.1), different background factors of SMEs such as administrative performance, SME's Loan utilization efficiency, and SME's production rate could account for these differences.

4.7 The effect of microloan repayment amount on the performance of SMEs

To ascertain on SMEs members' opinion on whether or not microloan repayment amount negatively or positively affected their SMEs' performance, participants were inquired to show their agreement on five items that described five different positive perceptions on microloan repayment amount based on their actual experiences. As the summary on table 4.7 indicates, the five items depicted on these five aspects: Loan repayment amounts not big enough to hinder the Performance and growth of the SME; loan repayment amounts being fair enough to enable an SME to remain with more money for operation after repaying; the total loan amounts being affordable enough to allow the SME to make savings after repaying; a contention that generally, after total loan repayments most firms usually can remain with good money to buy assets or boost their productions; and an orientation to concluding that the repayment

amounts to lenders being affordable enough to enable most firms to accumulate profits. Participants' agreements on the posed items were to base on five levels as strongly agree, agree, undecided, disagree, and strongly disagree. Table 4.7 provides a summary of all responses.

Table 4.7a: SMEs members' opinion on the effect of microloan repayment amount on the performance of SMEs

	Statement	Percentage and frequency scores of response (N=392)				
		SA	A	U	D	SD
1	The loan repayment amounts to the lenders are usually not big enough to hinder the Performance and growth of our firm.	16% (63)	22% (86)	3% (12)	34% (133)	25% (98)
2	Our firm and many others can remain with more money for operation after repaying the whole amount of loan to the lender.	17% (67)	26% (102)	7% (27)	30% (118)	20% (78)
3	The total loan amounts that our firm and many other small businesses repay to lenders allow us to make savings after repaying.	14% (55)	15% (59)	2% (8)	36% (141)	33% (129)
4	Generally, after total loan repayments most firms usually can remain with good money to buy assets or boost their productions.	10% (39)	21% (82)	0% (0)	29% (114)	40% (157)
5	Without being specific to any business, I can conclude that the repayment amounts to lenders are affordable enough to enable most firms to accumulate profits.	8% (31)	23% (90)	0% (0)	50% (196)	19% (75)
Column percentage means (%)		13.00	21.40	2.40	35.80	27.40
Standard deviations		3.87	4.04	2.88	8.44	8.96

Source: (findings, 2019)

As table 4.7a indicates, majority of participants “disagreed” (35.8% mean percentage) and “strongly disagreed” (27.4% mean percentage) with different items suggesting that loan repayment amounts were affordable enough to allow the SME’s financial growth and good performance. Slightly more than one-fifth of participants (21.4%) “agreed” on the posed items while only 2.4% were “undecided” on their judgment.

Summary response

Toward rendering a generalized level of SMEs members' perception on the effect of effect of microloan repayment amount on the performance of SMEs, two mean scores on both ends of table 4.7a were merged together as "accept" and "reject" respectively.

Table 4.7b: Merged percentages mean scores on SMEs members' perception on the effect of microloan repayment amount on the performance of SMEs.

Responses	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
Column mean	13.0%	21.4%	2.4%	35.8%	27.4%
Combined mean totals	34.4%		2.4%	63.2%	
Interpretation	Accept		Undecided	Reject	

From table 4.7b, it is observed that majority of respondents (63%) rejected or denied the contention that microloan repayment amounts posed on SMEs by microfinance lenders, were fair enough to positively contribute to their performance. On the other hand, slightly more than one-thirds of respondents (34%) accepted or generally agreed with the contention that microloan repayment amounts posed on SMEs by microfinance lenders, were fair enough to positively contribute to their performance. These figures indicates that different SMEs' at some point while some SMEs will experience and perceive the affordability and conduciveness of loan repayment amounts as favorable, other SMEs will perceive them as unfavorable. Such differences are usually associated with various factors such as the loan's characteristics, business characteristics of individual SMEs, and characteristics of SMEs' operators such as the type of business, the wealth of business, level of experience, and level of educational attainment. These same factors would in turn affect the SME's performance on loan repayment, as several studies noted below indicates.

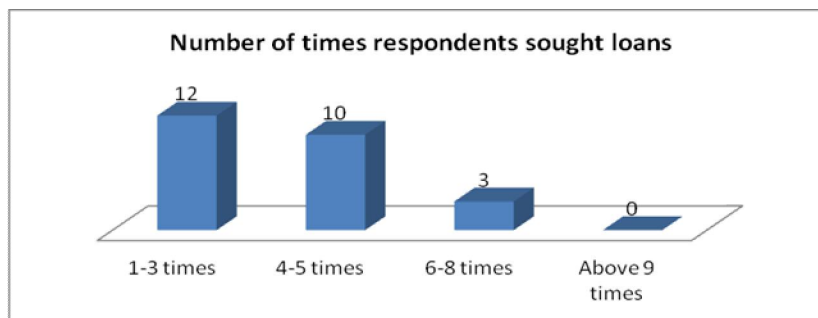
Nawai and Shariff (2013) in their study on Loan Repayment Problems in Microfinance Programs that use Individual Lending Approach established that among other factors, the amount of loan received affected the ability of the borrowers to repay their loans. Other factors were: business factors, other debt burden, and business experience.

Also, a study by Atsmegiorgis (2013) on the Survival Analysis of Loan Repayment Rate of a Commercial Bank Customers revealed that the loan repayment by SMEs was significantly related to loan size, among other factors. In addition, a study in Ogbomoso zone of Oyo State identified loan size, was one of the reasons that had significant positive influence on SMEs' loan repayment performance as per against the mature of farmers that had noteworthy pessimistic manipulate (Oladeebo and Oladeebo, 2008).

In the study by Kaaya (2015) on Impacts of Lutheran Church Microcredit Loans on Borrowers in Northern Tanzania, it was found out that 28% of clients reported that the amount of money for loan was not adequate while 20% of them defaulted their loans. The borrowers in the study claimed to be given loans which were out of range of their business plans so they were not in a good position to fulfill the goals of their business, as a result they failed to pay off their loan in time and ended on default. These results also corresponded with Majeed (2014), who studied the performance of loan repayment determinants in Ethiopian microfinance and found out that loan size influence borrowers loan repayment performance negatively at 1% significant level.

Generally, for most of occasions loan repayment amount or loan size has an inverse relationship to repayment performance. This means that if loan repayment amounts are big, the probability of SME's to fail repaying on time becomes high while SMEs tend to timely repay their loans in case the repayment amounts were smaller of rather affordable. Hietalahti and Linden (2006), insist that loans that are too big also lead to repayment problems, dissatisfaction and high dropouts. As Godquin (2004), reported in his study on Microfinance Repayment Performance in Bangladesh, the size of loans have an inverse relationship to repayment performance. Chong (2010), pointed out that the main determinants of repayment obligations are both the amount of debt and the interest charged. Weinberg (2006), also advocated that the amount of debt is one of the two main factors affecting repayment obligations; the other one being 'interest rate.'

Figure 4.1: The number of times respondents firm sought finances/loans from microfinance institutions like SACCOS or small bank



Source: (findings, 2019)

When the owner/respondents were asked about the number of times their firm sought finances/loans from microfinance institutions, 12(48%) frequency responses had sought for loans between 1 to 3 times from the financial institutions, 10(40%) frequency responses had sought for loans between 4 to 5 times, 3(12%) frequency responses had sought for loan between 6 to 8 times while no response for seeking for loan above 9 times. Most respondents had operated the business for about seven(7)years in average and so

revealed that almost every year respondents who are owners sought for loan from the financial institution whether successful or unsuccessful.

Table 4.8: Number of times the respondents/owners succeeded at securing the finance from financial institution

Number of times respondents sought loans	Frequency	Percentages
1-3 times	14	56%
4-5 times	09	36%
6-8 times	02	8.0%
Above 9 times	00	0.0%
Total	25	100

Source: (findings, 2019)

When the respondents were asked about the type of credit terms the lender posed to at the borrowers' proposal/request, 14(56%) had succeeded between 1 to 3 times, 09(36%) had succeeded for 4 to 5 times while only 2(8%) had succeeded between 6 to 8 times. there was no respondent who succeeded above 8 times. The above information can interpret how hard for the credit terms financial institutions render for SMEs to access loans as majority had accessed loans for only 1 to 3 times. This could be attributed to SMEs lack of collateral security, high interest rate, short repayment period of loan and high repayment amount. The banking sectors are supposed to ease the rule and regulation to enable the supply of more loans to the SMEs which contribute about 27% of GDP of the country.

Table 4.9: The level of interest rate at which respondents borrowed the loans

Level of interest rate at which respondents borrowed	Frequency (%)
High (20% and above)	12(48%)
Medium (10% - 19%)	10(40%)
Low (0 - 9%)	03(12%)
Total	25(100%)

Source: (findings, 2019)

From the table above, shows respondents reaction on the level of interest rate borrowed, 48% of the respondents had borrowed loans on high interest rate above 20% of the borrowed money. 40% of the respondents had borrowed loans with 10%- 19% interest rate of the borrowed amount while 12% had borrowed at a lower interest rate of below 10%. This interprets that the interest borrowed by the respondents is usually high above 20%.

Table 4.10: The repayment period for the loan at which SMEs owners borrowed

The repayment period for the loan at which SMEs owners borrowed	Frequency (%)
Long (5years and above)	02(08%)
Medium (2 -4) years	09(36%)
Short (0 -12) months	14(56%)
Total	25(100%)

Source: (findings, 2019)

The table shows that 08% of the respondents got loans with repayment period for more than 5 years, 36% of the respondents had medium loan of 2-4 years of the of the repayment period of the loan borrowed.

Those who got loans with short repayment period of less than a year were the majority with 56% of the respondents.

This interpretation shows that most respondents got loans with short repayment period which posed a challenge to them.

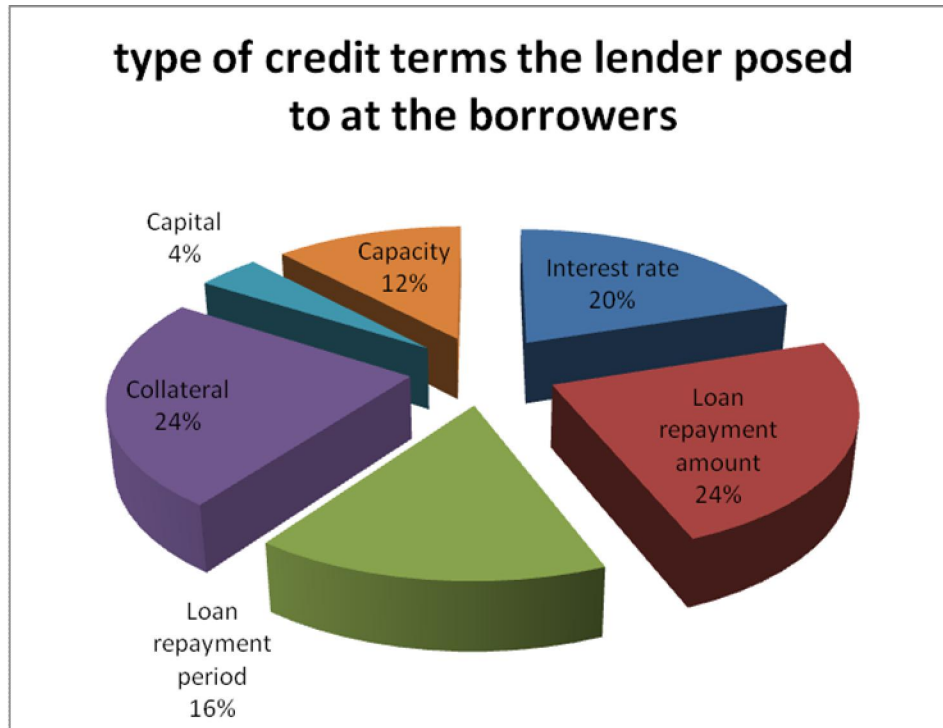
Table 4.11: The monthly repayment amount

The monthly repayment amount	Frequency (%)
High (1/4 of the borrowed money)	10(40%)
Medium (1/8 of the borrowed money)	09(36%)
Low(1/16 of the borrowed money)	06(24%)
Total	25(100%)

Source: (findings, 2019)

The above table is an interpretation of the monthly repayment amount, most respondents tended to have loans with higher repayment amount as the financial institutions always aim at recovering their loans easily. From the table above, 40% of the respondents had high repayment amount of more than quarter of the borrowed money as to be paid per month, 36% had medium repayment amount of 1//8 per month which is relatively high while only 24% had low repayment amount of less than 1/16 per month of the borrowed money.

Figure 4.2: The types of credit terms the lender posed to the borrower



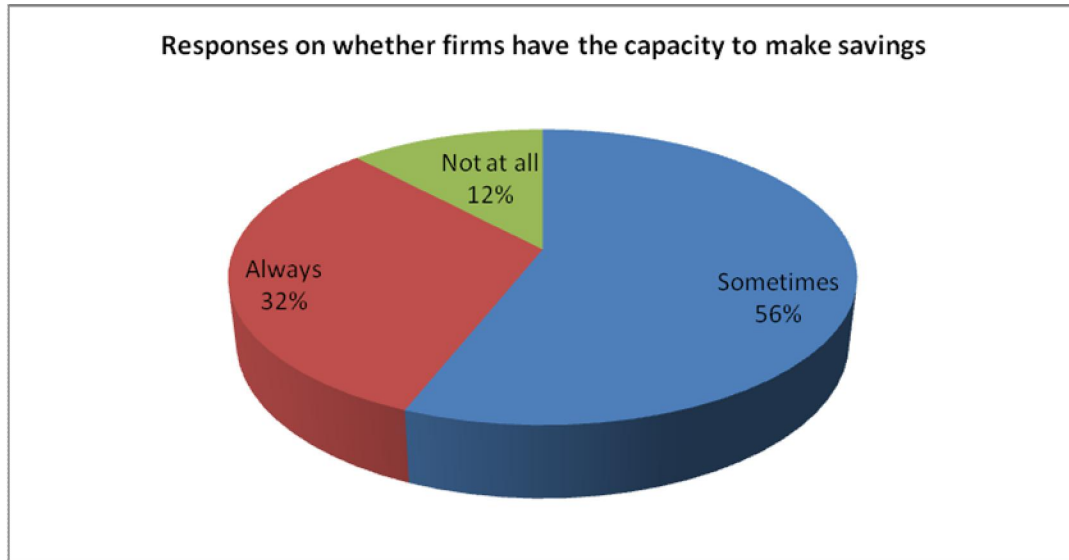
Source: (findings, 2019)

The above figure 4.2 is a presentation of the different types of credit terms that the lender posed to the borrower/ SMEs; from the respondents' reaction, loan repayment amount and collateral are the most cited terms by the financial institutions that pose a challenge toward SMEs access to loan by 24%, for each collateral and loan repayment amount each scored 24% respectively. The other term was interest rate that poses to be high and makes it difficult for SMEs to pay it back and it had 20% response, then respondents cited loan repayment period and capacity as other terms that posed challenge in the accessing of loans from the microfinance institutions with response of 16% and 12% respectively.

The above findings are supported by the study of Msangula (2015), on The Effect of Loan Interest Rates to SME's' Performance and Growth in Tanga City, with the Case of Vision Fund Tanzania. The result of the study had revealed loan interest rates to have effect on SMEs' performance and growth, however, a slow growth of business capital was explained as the apprehension of paying added money charged on interest rate which is usually above 25%.

The findings are also in line with the findings from Quainoo (2011) who examined the Impact of Loans on SME's in Ghana using a Case Study of SME Customers in Stanbic Bank and found out that among the SMEs that applied for loan; only few of them were capable enough to secure the required amount needed.

Figure 4.3: Responses from the SMEs owners/ respondents on whether firms have the capacity to make savings



Source: (findings, 2019)

From the figure 4.3 above, is an illustration from the respondents' reaction on whether they are in position to make savings, majority (56%) they sometimes make profits depending on the business activities, 32% said they always make profit while only 12% said they do not make profit. This presentation shows how challenging operating an SME business may be as they are usually affected by several external factors such as inflation, government regulations, taxes, interest rate payment amount and so forth and internal factors such as effective management, auditing etc.

The above finding is in line with a study by Leboea (2017), who revealed that. the performance of SMEs has faced great development problem related to the high failure rate on microloan interest rate, microloan repayment period and microloan repayment amount that are present among SMEs, this lead to the fact that entrepreneurs are not able to turn their businesses into sustainable venture.

Table 4.12: Ways in which credit terms posed by microloan lenders have affected SMEs firm's capacity to make savings

Ways in which credit terms posed by microloan lenders have affected SMEs	Frequency (%)
High repayment amount	04 (16%)
Short repayment period	02(8%)
High Interest Rate	10(40%)
Huge collateral	04(36%)

Source: (findings, 2019)

From the respondents' views when the respondents were asked about how the credit terms posed by the microfinance institutions have posed a challenge to SMEs development, respondents posed high interest rate as the biggest challenge that hinders the SMEs by 10(40%) frequency, requirement of huge collateral of which in most cases the SMEs do not have with frequency of 09(36%). The banks customarily have need of those customers to provide collateral such as terrain or bona fide estate to safe and sound their loans. However, many creditworthy SMEs do not have the type of collateral requisite by commercial lenders and therefore have trouble accessing needed financing. High repayment amount with 04(16%) and short repayment period with 02(8%).

The above findings are supported by Amonoo et al. (2003), who analysed that Interest rates affect businesses in three significant ways; firstly, rising interest rates increases the total price customers pay that use credits for product and services, therefore, as the interest rate increases the demand for products is likely to decrease. Secondly, most businesses borrow funds to finance their daily business transactions. Therefore leaders must lift up the prices of the product to wrap the cost of doing business or admit low profit. The third effect of interest rate is on the expansion of a business, and since the firm must sometimes finance new equipment with credits, interest is of great concern to the manager. Therefore, lower interest rates may mean that it is a good time for the business and a higher interest rate will make a manager consider delaying expansion until the cost of borrowing decreases.

Figure 4.4 Responses on whether the firm's qualified for bigger loans since you started the business



Source: (findings, 2019)

Figure 4.4 above sought to reveal whether their firm's qualified for bigger loans since they started the business, majority did not qualify for bigger loans as stipulated in the figure above having 20(80%) respondents with negative answer and only 5(20%) respondents qualified for bigger loans. The respondents' failure to qualify for bigger loans is due to sluggish development of their SMEs as the capital invested is generally small in addition to several difficult terms and conditions given by the microfinance enterprises.

These findings are supported by the findings of Naoyuki (2016), who stated that Limited access to finance, lack of a database, low research and development (R&D) expenditures, undeveloped sales channels, and a low rank of financial addition are some of the reasons behind the slow development of SMEs.

Finance appears to be the largest challenge faced by small and medium entrepreneurs. Banks do not want to give funds to SMEs, as most of them do not have collateral (The Herald, Reporter, 2015), compared to large SMEs that are well-established, have collateral and are known for their sound financial stands. Large SMEs easily have access to loans (Shah et al., 2013; Hassen, 2013). There is evidence proving that SMEs struggle with access to finance (Hughes, 2009; Bruns and Fletcher, 2008; Olawale and Garwe, 2010; Guijarro et al., 2009; Mason and Harrison, 2004). A sound financial stance is essential for business growth; thus, SMEs that lack finance are likely to grow at a slower pace or become extinct. SMEs possibly generate capital from internal or external sources. The generation of internal capital enables SMEs to rely on their own financial resources to attain a stable growth. This fact mirrors that of Carpenter and Petersen (2002), who contend that the growth of firms appears to be constrained by a lack of internal finance.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS, AND CONCLUSION

5.1 Introduction

This chapter offers general and summarized information about the whole work presented in this report. It covers the summary of the study findings, the conclusion of the researcher on the findings and their interpretation, and the recommendations on what should be taken into account based on the findings obtained.

5.2 Summary of Findings

5.2.1 SMEs' Members Background Information

The background information of the surveyed sample was such that the age of majority (65%) belonged to the young adulthood category (age 18 to 35) and the rest belonged to the middle or old age group (age 36 and above) constituting 35%. Most young people in urban settings like Dar es Salaam town have resorted to engaging in self-employment because opportunities for getting employed are scarce. At the same time, they are facing high costs of life to pay electricity, house rent, and water bills. This might have contributed to their massive involvement in business enterprises so as to generate income for earning a living. Most of the SMEs were owned by the young adults, who could not get formal employment and therefore diverted into self employment as the way of living through SMEs.

The general educational attainment of respondents was considerably low as those with primary and some secondary education constituted 68% while those with advanced secondary and above constituted less than one-third (32%).

The marital status of respondents fell in any of the three groups namely “single with no children,” “single with children,” and “single with children.” Majority of participants (76%) were either single or married with children. This coincided with the age range factor, for which it was found that about 65% were young adults most of whom are expected not to be in marriage unions (i.e. single) or if married to have some children.

5.2.2 SMEs' Background Information

Concerning the number and types of ventures that the surveyed SMEs were engaged in, there were 48 different business ventures run by the 25 SMEs surveyed. These included Shoe and sandal making (7.8%), Motorcycle and Bajaj spares (5.9%), Women clothes and shoes supplies (5.9%), Tailoring (5.9%), Tie and dye Cloth Coloring (3.9%), and Computer repair and maintenance (3.9%). among others.

table 4.2.1 summarizes these data. Most practiced businesses were Men's clothes and shoe sales (9.8%), Welding (9.8%) and Brick making (9.8%). On the other hand, the least practiced businesses were Art works i.e. drawings and sculpture (2.0%), Glass works and Aluminum partitions and finishing (2.0%), and Poultry (2.0%).

Concerning SMEs' years of being in operation and increase in number of workers/members, it was revealed that the span of existence of the SMEs ranged between 7 and 2 years. On the other hand, the increase in number of workers/members ranged between 5 and 30. Of all the surveyed SMEs, 4 had existed for seven years, 5 had existed for six years, 7 had existed for five years, 2 had operated for four years, 4 had existed for three years, and 3 had operated for two years.

There was a slight orientation for SMEs that had operated for a longer time to have experienced high increase in number of workers compared to those that had existed for a shorter period of time. To illustrate, 3 out of the 4 SMEs that had operated for seven years, had their members/workers increased by 20 and 1 SME had its workers increased by 30. Again, 3 out of the 5 SMEs that had operated for six years had their members/workers increased by 20 and 2 had theirs increased by 30. On the other hand, only 1 out of the 4 SMEs that had operated for three years, had their members/workers increased by 20, 2 had theirs increased by 10, and 1 had their increased by 5.

SMEs' level of increase in assets and/or facilities was such that no one SME had realized zero increase in assets or facilities. About three SMEs or 12.0% had added one asset, six or 24.0% had added two other assets, seven or 28.0% had added three assets, five or 20.0% had their assets increased by two-fold, and four or 16.0% had theirs increased by three-fold or more. If one combines figures, it is seen that about sixteen SMEs or 64% of the entire respondent had realized increase in assets or facilities by "three other," "two-fold increase," or "three-fold and more." The SMEs or 36.0% had realized assets/facilities increase either by "one other asset" or "two other assets." The trends of growth or increased performance in terms of on asset or facilities matched the trend of performance of the SMEs' in terms of increase in number workers and members with respect to number of years of an SME's operation. In section 4.3.2, it was revealed that 16 of the 25 SME had operated between 5 and 7 years and 60% of them had their worker/members increased by 10, 20 or 30. Nine of the 25 SME had operated between 4 and 2 years and 28% of them had their worker/members increased either by 5 or 10 and only 8% had theirs increased by 20.

Frequency of microloan applications made to microfinance institutions and rate of success was also studied; the trend would give a general picture on the easiness or difficultness of accessing loans encountered by the SMEs. Findings indicated that of all the 83 loan applications made by SME to

microfinance institutions, 39 (47%) had been successful while 44 (53%) turn out unsuccessful. Thus, in this study there was a 44% rate of failed loan applications among SMEs.

5.2.3 The eventual outcomes of microloan interest rate on the performance of SMEs

Towards judging on the general perception of participants on whether microloan interest rates had a significant or rather hampering effect on SMEs' performance, the five percentage means on the five levels of response were merged into three: "accept" "undecided", and "reject." The final scores indicated that 65% of respondents fell in the "reject" response while 33% fell in the "accept" one. Making reference to the questionnaire items, this suggested that majority of respondents (as many as 65%) denied the existence of positive experience by SMEs with microloan interest rate in such aspects as the rate enabling SMEs to repay the principal and interest on time; allowing opportunity to retain money for savings; allowing encountering of low costs of production; qualifying for bigger loans; experiencing financial growth in general; and being associated with good flow of money in the market.

The 33% who agreed on positive or gain regarding the posed aspects directly indicated that not all SMEs studied had their performance negatively impacted by microloan interest rate. Several background factors would have contribute to this variation including the specific interest rate amount charged by a specific lender, loan utilization discipline of the particular SME, and the SME's management efficiency.

5.2.4 The outcome of microloan repayment period on the performance of SMEs

Toward concluding on the general perception of participants on whether microloan repayment period had a significantly positive or negative impact on SMEs' performance, it was found out that about 48% response on the impact of microloan repayment period on the performance of SMEs fell in the "reject" category while 39% fell in the "accept" category. This indicates that majority of respondents, generally disagreed on the existence of satisfaction by SMEs' runners and members with loan repayment periods in the posed aspects, repayment periods being long enough to enable timely repayment of loans, repayment periods being lengthy enough such that SME s operators don't work under extreme pressure of meeting up, repayment periods being fairly proportional to the repayment amount; a realization that repayment periods are not a major problem for the respective SME/firm; and possessing a view that most firms would still perform better had the loan repayment periods been left without being elongated.

The 39% of respondents, who fell in the "accept" category, were satisfied with microloan repayment periods and realized some benefits posed along this factor. These findings imply that one credit factor can affect the performance of different SMEs in quite different ways; some may have their performance boosted while others may have their performance hampered. There were mixed reaction of respondents regarding the effect of microloan repayment period on the performance of SMEs however majority sited

that there were affected negatively by the microloan repayment period of the lenders. As shown in the conceptual framework (figure 2.1), different background factors of SMEs such as administrative performance, SME's Loan utilization efficiency, and SME's production rate could account for these differences.

5.2.5 The effect of microloan repayment amount on the performance of SMEs

It is observed that majority of respondents (63%) rejected or denied the contention that microloan repayment amounts posed on SMEs by microfinance lenders, were fair enough to positively contribute to their performance. On the other hand, slightly more than one-thirds of respondents (34%) accepted or generally agreed with the contention that microloan repayment amounts posed on SMEs by microfinance lenders, were fair enough to positively contribute to their performance. Different SMEs' operation factors such as an SME's sales rate, SME's income capacity, and an SME's loan deployment efficacy could contribute to these differences.

5.3 Conclusion

This study concludes that the credit rationing theory postulates that lending institutions use credit terms to achieve the target of rationing SMEs in that some SMEs who qualifies for loans with a given supply of credit were been denied loans at any interest rate. The research thus concludes that credit rationing limits SMEs' access to loans which limits their financial performance. The research concludes that the classical theory of interest rates applies the classical theory of economics to determining interest rates and defines the interest rate as the element that equates savings to investments. Thus, the study concludes that by comparing the supply of savings with the demand for borrowing, the theory suggests the potential of interest rates to impact SMEs' performance because interest rates are important in controlling the flow of money in the SMEs' economy.

This study concludes that the theory guided this research in that interest rates being one of the common determinants of loan acquisition, its terms and conditions determine the performance of the SMEs concern. This study concluded that the resource-based view (RBV) as a managerial structure used to establish the tactical resources with the possible to deliver competitive improvement to an organization. This research is concluded that these resources can be subjugated by the organization in order to accomplish sustainable. This research concludes that towards judging on the general perception of participants on whether micro-loan interest rates had a significant or rather hampering effect on SMEs' performance, the five percentage means on the five levels of response were merged into three: "accept" "undecided", and "reject." The final scores indicated that 65% of respondents fell in the "reject" response while 33% fell in the "accept" one.

The study also concluded that the loans borrowed by the respondents had high interest rates (20% and above), short repayment period of less than one year and high repayment amount of ¼ per month. All these conditions made it difficult for SMEs owners to borrow from financial institutions. For those who borrowed, it made it difficult to expand on their businesses.

This suggested that majority of respondents (as many as 65%) denied the existence of positive experience by SMEs with micro-loan interest rate in such aspects as the rate enabling SMEs to repay the principal and interest on time; allowing opportunity to retain money for savings; allowing encountering of low costs of production; qualifying for bigger loans; experiencing financial growth in general; and being associated with good flow of money in the market. In addition, the research concludes that 33% who agreed on positive or gain regarding the posed aspects directly indicated that not all SMEs studied had their performance negatively impacted by micro-loan interest rate. Several background factors would have contribute to this variation including the specific interest rate amount charged by a specific lender, loan utilization discipline of the particular SME, and the SME's management efficiency.

Furthermore, the research concludes that toward the general perception of participants on whether micro-loan repayment period had a significantly positive or negative impact on SMEs' performance, it was found out that about 48% response on the impact of micro-loan repayment period on the performance of SMEs fell in the "reject" category while 39% fell in the "accept" category. Also this study concludes that a larger percentage of respondents, generally disagreed on the existence of satisfaction by SMEs' runners and members with loan repayment periods in the posed aspects; repayment periods being long enough to enable timely repayment of loans; repayment periods being lengthy enough such that SME s operators do not work under extreme pressure of meeting up; repayment periods being fairly proportional to the repayment amount; a realization that repayment periods are not a major problem for the respective SME/firm; and possessing a view that most firms would still perform better had the loan repayment periods been left without being elongated.

This research concludes that 39% of respondents, who fell in the "accept" category, were satisfied with micro-loan repayment periods and realized some benefits posed along this factor. The study concludes that these findings imply that one credit factor can affect the performance of different SMEs in quite different ways; some may have their performance boosted while others may have their performance hampered. As shown in the conceptual framework (figure 2.1), different background factors of SMEs such as administrative performance, SME's Loan utilization efficiency, and SME's production rate could account for these differences.

This study concludes that majority of respondents (63%) rejected or denied the contention that microloan repayment amounts posed on SMEs by microfinance lenders, were fair enough to positively contribute to

their performance. The research also concludes that on the other hand, slightly more than one-thirds of respondents (34%) accepted or generally agreed with the contention that micro-loan repayment amounts posed on SMEs by microfinance lenders, were fair enough to positively contribute to their performance. Therefore the study concludes that different SMEs' operation factors such as an SME's sales rate, SME's income capacity, and an SME's loan deployment efficacy could contribute to these differences.

5.4 Recommendations

The government should formulate policies that compel commercial banks to revise their restrictive regulations and operations which may discourage borrowing and offer more credit facilities for SMEs. Such policies may involve reducing interest rate to lower than 10%, increasing the loan payment period to more than one year of the borrowed and reducing the loan repayment amount to less 1/16 of the borrowed money than as the way on empowering every SME interesting in getting financial assistance to do so.

There is a need to establish SMEs credit bureaus to compile the credit ratings of SMEs and provide financial institutions and other lenders with easy access to timely, accurate and reliable credit information on SME.

There is a need to promote ways in which local SMEs could use their positive credit history as collateral to access loans at better rates and seek more competitive terms from different lending institutions.

SMEs owners should avoid trade credits since it can lead to high cash outflow of financial resources to the suppliers and reduce multiple loans to pay old loans.

The government should empower the SMEs to access and get credits from the commercial banks through formal and informal entrepreneurship education for SMEs to develop their managerial capabilities, accounting skills and overall, be more credit worthy.

SMEs should endeavor to prepare and keep proper books of accounts to avoid deficit accounting.

Financial institutions should careful understand the SMEs nature of businesses in order to offer reasonable loan sizes and the booming seasons of SMEs business so that they can give reasonable loan period which in turn leads to better Performance.

5.5 Areas for further study

This study proposed two areas for further study namely:-

1. Debt equity contribution to financial performance of MSMEs
2. Causer of Stringent credit terms on growth of SMEs

REFERENCES

Asantey and Tengey (2014),

Abor J. (2007). Capital Structure and Financing of SMEs: Empirical Evidence from Ghana and South Africa. Unpublished PhD Dissertation. University of Stellenbosch, South Africa.

Adu-Gyamfi .E. and Ampofo .K. (2014). Effects of Microfinance Credit on Community Farmers in Upper Denkyira East Municipality of Ghana. Journal of Agriculture and environmental Sciences March 2014, Vol. 3, No. 1, pp. 67-88 ISSN: 2334-2404 (Print), 2334-2412 (Online)

Agwu M.E. (2014). Reputational risk impact of internal frauds on bank customers. International Journal of Development and Management Review (INJODEMAR) 9: 175-192.

Akande, O.O. (2011). Accounting skill as a financial performance factor for small businesses in Nigeria. Journal of emerging trends in economics and management sciences (JETEMS), page 372-378.

Alexander M.N (2003) Access to credit and the effect of credit constraints on Costa Rican manufacturing firms. Inter-American Development Bank, 1300 New York Avenue, NW Washington, D.C. 20577.

Alili .J. (2019). Impact of Accounting Best Practices on Financial Performance of SMEs in Ilala Municipality, Dar es salaam, Tanzania. Dissertation KIUT.

Atieno R. & Shem O. (2001). Financial Dualism and Financial Sector Development in Low Income Countries. Saving and Development Journal 25: 413-438.

Atsmegiorgis, C. (2013). *Survival analysis of loan repayment rate of customers of Hawassa district commercial bank*. Hawassa University, Hawassa, Ethiopia.

Babbie, E. (2008). The Basics of Social Research (Fourth Edition). Belmont, CA: Thomson Wadsworth. United States of America.

Bashir M. Afzal M.T. and Azeen M. (2008). Reliability and Validity of Qualitative and Operational Research Paradigms. Pak.j.stat.oper.res, 4(1): 35-45. Baulcomb, (2003),

- Beck T, Demirguc-Kunt A, Honohan P. Access to Financial Services: Measurement Impact and Policies. World Bank Research Observer 2009; 24(1): 119–145.
- Berger, A. N and Frame, W.S. (2005). Small business credit scoring and credit availability. Federal Reserve Bank of Atlanta. Working Paper: 2005-2010.
- Berger A.N. and Udell G.F. (2006). A More Complete Conceptual Framework for SME Finance. Journal of Banking and Finance, 30 (11): 2945-2966.
- BOT Annual report 2018 contributions to Tanzanian GDP.
- Bryman, A. (2004). Social Research Methods (Second Edition). Oxford University Press, Oxford.
- Calice P., Chando V. M., & Sekioua S. (2012). Bank Financing to Small and Medium Enterprises in East Africa: Findings of a Survey in Kenya, Tanzania, Uganda and Zambia. Working Paper, Africa Development Bank Group.
- Chestnut D. (2010). Role of Microfinance Institutions. [<http://www.ehow.com/>], visited on 23/01/2012.
- Chong, F. (2010). Evaluating the Credit Management of Micro-Enterprises. Department of Banking and Finance. University of Technology. MARA, 2(7), 149-158.
- Coase R. (1960). The problem of Social cost” Journal of Law and Economics 3, p. 1-44.
- Converse L., Femand E., Rachmanto A., & Tao A. (2012). Credit Rationing in Markets with Imperfect Information By Joseph E. Stiglitz and Andrew Weiss, January 24, 2012.
- Cullen M.D.M, Calitz A.P., & Gaga S. (2014). SMME Access to Finance in South Africa. Journal of Emerging Issues in Economics, Finance and Banking (JEIEFB), 3 (6): 1255-1257.
- Daley, H., S., 2009. State of the microcredit summit campaign report. Washington, DC: Microcredit Summit Campaign.
- Deakins D. et al. (2008) SMEs’ Access to Finance: Is There Still a Debt Finance Gap? Institute for Small Business & Entrepreneurship 5th-7th November 2008 - Belfast, N. Ireland.
- Derban WK, Binner JM, Mullineux A (2005). Loan repayment performance in community development finance institutions in the UK. Small Business Economics, 25, 319-332. In: Nawai, N. And Shariff, M.N.M. (2010). Determinants of Repayment Performance in Microcredit

Programs: A Review of Literature. *International Journal of Business and Social Science*, 1(2): 152-161.

Dlova M.R. (2017). *Small, Micro and Medium Enterprises Access to Credit in the Eastern Cape, South Africa*. Dissertation Submitted to the University of Witwatersrand for the Fulfillment of the Degree of Doctor of Philosophy.

Evans, J. D and Winston, E. (2008). Loan Delinquency among Small Business Owners in Ghana: The Importance of Gender to the Lending Process. *International Journal of Entrepreneurship and Small Business*, 5(3/4), 318-336.

Evans OtienoNyumbaet. al., / *International Journal of Management Research & Review*.

Funkor G. *Private business concern about interest rate: banking and financial law*, 2010.

Girabi .F. and Mwakaje .A.E.G. (2013).Impact of Microfinance on Smallholder Farm Productivity in Tanzania: The Case of Iramba District. *Asia Economic and Financial Review*

Godquin, M. (2004). Microfinance Repayment Performance in Bangladesh: How to Improve the Allocation of Loans by MFIs. *World Development*, 32(11), 1909-1926.

Golam K., Jahan I., Chisty H., and Akhtar, H. (2010).Credit Risk Assessment and Evaluation Systems for Industrial Project. *International Journal of Trade, Economics and Finance*, 1 (4): 331.

Gyamfi .G.D (2012). Assessing the effectiveness of credit risk management Techniques of microfinance firms in Accra. *Journal of Science and Technology*, Vol. 32, No. 1 (2012), pp 96-103

Halkias, D. (2008). *The Global Impact of Female Immigrant Entrepreneurship: Studying a Growing Economic Force in Small and Medium Sized Business Enterprises*. Proceedings of the 2nd WSEAS International Conference on Management, Marketing and Finances. Harvard, Massachusetts, USA.

Hietalahti, J and Linden, M. (2006). Socio-economic Impacts of Microfinance and Repayment Performance: A Case Study of Small Enterprise Foundation, South Africa. *Progress in Development Studies*, 6(3), 201-210.

- Hofstee E. (2006). Constructing a good dissertation: A practical guide to finishing a Masters, MBA or PHD on schedule. EPE, Sandton, Johannesburg, South Africa.
- IFAD (2003a). Transforming rural institutions in order to reach millennium development goal. Discussion paper.
- Investopedia (2014). Financial Performance. Available from <http://www.investopedia.com/terms/f/financialperformance.asp>
- Kaaya E. J. (2015). Impacts of Lutheran Church Microcredit Loans on Borrowers in Northern Tanzania: A Case Study of Building a Caring Community Project. A Dissertation Submitted in Partial Fulfillment for the Requirements for the Degree of Masters in Project
- Kazimoto .P. (2014). Assessment of Challenges facing Small and Medium Enterprises towards International Marketing Standards: a Case Study of Arusha Region Tanzania. International Journal of Academic Research in Accounting, Finance and Management Sciences. Vol. 4, No.2, April 2014, pp. 303–311. E-ISSN: 2225-8329, P-ISSN: 2308-0337 Management of the Open University of Tanzania, 2015.
- Khan, M. W. J., & Khalique, M. (2014). Exploring the Measurements of Organizational Performance: Review and the Small and Medium Enterprises (SMEs) Perspective. International Journal of Business Management and Economic Studies 1(1), 3-13.
- Kimunduu .G., Erick .O. and Shisia A. (2016). The influence of financial literacy on financial performance of Small and Medium Enterprises in Ruiru town, Kiambu county, Kenya. International Journal of Economics, Commerce and Management, United Kingdom Vol. IV, Issue 11, November 2016 Licensed under Creative Common Page 416. <http://ijecm.co.uk/> ISSN 2348 0386
- Kira A. R. (2013). The Evaluation of the Factors Influence the Access to Debt Financing by Tanzanian SMEs. European Journal of Business and Management, 5(7), 1-24.
- Kothari C. (2004). Research Methodology, Methods and Techniques, 2nd Edition 2004. New Delhi. New Age International (P) Limited, Publishers.
- Leboea S.T. (2017). The factors influencing SMEs failure in South Africa. University of Cape Town

- Lee S. (2017). Introduction to Microfinance Institutions (MFIs) Part I. Retrieved 26/04/2018 from <https://www.calvertimpactcapital.org/blog/683-intro-to-mfis>
- Lodha G. (2011). Factors of default in Small and Medium Enterprises-Application of cluster analysis. *Journal of Advances in developmental research*, 2(2), 238-245.
- Long .W. and Ombongi P.M (2018).Factors Affecting Financial Performance of Small and Medium Enterprises (SMEs): A Case of Manufacturing SMEs in Kenya. *International Journal of Research in Business Studies and Management* Volume 5, Issue 1, 2018, PP 37-45 ISSN 2394-5923 (Print) & ISSN 2394-5931 (Online)
- Lyimo S.E. (2014). Challenges and Prospects faced by Small and Medium Enterprises in Accessing Credit Facility: A Case of Agricultural Inputs Sellers and Distributors in Arusha City. Open University of Tanzania
- Majeeb, A. (2014) Performance of loan repayment determinant in Ethiopian Microfinance: *Eurasian Journal of Business and Economics*, Volume 7(13).
- Makundi L. (2015). Effects of Loan Repayment on SMEs Business Performance in Tanzania: A Case of CRDB Bank Plc; Morogoro Branch. A Dissertation submitted in Partial fulfillment of the Requirement for the Award of the Degree of Master of Business Administration (MBA- Corporate Management) of Mzumbe University.
- Maziku M. (2012). Credit Rationing for Small and Medium Scale Enterprises in Commercial Bank Loan Market. Research on Poverty Alleviation's 17th Annual Research Workshop. White sands Hotel, Dar as Salam, Tanzania.
- Mashenene R. G., Macha J. G. L. and Donge, L. (2014 a).Socio-Cultural Determinants of Entrepreneurial Capabilities among the Chagga and Sukuma Small and Medium Enterprises in Tanzania. *Journal of Economics and Sustainable Development*, 5(17), 90- 103.
- Mashenene R. G., and Rumanyika J. (2014 b). Business Constraints and Potential Growth of Small and Medium Enterprises in Tanzania: A Review. *European Journal of Business and Management*, 6 (32), 72-79.
- Mashenene R. G. (2015). Constraints of Accessing Debt Financing from Commercial Banks among Small and Medium Enterprises in Tanzania: A Literature Review. Proceedings of the Second European Academic Research Conference on Global Business, Economics, Finance

- and Banking (EAR15Swiss Conference) ISBN: 978-1-63415-477-2. Zurich- Switzerland, 3-5 July, 2015 Paper ID: Z545.
- Ministry of Industry and Trade.(2003). Small and Medium Enterprise Development Policy, 2003.United Republic of Tanzania or URT.
- Mnang'at S.A. et al. (2016).The Effects of Interest Rate on Financial Performance of Micro Enterprises: A Case Study of Makutano Township in WestPokot County. International Journal of Novel Research in Marketing Management and Economics Vol. 3, Issue 3, pp: (22-29), Month: September - December 2016, Available at: www.noveltyjournals.com.
- Modus A. (2012). Who are the clients of microfinance institutions? Retrieved 26/04/2018 from <http://www.altermodus.me/index.php/en/o-mikrokreditiranju/ko-su-klijenti-mikrokreditnih-organizacija>
- Mori, N., Richard, E., Isaack, A., &Olomi, D. (2009).Access to finance for SMEs in Tanzania. In D. Olomi (Ed.), African entrepreneurship and small business development: Context and process (Vol. 1). Dar es Salaam: Otme Company Ltd.
- Moruf .O. (2013).Evaluation of the Nigerian Microfinance Banks Credit Administration on Small and Medium Scale Enterprises Operations. International Review of Management and Business Research Vol. 2 Issue.2
- Msangula L.Y. (2015). An Examination of the Effect of Loan Interest Rates to SMEs' Performance and Growth in Tanga City Case of Vision fund Tanzania. A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of the Degree of Masters of Business Administration in Corporate Management (CM) of Mzumbe University.
- Mugenda, A. & Mugenda, M. (2003). Research Methods: Quantitative and Qualitative Approaches, ACTS.
- Musando .J.A. (2013). The relationship between financial planning and the Financial performance of SMES in Nairobi City Centre, Kenya. University of Nairobi.
- OECD.(2006). The SME Financing Gap.Volume 1.Theory and Evidence.
- Nawai, N. &Shariff, M. N. M. (2013). Loan Repayment Problems in Microfinance Programs

- that use Individual Lending Approach: A Qualitative Analysis. *Journal of Transformative Entrepreneurship*, 1(2), 93-9.
- National Baseline Survey Report. (2017). Micro, Small, and Medium Enterprises in Tanzania; December 2012. Ministry of Trade and Finance & Financial Sector Deepening Trust.
- Nendakulola K.S. (2015). The impact of microfinance institutions on the growth of micro and small enterprises in Tanzania: case study of Mwanza city. A Thesis Project Submitted in Partial Fulfillment of the Requirement for the Award of the Masters of Science in Accounting and Finance of Mzumbe University.
- Nyumba E.O et al. (2015). Loan Interest Rate And Performance of Small And Medium Enterprises In Kenya. ISSN: 2249-7196 IJMRR/Oct. 2015/ Volume 5/Issue 10/Article No-1/712-728.
- Ohri C. G. (2004). Microfinance & health, a case for Integrated Service Delivery. University of Washington, Paper No. 4.
- Ojo O. (2009). Impact of microfinance on entrepreneurship development: The case of Nigeria. Proceedings of the International Conference on Administration and Business, Romania.
- Okurut F.N., Olalekan Y., and Mangadi K. (2010). Credit Rationing and SME Development in Botswana: Implications for Economic Diversification. Botswana.
- Oladeebo JO, Oladeebo OE (2008). Determinants of Loan Repayment among Smallholder Farmers in Ogbomoso Agricultural Zone of Oyo State, Nigeria. *Journal of Social Science*, 17(1): 59-62.
- Olomi D., Chijoriga M., & Mori N. (2008). Tanzania: Developing a strategy for rural financial services: Financial sector deepening trust. Financial Sector Deepening Trust (FSDT).
- Oni K., Paiko I., & Ormin O. (2012). Assessment of the Contribution of Micro Finance Institutions (MFIs) to Sustainable Growth of Small and Medium Scale Enterprises (SMEs) in Nigeria. *Interdisciplinary Journal of Contemporary Research in Business* 3: 1099-1110.
- Pfeiffer, D.U. (2002). *Veterinary Epidemiology- An Introduction*. United Kingdom. 62pp.

- Peprah C. (2016). Challenges SMEs Face in Acquiring Loans From Banks A Comparative Study between Finland and Ghana. Thesis: Centria University of Applied Sciences. Degree Programme in Business Management, April 2016.
- Quainoo T.K. (2011). Examining the Impact of Loans on SMEs in Ghana.(A Case Study of SME Customers in Stanbic Bank).A thesis Submitted to The Institute of Distance Learning, Kwame Nkrumah University of Science and Technology in partial fulfillment of the requirement for the degree of Commonwealth Executive Master of Business Administration.
- Richard E.M & Mori N.G. (2012). SMEs Access to Financial Services: Bankers' Eye. University of Dar es Salaam Business School, Dar es Salaam, Tanzania Chinese Business Review, ISSN 1537-1506. February 2012, Vol. 11, No. 2, 217-223.
- Sabana, M.B. (2014). Entrepreneur financial literacy, financial access, transaction costs and performance of microenterprises in Nairobi City County, Kenya, 2014.
- Sekaran U. (2003). Research methods for business (4th ed.). Hoboken, NJ: John Wiley & Sons.
- Stiglitz J. and Weiss A. (1981).Credit Rationing in Markets with Imperfect Information. American Economic Review, 71: 393-410.
- Storey, D.J. (1994).Understanding the Small Business Sector. Thomson Learning Emea.
- Tanzania Ministry of Industry and Trade.(2002). Tanzania SMEs Development Policy, 2002. United Republic of Tanzania: Ministry of Industry and Trade.
- Tundui H. P. (2012). Gender and Small Business Growth in Tanzania: The Role of Habitus. University of Groningen, the Netherlands.
- U.S. International Trade Commission. (2010). Small and Medium-Sized Enterprises: Characteristics and Performance. Investigation No. 332-510; USITC Publication 4189, November 2010.
- Vijfinkel, S., Nasser B and Jolanda, H. (2011). Environmental sustainability and financial performance of SMEs. EIM Research Reports. Available from www.entrepreneurship-sme.eu
- Vitor, A. D. and Wongnaa, A.C. (2013) Factors Affecting Loan Repayment Performance Among Yam Farmers in the Sene District, Ghana: Agris on-line Papers in Economics and Informatics, Volume 5. (Accessed August, 2015).

Werema S. &Opanga K. (2016).Factors Affecting Clients on Loan Repayment for Microfinance Institutions: A Case Study of Pride Arusha, Tanzania. International journal of scientific and technical research in engineering (IJSTRE).www.ijstre.com Volume 1 Issue 8

November 2016.

World Bank.<https://www.worldbank.org>

Zorhabi M. (2013). Mixed Methods in Research: Instruments, Validity, Reliability and Reporting Findings. Theory and Practice in Language Studies, 3 (2): 254.

Naoyuki Y. & Farhad T. (2016). Major Challenges Facing Small and Medium-sized Enterprises in Asia and Solutions for Mitigating Them

Bruns, V. and Fletcher, M. (2008), “Banks’ risk assessment of Swedish SMEs”, Venture Capital: An International Journal of Entrepreneurial Finance, Vol. 10 No. 2, pp. 171-194.

Carpenter, R.E. and Petersen, B.C. (2002), “Is the growth of small firms constrained by internal finance?”, The Review of Economics and Statistics, Vol. 84 No. 2, pp. 298-309.

Shah, S.F.H., Nazir, T., Zaman, K. and Shabir, M. (2013), “Factors affecting the growth of enterprises: a survey of the literature from the perspective of small- and medium-sized enterprises”, Journal of Enterprise Transformation, Vol. 3, pp. 53-75.

Mark S., Lewis and Thornhill (2003), “Research Methods for Business Studies”, University college of Birmingham, department of business.

Wario & Khalfan (2015), Principles, Methods and Practices of Social Science Research, Sumait University, Chukwani – Zanzibar.

Robson, C. (2011). Real world research (3rd ed.). Oxford, UK: Blackwell.

FSDT Annual Report 2016/2017

Murdoch, J. (1999). The Microfinance Promise. Journal of Economic Literature. XXVII. 1569-1614.

Murdoch, J., & Armendáriz de Aghion, B. (2005). Economics of Microfinance. Cambridge, U.S.A.: MIT Press

- Seibel, Hans Dieter, 2003a: History matters. *Small Enterprise Development* 14/2 (July): 10-12
- Moruf O (2012) Evaluation of the Nigerian Microfinance banks credit administration on small and medium scale enterprises operation. *International Review of Management and Business Research* 2: 505-517.
- Moruf O (2013) Evaluation of the Nigerian Microfinance banks credit administration on small and medium scale enterprises operation. *International Review of Management and Business Research*.
- Adu-Gyamfi and Ampofo, 2014; Entrepreneur, Corporate Control Specialist And Banker
- Bascom, William R., 1952: The Esusu: a Credit Institution of the Yoruba. *Journal of the Royal Anthropological Institute* 82: 63-69
- Harvey, S., Lees, S., Mshana, G., Pilger, D., Hansen, C., Kapiga, S., & Watts, C. (2018). A cluster randomized controlled trial to assess the impact on intimate partner violence of a 10-session participatory gender training curriculum delivered to women taking part in a group-based microfinance loan scheme in Tanzania (MAISHA CRT01): study protocol. *BMC women's health*, 18(1), 55.
- Lindvert, M., Patel, P. C., Smith, C., & Wincent, J. (2018). Microfinance Traps and Relational Exchange Norms: A Field Study of Women Entrepreneurs in Tanzania. *Journal of Small Business Management*.
- Girabi, F., & Mwakaje, A. E. (2013). Impact of Microfinance on Smallholder Farm Productivity in Tanzania: The Case of Iramba District. *Asian Economic and Financial Review*, 3(2), 227-242. <http://www.aessweb.com/pdf-files/227-242.pdf>
- Lyimo, Sarah Ernest (2014) *The Challenges and Prospects of Small and Medium Enterprises (SMEs) in Accessing Credit Facility: A Case Study of Agricultural Inputs Sellers and Distributors in Arusha City*. Masters thesis, The Open University of Tanzania.
- Charles Harvie (2010), SMEs and Regional Production Networks: Center for Small Business and Regional Research School of Economics, Faculty of Commerce, University of Wollongong
- Quaye, (2011), The Effect Of Micro Finance Institutions On The Growth Of Small And Medium Scale Enterprises (Smes); A Case Study Of Selected Smes In The Kumasi Metropolis
- Asantey, J. O and Tengey, S (2014) An empirical study on the effect of bad loans on banks' lending Potential and financial performance, the case of SMEs lending in Ghana, *International Journal of Research In Business Management*, 2 (11) 1-12.
- Mukono, A. (2015). Determinants of loan repayment by small and medium enterprises in Nairobi Country, Kenya. University of Nairobi, School of Business, Nairobi.

- Converse SJ, Royle JA, Urbanek RP. Bayesian analysis of multi-state data with individual covariates for estimating genetic effects on demography. *J. Ornithol.* 2012;152:S561–S572.
- Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis: An expanded sourcebook* (2nd ed.). Thousand Oaks, CA: Sage.
- Robson, C. (2011). *Real world research: A resource for social-scientists and practitioner- researchers*. 3rd edition. Oxford: Blackwell Publishing.

APPENDICES

APPENDIX A: QUESTIONNAIRE

The aim of this questionnaire is to collect data based on this research topic: '**MICROFINANCE CREDIT TERMS ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMEs): A CASE OF DAR -ES- SALAAM REGION -TANZANIA**'. You are kindly requested to help the researcher answer questions on this paper. The researcher assures you that the responses you give will be kept confidential and in any case the information you give is only for the purposes of this research and not otherwise.

Thank you

Gloria Haonga (Researcher)

Instructions

Put a tick () in the appropriate box or space provided or write down the appropriate answer as instructed in each question.

SECTION A: Personal Data

1. What is your sex group?

☐ Male ☐ Female

2. What is your age group?

☐ 18-25 ☐ 26-35
☐ 36-45 ☐ 46 and above

3. What is your level of education?

<input type="checkbox"/> Standard seven	<input type="checkbox"/> Some secondary education
<input type="checkbox"/> Form four	<input type="checkbox"/> High school
<input type="checkbox"/> Diploma	<input type="checkbox"/> University degree and beyond

4. What is your marital status?

<input type="checkbox"/> Single	<input type="checkbox"/> Married with children
<input type="checkbox"/> Married with no children	

PART I: Effect of microloan interest rate on the performance of an SMEs.

	Statement	SA	A	U	D	SD
1	The interest rate charged by microloan lenders allows our SME as a borrower to repay both the principal and interest on time.					
2	The interest rate posed by microloan lenders allows our SME as a borrower to make savings.					
3	Microloan lenders charge fair interest rates that allow our SMEs to encounter low costs of production and set fair prices.					
4	Generally, our SME has qualified for bigger loans because microloan lenders have affordable interest rates.					
5	Generally I see that low interest rate charges on credits strategically boost the chances of SMEs' business growth.					
6	Generally, high interest rates do not affect the flow of money into the economy of an SME.					

PART II: Effect of microloan repayment period on the performance of SMEs

	Statement	SA	A	U	D	SD
1	The repayment period set by microloan lenders is long enough to enable our SMEs to repay back in time.					
2	Microloan lenders set lengthy repayment periods such that the firm operators don't always work under time pressure to meet up.					
3	Loan repayment periods set by our lenders are fairly proportional to the repayment amount and so firms can meet up.					
4	Generally, I think that repayment periods are not a major problem for our firm and many other small businesses to fail to repay back loans.					
5	In my view, most firms would still perform better had the loan repayment periods been left without being elongated.					

PART II: Effect of microloan repayment amount on the performance of SMEs.

	Statement	SA	A	U	D	SD
1	The loan repayment amounts to the lenders are usually not big enough to hinder the Performance and growth of our firm.					
2	Our firm and many others can remain with more money for operation after repaying the whole amount of loan to the lender.					
3	The total loan amounts that our firm and many other small businesses repay to lenders allow us to make savings after repaying.					
4	Generally, after total loan repayments most firms usually can remain with good money to but assets or boost their productions.					
5	Without being specific to any business, I can conclude that the repayment amounts to lenders are affordable enough to enable most firms to accumulate profits.					

Thank You

APPENDIX B: INTERVIEW GUIDE FOR FIRM'S MANAGERS AND LEADERS

A: Personal Data

1. Respondent's sex group:

Male ☐ Female ☐

2. Respondent's age group:

18-25 ☐ 26-35 ☐

36-45 ☐ 46 and above ☐

3. Respondent's level of education:

<input type="checkbox"/> Standard seven	<input type="checkbox"/> Some secondary education
<input type="checkbox"/> Form four	<input type="checkbox"/> High school
<input type="checkbox"/> Diploma	<input type="checkbox"/> University degree and beyond

4. Respondent's marital status:

<input type="checkbox"/> Single	<input type="checkbox"/> Married with children
<input type="checkbox"/> Married with no children	

B: Questions on Research Objective

1. When was your firm/business established? (mention the year)

2 (a). How many members your firm had when it started?

(b). How many members it has at the present time?

.....,

4. (a) How many times has your firm sought finances/loans from microfinance institutions like SACCOS or small banks?

3. (b) How many times did you succeed at securing those finances?

4. What was the interest rate at which you borrowed?

.....
.....

5. What was the repayment period for the loan you borrowed?

.....
.....

6. What was the monthly repayment amount?

.....
.....

5. What type of credit terms did the lender pose to your proposal/request?

.....,

.....,

.....,

6. (a) Has your firm's realizes any increase/growth in operational capital since you started the business?

Yes No

6. (b) In what manner do you think the credit terms posed by microloan lenders have affected your firm's operational capital?

.....
.....

7. (a) Is your firm's having capacity to make savings?

Sometimes Always Not at all

7. (b) In what manner do you think the credit terms posed by microloan lenders have affected your firm's capacity to make savings?

.....
.....

8. (a) Has your firm's qualified for bigger loans since you started the business?

Yes No

9. (a) Have you realized any increase in the assets from the time you started the business?

Yes No

(b) If yes how many assets have you increase ever since you stated the business?

.....

.....

APPENDIX C: TIME FRAME

ACTIVITY	DURATION	DATE
Proposal writing	1 Month	1 st May – 31 st May 2018
Proposal refining and consultation with supervisor	3 Weeks	1 st June through 21 st June 2018
Proposal hearing	1 Weeks	22 nd June – 30 th June 2018
Data collection	1 Month	1 st July – 30 th July 2018
Data Editing, Coding and Refining	1 Week	1 st August – 7 th August 2018
Data Analysis and Presentation	2 Week	8 th August –21 st August 2018
Viva Voce /Defense	1 Week	22 nd August – 30 th August 2018
Report Writing and submitting	10 Months	1 st September – 3 rd June 2019

APPENDIX D: ESTIMETAD FINANCIAL BUDGET

No	ACTIVITY	UNIT	UNIT COST	TOTAL COST TZ SHS
1	Printing proposal and Report	5 copies	15,000	75,000
2	Binding (Ward Cover)	5 copies	10,000	50,000
3	Phone Call and Internet use		60,000	60,000
4	Transport	(1)	80,000	80,000
5	Meals	(1)	60,000	60,000
6	Photocopy (Questionnaire)	110	600	660,000
7	Research Assistants	(1)	200,000	200,000
8	Miscellaneous	(1)	100,000	100,000
	Total			1, 285, 000

APPENDIX E: PHOTOS OF SME'S WITH DIFFERENT TYPES OF BUSINESS IN DIFFERENT AREAS IN DAR ES SALAAM REGION WHERE DATA WAS COLLECTED

Mwenge Artists -Kinondoni



Buguruni Carpentry-Ilala



Masaki sign art-Kinondoni



Mbezi-





Mbezi - Ubungo





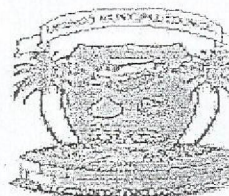
Sinza -Ubungo



UBUNGO MUNICIPAL COUNCIL

ALL CORRESPONDENCES TO BE ADDRESSED TO THE MUNICIPAL DIRECTOR

Tel: 0222-926341
Fax: 0222-926342



MUNICIPAL DIRECTOR UBUNGO
MUNICIPAL COUNCIL,
P. O. BOX 55068
DAR ES SALAAM.

In reply please quote:

DATE: 11/6/2018

Ref. AB.27/333/04

Gloria Haonga,
Kampala University,
P.O. Box 9790,
DAR ES SALAAM.

RE: RESEARCH ATTACHMENT

Refer to the above heading.

I am pleased to inform you that your above request has been considered by the Municipal Director, and has offered you a place to research attachment from 20th June, 2018 to 20th July, 2018 "Concerning Microfinance credit terms and performance of SME's on Dar es Salaam Region.

Upon receipt of this letter, please report to the Municipal Trade Officer for commencement of your research.

During the period of research you are required to obey the rules and regulations of the institution.

Yours Sincerely,

B. A. Mwamende
For: THE MUNICIPAL DIRECTOR
UBUNGO

For: MUNICIPAL DIRECTOR
UBUNGO MUNICIPAL COUNCIL
DAR-ES-SALAAM

Copy: Principal/Vice Chancellor,
Kampala University,
P.O. Box 9790,
DAR ES SALAAM

KINONDONI MUNICIPAL COUNCIL

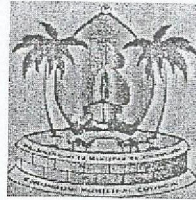
ALL CORRESPONDENCES TO BE ADDRESSED TO THE MUNICIPAL DIRECTOR

Tel: 2170173

Fax: 2172606

In reply please quote:

Ref. KMC/R.18/1



MUNICIPAL DIRECTOR

KINONDONI MUNICIPAL COUNCIL

P. O. BOX 31902

2MOROGORO ROAD

14883 DAR ES SALAAM

Date: 15/6/2018

Gloria Haonga

Kampala University,

P.O.BOX 9790,

DAR ES SALAAM

RE: RESEARCH PERMISSION

Refer to the above heading.

I am pleased to inform you that your request has been considered by the Municipal Director, and has offered you a place to conduct research on "MICROFINANCE CREDIT TERMS AND PERFORMANCE OF SME's ON DAR ES SALAAM from 28th June 2018 to 28th July 2018

Once you receive this letter, please report to the **Municipal Treasurer** for commencement of your research.

During the period of your research you are required to obey the rules and regulation as they will be defined to you.

For: MUNICIPAL DIRECTOR
MARIO MASIMBUSI
For: THE MUNICIPAL DIRECTOR
KINONDONI

Copy: Principal /Vice Chancellor

TEMEKE MUNICIPAL COUNCIL

[All letters should be addressed to the Municipal Director]

Tell: +255 22-2851054
Fax: +255 22-2850640
E-mail: temekemanispaa@tmc.go.tz
website: www.tmc.go.tz



Ofisi ya Mkurugenzi
92 Barabara ya
Mandele/Taifa
S.L.P: 46343,
15833 - DAR ES SALAAM

Ref. No. TMC/MD/

Date: 18/6/2018

SME's - Temeke Municipal Council
TEMEKE MUNICIPAL COUNCIL

RE: RESEARCH PERMIT : GLORIA HANOGA

Please refer to the heading above

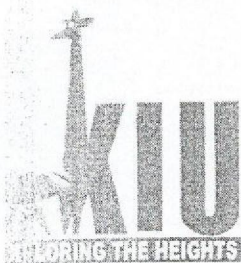
This is to inform you that, permission is granted to the above mentioned student/Researcher from Kampala University DSM to conduct research on Micro-Finance Credit Terms and Performance of SME's in Dar es Salaam - Tanzania case study of Dar es Salaam - Region

The study will be conducted from June to July 2018.

Please give with necessary assistance.

L. M. Mwanjama
For: MUNICIPAL DIRECTOR
TEMEKE

For: Municipal Director
TEMEKE



KAMPALA
INTERNATIONAL
UNIVERSITY

DAR ES SALAAM COLLEGE

Gongo-La Mboto, Pugu Road
P.O Box 9790, Dar es Salaam-
Tel: +255-759114645, +25522
Fax: +255-222 843 252
E-mail: admin@kiu.ac.tz
Website: www.kiu.ac.tz

DIRECTORATE OF POSTGRADUATE STUDIES AND RESEARCH
(DPSR)

08th June 2018

Dear Sir/Madam,

RE: Request for Gloria Haonga of Reg.No: MBA/1956/602/DT to Conduct Research in your Institution.

The above mentioned is a bonafide student of Kampala International University Constituent College pursuing Masters in Business Administration (Finance & Banking).

He is currently conducting field research the title of which is **"Micro-Finance Credit Terms and Performance of SME's in Dar es salaam region-Tanzania."**

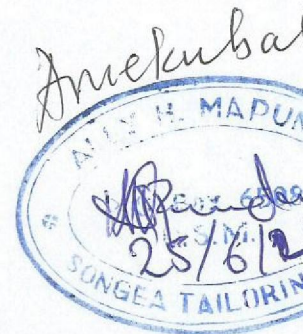
As part of his research work, he has to collect relevant information through questionnaires, interviews and other relevant reading materials.

Your institution has been identified as a valuable source of information pertaining to his research dissertation. The purpose of this letter is to request you to avail him with the pertinent information he may need.

Any information shared with him will be used for academic purposes only and the data you provide shall be kept utmost confidentially.

Any assistance rendered to him will be highly appreciated.

Yours truly,



**DIRECTORATE OF POSTGRADUATE STUDIES AND RESEARCH
(DPSR)**

08th June 2018

Dear Sir/Madam,

**RE: Request for Gloria Haonga of Reg.No: MBA/1956/602/DT to Conduct Research
in your Institution.**

The above mentioned is a bonafide student of Kampala International University
Constituent College pursuing Masters in Business Administration (Finance & Banking).

He is currently conducting field research the title of which is "**Micro-Finance Credit
Terms and Performance of SME's in Dar es salaam region-Tanzania.**".

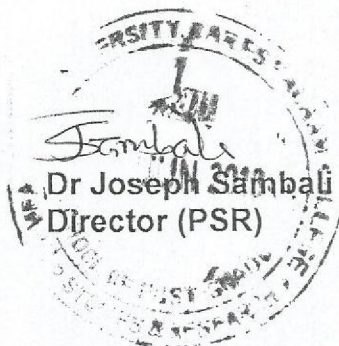
As part of his research work, he has to collect relevant information through
questionnaires, interviews and other relevant reading materials.

Your institution has been identified as a valuable source of information pertaining to his
research dissertation. The purpose of this letter is to request you to avail him with the
pertinent information he may need.

Any information shared with him will be used for academic purposes only and the data
you provide shall be kept utmost confidentially.

Any assistance rendered to him will be highly appreciated.

Yours truly,


Dr Joseph Sambali
Director (PSR)



KAMPALA
INTERNATIONAL
UNIVERSITY
IN TANZANIA

Gongo La Mboto, Pugu Road
P.O Box 9790, Dar es Salaam-Tanzania
Tel: +255-689-301 720
E-mail: dpsr@kiut.ac.tz

DIRECTORATE OF POSTGRADUATE STUDIES AND RESEARCH

4th June, 2019

TO: MS. GLORIA HAONGA (REG NO: MBA/18568/602/DT)

RE: SUBMISSION OF THE REVISED DISSERTATION

I am glad to inform you that your dissertation entitled "Microfinance credit terms on the performance of small and medium enterprises (SMEs): A case of Dar es salaam region Tanzania" has been approved for final binding. Congratulations!

You are now required to align the cover page with the KIUT format and change the date accordingly.

Yours sincerely,

Prof. Akim Mturi

Director, Postgraduate Studies and Research.

CC: Dr. Juliana Isanzu – HoD, Business and Management